

August 10, 2009

VIA ELECTRONIC SUBMISSION AND MAIL

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: SIG Comments on Rule File No. SR-ISE-2009-35 Crossing option legs to stock-option orders without exposure and with same-price book priority

Dear Ms. Murphy:

Susquehanna International Group, LLP (“SIG”)¹ appreciates the opportunity to comment on the above-captioned rule filing by the International Securities Exchange, LLC (“ISE”). The ISE seeks an exemption from exposing or auctioning option block crosses tied to stock and allow such options trades “clean cross” privileges at the NBBO price or better. For the reasons described below, we believe this rule filing should not be approved.

The ISE explains that the proposal is an offshoot, and limited version, of the equity market’s Qualified Contingent Trade exemption. The ISE highlights the exemption as limited to the extent that the option leg will only be able to match but not trade-through the NBBO. The proposal would, however, allow Firms to effect clean crosses of the option leg at or within the NBBO without yielding to other same-priced orders on the ISE book (customer and non-customer alike). The ISE describes the exemption as a complement to the stock side exemption. It added that its current option block exemption, which allows its members to trade-through other markets, will be withdrawn when the new option linkage plan is in place.

¹ SIG is comprised of multiple broker-dealers of which some operate in the U.S. trading markets, including firms that act as options market makers and others that act as agency brokers for options and stock orders.

Thus, the ISE seeks a limited option side exemption, modeled on the stock side exemption, for when the new option linkage plan is implemented. The problem we see, however, is that the stock side exemption was based on the presumption that the option markets would ensure price integrity for stock-option orders. If the ISE receives approval to allow option legs of stock-option orders to be effected as clean option crosses without auction or exposure and ahead of other orders on its own book, while stock markets already exempt stock legs to trade at any trade-through price, the net result will be that customers will have little assurance that their stock-option orders are effected competitively or receive best execution prices.

In this way, the proposal would undermine the reasons for granting the stock-side exemption. By way of background, the stock leg exemption was formed largely in response to an SIA (now SIFMA) request letter to the SEC seeking to exempt contingent trades². The SIA described the arbitrage and hedge value of stock-option trades in the context of complex trades. The request for the stock-side exemption was an acknowledgement by SIA that customers benefit from being able to execute stock-option orders as complex trades at net debits and credits, as option exchanges provide for complex orders to be open to competition from other options participants.

The presumption behind the NMS stock leg exemption request was that the stock-option net price would be subject to competition even if the stock leg was not. It was assumed that as the stock-option order is quoted on a net debit or credit basis, options market participants would step in and make a competitive net quote to the customer being facilitated. It was stated in SIA's letter that "the proposed relief would only exempt trade-throughs related to the execution of one component order of the contingent trade" (at least where there are only two legs involved). Obviously, the scenario that SIA was trying to protect against was where both legs are exempted from competitive pricing so that the net price was unreasonable and non-competitive. A stock side trade-through exemption coupled with an option leg exemption from same-price parity/priority and auction or exposure would create such a scenario.

Although the current NMS stock leg exemption has no specific pre-condition that the stock-option order actually be exposed in the market as a net trade, SIA submitted its exemption request based largely on the above-mentioned assumption regarding complex orders. That is, the option legs to stock-option orders are generally exposed and subject to price competition as complex trades because brokers know this is usually the best way at ensuring the best price for the customer. At the same time, however, it appears the SIA also relied on the belief that the options exchanges would nonetheless and otherwise continue to require open competition for the option leg if executed separately.

² Letter of March 10, 2006 to Nancy M. Morris from the SIA titled "Exemptive Application Pursuant to Rule 611(d) of Regulation NMS: Contingent Trades"

If it was envisioned that stock-option orders would instead be facilitated by broker/dealers as separately legged trades with the stock leg at a trade-through price and the option leg at a book-priority price that was never exposed or auctioned, the conclusion would probably have been that there would be insufficient price discovery to merit an exemption for the stock leg. When neither leg is subject to price discovery or parity/priority rules, the result is that a facilitator could cause a customer to pay too much for the first leg and receive too little for the second leg (or vice versa).

In conclusion, the equity NMS contingent trade exemption was requested by SIA with the forethought that the options markets would provide price protections so that the stock leg exemption would not be used to deprive customers of best execution. This present rule filing, however, would strip away those protections and result in stock-option crosses at non-competitive prices.

SIG has served for many years as a large participant in the options market. Indeed, we are an active broker and block facilitator on the ISE. These experiences have helped inform our opinion in this matter, which is that approving this proposal would serve no beneficial purpose to customers and would instead deprive customers of best execution. For the reasons above, we believe the proposal should not be approved.

If you have any comments or questions with respect to this letter, please feel free to contact me at (610) 617-2624. Again, thank you for this opportunity to respond and for your every consideration in this regard.

Sincerely,



Gerald D. O'Connell
SIG – Chief Compliance Officer

cc: E. King, Division of Markets and Trading
H. Seidel, Division of Markets and Trading
D. Liu, Division of Markets and Trading