GROUP ONE
TRADING LP

January 21, 2014

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Dear Ms. Murphy:

Group One Trading, L.P., ("Group One") would like to thank the Securities and Exchange Commission ("SEC") for providing us the opportunity to comment on the International Securities Exchange, LLC ("ISE") proposal to amend Rules 504 and 715 and make specific the interpretation of the number and size of counterparties to a qualified contingent cross ("QCC") order. Group One is one of the largest, privately held equity options market makers in the United States. Group One makes markets in over 2,600 individual issues, provides a significant amount of liquidity on every major US based equity options exchange and has a presence on all four exchange floors. Group One appreciates the effort by ISE to provide clarity on Rules 504 and 715 and encourages all exchanges to continue to provide as much clarity as possible; however, as pointed out in the comment letter[1] on the recent similar NASDAQ OMX PHLX ("PHLX") rule filing[2], Group One believes that the proposed interpretation should not be adopted because it expands the reach of QCC well beyond the original intent, fails to provide market participants with any additional benefits, and actually increases the potential for abuse.

In the rule filing of this proposed expanded interpretation, ISE states that "[t]he Exchange believes that this will be beneficial to participants because allowing multiple contra-parties of at least 1,000 contracts should foster competition for filling one side of a QCC Order and thereby result in potentially better prices, as opposed to only allowing one contra-party and, thereby requiring that contra-party to do a larger size order which could result in a worse price for the trade."

The argument that allowing multiple contra-parties should foster competition and potentially result in better prices is not an argument in support of expanding the interpretation of QCC, it is an argument in support of eliminating QCC entirely. Group One agrees with ISE, as it believes that most market participants would, that exposing an order to more parties will increase the likelihood that the customer receives a better price; however, this proposed expanded interpretation still limits exposure to only those parties in the upstairs community with which the broker chooses to solicit, most likely based on

[1] http://www.sec.gov/comments/sr-phlx-2013-106/phlx2013106-1.pdf
[2] http://www.sec.gov/rules/sro/phlx/2013/34-70821.pdf

440 South LaSalle, Suite 3232, Chicago, IL 60605

which parties are willing to pay that broker the highest commission. If the goal is to increase the likelihood that the customer receives a better price, then an order should be exposed to as many market participants as possible. This proposed expanded interpretation does not achieve that goal because the exposure is still limited to only those market participants with whom the broker has a relationship.

ISE also states in this rule filing that "the Exchange believes that the proposal should improve the usefulness of the QCC Order without raising novel regulatory issues, because the proposal does not impact the fundamental aspects of this order type – it merely permits multiple contra-parties, while preserving the 1,000 contract minimum."

In contrast, Group One believes that this proposed expanded interpretation of QCC greatly impacts the fundamental aspects of this order type. This proposed expanded interpretation would significantly expand the scope of the rule and open up QCC to a much larger portion of the solicited market. One of the side effects of opening up QCC to a larger portion of the solicited market is that an additional conflict of interest is introduced between brokers and customers. The solicited contra parties do not have the same fiduciary responsibilities to the customer that are present with a facilitating broker. This conflict of interest arises because there are now economic incentives for brokers to trade with contra parties that are willing to pay the highest commission rather than to expose orders to a larger group of market participants and potentially find better prices for the customer.

The soliciting broker will only get to collect full commission on both sides of the trade if the trade is crossed cleanly, and this proposed expanded interpretation of QCC provides the perfect mechanism for the soliciting broker to cleanly cross the trade because it eliminates all competition and additional price discovery. There is a huge amount of data to support the claims made in Group One's comment letter on the similar PHLX rule filing that QCC is already being used as a mechanism for the broker to disregard indications of interest from market participants and cleanly cross the trade using QCC due to the guaranteed 100% participation entitlement. Group One described the most obvious example of this occurring by explaining:

> There are orders that trade electronically through QCC every day that Group One, or some other liquidity provider, would have price improved if given the opportunity. This isn't conjecture; this is based on actual observations made on a daily basis. Every day brokers represent orders on the trading floors and request quotes from the market makers in the trading crowd. If the market makers in the crowd respond with a larger size than the broker is willing to give up or with a better price than the broker anticipated, then the broker frequently leaves the crowd without trading and a short time later the order prints electronically through QCC.[3]

The QCC mechanisms potential for abuse in this fashion is harmful to the customer. In most scenarios, the current market structure provides the customer assurances that the broker is finding the best price available because, if an order is not priced competitively, another market participant can step in and participate and potentially price improve the order. When the ability for the marketplace to provide that

[3] http://www.sec.gov/comments/sr-phlx-2013-106/phlx2013106-1.pdf

check and balance is removed, the customer no longer has the same assurances that the order is being priced competitively. This proposed expanded interpretation of QCC is likely to increase the frequency the above scenario occurring because the total number of trades eligible for QCC is going to increase.

Finally, Group One believes that this proposed expansion of QCC is unnecessary because it does not provide a benefit to the marketplace. There are already numerous other crossing mechanisms available at the various exchanges, and those mechanisms are superior to QCC in that they also provide the potential for exposure to market participants outside of those solicited by the broker. If there are multiple contra-parties willing to participate and potentially price improve the order, then the broker already has the ability to make this trade using one of those mechanisms.

Group One continues to support the efforts by the exchanges to increase the clarity of their rules; but, Group One believes that this proposed expanded interpretation is both unnecessary and contradictory to the goals of creating an efficient market place. If the ultimate goal is finding the best price for the customer, then these orders should trade through mechanisms designed to expose the order to the greatest number of market participants. As stated in the PHLX comment letter, Group One believes high-quality economic analysis is an essential part of SRO rulemaking. When taking everything above into account, Group One believes that this proposed expanded interpretation of QCC fails any reasonable economic analysis test.

Group One appreciates the opportunity to comment on this rule proposal and we are happy to discuss these views further with the Commission and its staff.

Respectfully submitted,

/s/ Benjamin Londergan

Benjamin Londergan
Chief Executive Officer
Group One Trading, L.P.