

GROUP ONE
TRADING LP

April 11, 2017

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F. Street N.E. Washington, D.C. 20549-0609

Re: SR-BOX-2016-48

Dear Mr. Fields:

Group One Trading, LP ("Group One" or the "Firm") appreciates the opportunity to comment on the Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change in which BOX Options Exchange LLC ("BOX" or the "Exchange") proposes to adopt rules for an open-outcry trading floor (the "proposal").

For background, Group One is an equity options market making firm and currently staffs all four existing open-outcry trading floors with market makers. Group One believes that open-outcry is a viable liquidity sourcing market model when the rules supporting that market model are designed to ensure competition through fair access and price discovery. Without rules supporting competition in place, the Firm's fear is that BOX's proposed floor will become a de facto trade reporting facility ("TRF"), or "clean cross" facility, and the Firm is strongly opposed to such mechanisms.

The Commission requested commenter's views on various aspects of BOX's proposal and, while Group One does not assert an opinion on the necessity or value of a fifth open-outcry trading floor, the Firm does wish to express its views regarding specific aspects of the proposed rules.

- *Commenters' views on the proposed requirement that a Floor Market Maker may only quote in classes on the trading floor which the market maker is already quoting electronically*

Group One does not believe that there should ever be any artificial restrictions that prevent competition and price discovery. The open-outcry market and the electronic market typically service different segments of the industry and Group One staffs exchange trading floors with market makers to provide liquidity to participants that are not as well served by screen-based liquidity. Open outcry is the best mechanism for executing orders demanding more liquidity than screen markets show, and market makers are able to respond with larger size and better pricing precisely because of the different dynamic.

Group One does not see the rationale in forcibly linking these two separate models by requiring participation in both and fears that the implications of doing so will restrict liquidity provision in open outcry. This is especially true in symbols that are less frequently traded and do not present the appropriate risk/reward associated with electronic quoting, and orders in those symbols are the exact

orders that should be exposed to a bona fide open-outcry auction because there is significant liquidity and often better pricing beyond what is available electronically. The presence of liquidity from any source (open outcry or otherwise) can only aid in the price discovery process and Group One views this proposed requirement as an unnecessary, artificial restriction on competition and price discovery.

- *Commenters' views on the aspect of the proposal that would allow a BOX Floor Broker to execute a crossing transaction without first exposing the order to any other Floor Participant*

The ability for a BOX Floor Broker to execute a crossing transaction without first exposing the order to any other Floor Participant eliminates the exposure of floor orders to a bona fide open-outcry auction process. Group One believes that, even with rules in place surrounding best execution, exposing orders to additional market participants – particularly those not selected by the crossing broker – is always going to be the best way to ensure adequate price discovery. The competitive forces that drive orders to their best price is only ensured by allowing multiple and differing interests to respond.

Group One is antithetically opposed to the concept of a trade facility or mechanism that, by design, escapes exposure and limits competition, and the Firm believes BOX should provide additional clarity regarding this aspect of the proposal and, more generally, all of the responsibilities of a BOX Floor Broker when handling an order.

- *Commenters' views on whether a minimum number of Floor Market Makers should be required to be present when an order is represented to the trading crowd, and if so, how many Floor Market Makers in each class should be required*

The Firm believes that all exchanges that operate an open-outcry trading floor should have substantially similar rules regarding the minimum number of Floor Market Makers required to ensure a bona fide open-outcry auction process.

- *Commenters' views on the aspect of the proposal that would require a Floor Market Maker to be physically located in a specific Crowd Area to be deemed participating in the crowd*

Group One views this restriction as another artificial impediment to participation and that all such impediments stand in the way of price discovery and ultimately disadvantage the customer, and therefore should be removed.

Group One believes that any exchange member who is on the floor of the Exchange should be allowed to participate. It is unclear from the filing how dividing the floor into multiple crowd areas and then restricting participation to only those Floor Market Makers that are physically located in the crowd area will assist in maintaining a fair and orderly market, especially when BOX has yet to demonstrate that the volume of transactions cannot be supported with a single crowd area. The most valuable participants in an open outcry market are those that do not have prior knowledge of the order and respond with better pricing. It is impossible for market makers to position themselves ex-ante in the appropriate pit without knowledge of the order, and limiting their ability to participate harms the best execution of customer orders. Additionally, if this requirement is in the final adopted rules, Group One believes that those rules should include additional clarification as to the exact procedural steps that must be taken in order to be deemed participating in the crowd.

- *Commenters' views on the Exchange's argument that requiring "an affirmative response by a Floor Market Maker will allow for a more efficient process for executing orders on the Trading Floor" and that requiring a Floor Market Maker to affirmatively be "out" on every order "will lead to unnecessary delays on the Trading Floor and has the potential to cause disruptions."*

Group One does not believe that a requirement for a Floor Market Maker to affirmatively be "out" on every order will lead to unnecessary delays; however, the Firm also does not believe this requirement is necessary as long as the rules support providing a Floor Market Maker ample opportunity and access to participate.

As stated above, Group One does not assert an opinion on the necessity or value of a fifth open-outcry trading floor; however, the Firm strongly believes that all rules, especially rules that have the potential to greatly impact market structure, should be written in a way that makes it very clear that every market participant will have equal access. For the reasons stated in response to the questions posed by the Commission, Group One believes there are several sections of the BOX proposal that have the potential to limit access for certain market participants, particularly Floor Market Makers, and, for those reasons, the Firm believes that the Exchange should clarify the rules to ensure equal access for all participants.

Sincerely,

A handwritten signature in dark ink, appearing to read "John Kinahan", with a large, stylized flourish at the end.

John Kinahan