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The intention of this letter is to comment on "SR-NYSEArca-2006-13", the rules for the new OX Options trading platform of NYSE Arca.

MJT Securities has been a member or OTP holder of the PCX since the inceptions of Options trading at the PCX April 6, 1976.

MJT Securities is a strong proponent of electronic trading whether based on a trading floor or not. Our Firm's goal has and always will be to conduct our business in an environment that is fair and equitable as well as functional. We feel that much of the current offering in this rule filing is deficient in terms of being fair and equitable as well as dysfunctional.

The ARCA Equities model has always preached flat and open, price time market structure. The currently proposed OX rules and platform are neither price time nor transparent and are far from flat and open. The rules as proposed will, in our opinion, only enhance upstairs (outside of any Exchange) price discovery and simply build a near frictionless crossing environment for institutional investors to interact with orders at the expense of the public.

MJT securities will try to point out in this letter the current problems with the OX rule filing pertaining but not limited to:

- Working Order book
- New Order types
- Crossing rules
- Lack of granularity and clarity with certain definitions:
    - "trading crowd"
    - "reasonable time to respond"
    - "Hearing Distance definition of a post"
    - quoting requirements
- Cost structure proposed
- Matching algorithms not being compliant with the Rule 11a of the 1934 act
- Inequality of treatment for the different classes of market participants
- Lack of adequate functionality
- COATS compliance issues for certain order types
- Fair and Orderly openings
- Lack of Expiration (or any closing) rotation functionality.
- Manual handling of Cabinet Orders by Trading Officials (Order Book Officials)
- Quoting obligations are burdensome and unrewarded for non LMM's.
- Market Structure does not promote competition.

Working Order Book

The method by which NYSE Arca plans to implement the Working Order Book is one of the most problematic issues with in the OX rules. This book will contain live trading interest that will not seen by any market participant at any time, therefore completely obscuring true market transparency. In fact, market participants will not even have access to query the contents of this book. On all current options trading platforms there is a vocal or electronic announcement of all inbound orders and the ability to query the market either electronically or vocally through a Floor Broker or Order Book Official for any interest that may exist but is not eligible to be displayed on OPRA.

The inability for market participants to query this information will have a very negative effect on price and size competition amongst all market participants at the expense of the public. These undisclosed components of the Working Order Book, if approved by the SEC, will become the perfect vehicle for two parties to meet at an undisclosed price and cross trading interest without any intervention.

Because the working order book can be traded through on OX, customers may not receive the best price available to them in an open outcry or vocalized cross order. At a minimum the SEC should consider requiring that all components of the OX Working Order Book be made available to all OTP holders through the OX API. We believe that the exchange does not need to provide a working front end as a service to the MMATs, but they should at least provide the ability for users to query the information. This would be beneficial to the customer in addition to the Market Makers as the Market Makers will be able to provide better liquidity to customers with better transparency of the OX markets. Providing price and size transparency is always in the market's best interest. Another problem with the Working Order Book is that non-displayed working orders will stand the opportunity to receive price improvement from incoming trading interest to the display book. This presents three immediate problems:

1. Market participants are incentivized to leave their orders in the non-disseminated working order book.
2. If the trade price is not based on resting trading interest, then the wrong person is being rewarded the price improvement. All other marketplaces reward incoming orders with price improvement, when resting interest is "better" than the incoming interest..
3. This is an example of price time being executed in the wrong order.

New Order Types such as AON (All or None) Orders, Reserve Orders, and Contingency Orders are going to reside in the Working Order Book, not to be seen by anyone. MJT asks that the SEC carefully examine the processing of Working Orders against the Display Book as we feel it has not been designed in a way that is in the market's overall best interest.

AON (All or None) Orders

Another problem is that AON orders will reside in a book that will only periodically update over static snapshots of time as opposed to dynamically watching the market. This type of processing is clearly inferior to present processing and puts the customer at risk for missing executions.

MJT's understanding is that AON orders will not match off against each other presenting a potential for the market to be crossed for extended periods of time. In a training meeting of the new OX platform a PCX official stated that it was possible for the AON book to be Bid $1.10 for 100 AON while it is also offered at $1.00 for 100 AON. These two orders would be undisclosed and not trade until the components of the Display Book could satisfy either order. If these orders were to reside in the current system they would be capable of being matched at any MPV on or between $1.00 and $1.10. Without being able to view these orders the marketplace will be fragmented and a loss of transparency and liquidity will be the result.

Finally, Floor Brokers will not have access to the Working Order Book. If the Working Order Book checks the Display Order book for execution possibilities, it seems natural that OX should provide a mechanism for Floor Brokers and other Market Participants to query the Working Order Book.

A specific problem with OX's processing of AON orders is that they will not be published to OPRA in any case. MJT suggests that AON trading interest should be published to OPRA as long as an equal amount of trading interest resides behind in priority to the AON order. That way any firm quote obligations for a size less than the AON could be filled by the size behind in priority to the AON.

Reserve Orders

Reserve Orders are very problematic in that they allow users to enter orders with the intent of displaying only a portion of the total size of the order while the remainder sits on the sidelines until the displayed portion of the order is depleted. In the OX purpose statement (page 27), it is stated,"By offering order types such as the Reserve Order, customers will be able to determine how much of their order they want disseminated at any point in time and eliminates the need for customers to enter multiple orders in one series."

It is clearly evident that electronic trading systems provided by brokers already provide this service and is not a problem for customers to enter many, simultaneous or nearly simultaneous orders at the same or different prices. The exchange not need provide this order type at the risk of market integrity.

MJT believes the only real value of these orders is applicable to certain market participants – those who do not want their trading interest to be displayed and/or firm, providing a lack of transparency and true liquidity within the OX markets.

Reserve Orders will negatively impact price and size discovery, which is the true intent of the order type (in other words, to not show market bias). How will Option Linkage work when a user inputs a Reserve Order to buy 1000 calls for $1.00 but display only 1 contract at a time? This order could result in one thousand (1000), one (1) lot linkage orders before the originating exchange could legally trade at the next price level. This, in turn, could potentially slow or halt the OLA Linkage Hub to a point where linkage would no longer be viable and would simply create pricing errors due to the latency added to the linkage system in attempting to simultaneously process the extraordinarily number of one lots in the system. Another obvious problem is the net effect on customers' commissions from the processing of many one lots versus one order with larger volume.

The most disturbing aspect of Reserve Orders, as proposed by OX, is that they will be a perfect vehicle to "load up one side of the book", without anyone noticing, allowing an internalized contra side to interact with an AON or another Reserve Order. This is the perfect crossing mechanism – or stated another way, the perfect internalization mechanism for users who want to pre-arrange trades.

Reserve Orders should be disallowed as they are very problematic in assessing the true size of the market and hinder price and size competition among all options participants.

At a minimum the SEC should consider an eligible Reserve Order to be of a certain minimum size (100) and must display a minimum percentage (MJT proposes a minimum of 25%) of the total order size. This would decrease the negative effects to the marketplace of this order type.

MJT believes that the Reserve Order type should only be approved if OX provides OX MMAT's the same ability to enter Reserve Quotes so a Market Maker's quotes would not be further disadvantaged to Reserve Orders.

Crossing rules (Rule 6.47)

MJT challenges the proposed introduction of the Mid-Point crossing order type. Since the rules currently account for Regular Way, Facilitation, and Solicitation Crosses, upon which rules the mid-point crossing order type must adhere to, what is the value of this order type and why is NYSE Arca proposing this for the OX platform? This seems to be an attempt to create a placemark within the crossing rules to mimic the functionality of the Mid-point Immediate (Clean-Cross) order type with the Archipelago Equities platform.

Another point about mid-point crossing: if approved, the persons who are participating in the midpoint cross should not be allowed to quote one or both of the sides of the market that make up the values for determining the midpoint. As an example, they should not be able to make a market 10 cents wide market near the bid, that was previously 50 cents wide, put up the trade, and then cancel the narrow market.

OX Rule 6.47(b)3 states that a broker is not required to call for a facilitation market when requesting a Facilitation quote. This rule is in direct contradiction to price discovery and contrary to the best interest of the customer side of the facilitated order. We believe the SEC should consider not approving this rule.

MJT feels that before any cross is attempted on the OX system, it should be electronically "announced" to all market participants via RFQ (Request for Quote) for a minimum amount of time similar to all other crossing rules currently in place at other electronic exchanges.

The OX rules further states that it will be an acceptable practice for Market Makers to participate in price discovery prior to and outside of OX and then be able to be the contra side of any crossed order. This practice obviously gives that particular Market Maker who sees the order in advance of the trading crowd or quoting Market Makers outside of the exchange a huge time and place advantage. The SEC should not allow this practice since it prevented Market Makers from doing this in the past and is not consistent with Rule 11a of the 1934 act.

Rule 6.85, which allows off floor Market Makers to participate in viewing orders before they arrive on the exchange and participate on them as a facilitator, seems to penalize those Market Makers on the floor but not in the crowd.

The OX rules when applied to crossing will often mention that “a reasonable amount of time” must take place before a Floor Broker may effect a cross order (Rule 6.47(d)). MJT feels that this Definition of a “reasonable amount of time” needs further clarity. Is a reasonable amount of time, the time it takes to manually pull up the screen run a pricing analysis and asses the hedging risk? This requires a minimum of 30 seconds in open outcry. If the OX system was to RFQ the market participants it could be provided responses much faster with wider participation.

Rule 6.47(a)(3) states:
"Floor Broker may not trade through any bids or offers on the book that are priced equal to or better than the proposed execution price. If there are bids or offers on the book at or better than the proposed execution price, the floor broker must trade against such bids or offers in the OX Book. Once the bids or offers in the book are satisfied, the floor broker may cross the balance of the orders, if any to be crossed."

MJT has a few concerns about this process. The most disturbing aspect is the interpretation of this rule by the exchange and their corresponding officials. If a broker is attempting to cross 10,000 contracts, apparently all he must do is take out the displayed portion of the book. The broker is neither required nor offered a mechanism to check the working order book for additional trading interest that should interact with this cross prior to crossing the orders. If a broker takes out the displayed portion of a Reserve Order, with a reserve volume attached to the order still in the book, the broker will never be able to announce the order and trade prior to the reserve trading interest entering the OX system. MJT does not approve of pre-arranged trading interest trading in front of interest that has time priority. Therefore, the broker should not be allowed to trade until all reserve and or working interest is at least checked for execution possibilities against the trading interest and/or all reserve volume has been depleted from the book. Without the ability to see this “working interest”, how will a broker be able to comply with his obligation to not trade on or through the screen markets or receive potential price improvement from contingent order priced superior to the cross price?
Second, the exchange does not appear to have a way to audit this process. A few of MJT’s questions relating to the audit process are:

- Is there a timestamp associated with the broker’s announcement and
- if so, how is it compared against the timestamp of the incoming electronic trading interest?
- How is the exchange able to determine whether the broker actually depleted all trading interest at that price level?

- Even if the broker "believes" he has priority to trade, how does the exchange determine whether an incoming bid/offer at that same price did not beat the broker attempting to trade the order?

It has not been adequately explained how the broker will actually trade against the electronic book while in the "trading crowd".

- Will the Floor Broker have a portable device so he can trade against the book, while simultaneously announce order(s)?
- If not, what will be the mechanism to trade against the electronic book and how will it be surveilled? There has been no discussion to this end by the exchange and MJT is extremely concerned about the mechanics and ability for the exchange to control and monitor activity with respect to a fair and orderly process.

<u>Front-Running (pre-hedging) issues related to crossing rules.</u>

No where in the OX rules does it say any thing about anticipatory hedging, Since Market Makers, if approved by the commission, will be able to look at orders before they arrive to OX how will they be surveilled for pre-hedging. These rules need to be addressed as they are often perceived to be violated by other Market Participants on a daily basis.

<u>Lack of clear definition of trading crowd</u>

The OX definition of a Trading Crowd does not work with the new market structure and is not clear in its description on how to approach primaries without a physical location associated with each primary. Essentially, the trading floor will become anarchy and there will be no adequate audit of trading activity.

> (30) *Trading Crowd*—The term "trading crowd" means all Market Makers who hold an appointment in the option classes at the trading post where such trading crowd is located and all Market Makers who regularly effect transactions in person for their Market Maker accounts at that trading post, but generally will consist of the individuals present at the trading post.

This rule leads one to believe that it is possible for a Market Maker to be physically present at a trading post which will no longer exist. A Market Maker's Appointment could consist of a 100 separate locations around the trading floor.
A question associated with the definition of a trading crowd is, "how does a vocalized quote from a crowd participant get represented on the screen"?

Due to the fact that the OX platform no longer supports physical trading posts or specific location-based primaries it is impossible to react as an open outcry Market Maker since there will be no set location that the Market Maker will be able to hear all potential brokered crosses or trades. This will give all brokers a specific time and place advantage (11a) over all other market participants. The OX rules allow the LMM to stream quotes from a remote location leaving the Floor Brokers to stand in the trading crowd totally unsupervised with no potential vocalized price improvement intervention. The result is that the trading floor will become an internalization (crossing) mechanism with almost zero checks and balances.

This leads to more comments/questions about the definition of a trading crowd:

- There currently is no definition of Hearing Distance.
- Can a Market Maker conduct his business within Dearing Distance?
- There also no definition of how loud a crowd participant must be to make sure everyone is within Hearing Distance.
- How softly can a Crowd Participant speak in order to be deemed trading without providing an adequate amount of Hearing Distance.

These rules need clarity and MJT asks that NYSE Arca provide this clarity prior to attempting to launch the OX platform.

Rule 6.45 (c)(5) states, “If a Floor Broker announces an order in the trading crowd, and then steps out of the trading crowd to solicit interest, but continues to be within Hearing Distance, the Floor Broker need not re-announce the order upon returning to the trading crowd”.

In general, if a broker steps out of the crowd but remains within Hearing Distance, he should be required to announce the order when he re-enters the crowd. This rule should not change. Additionally, it seems clear that NYSE Arca is re-organizing the exchange floor to suit their needs in implementing the OX system, which is clearly limited in its ability to process most of the volume that occurs at the PCX today. Also, this is contrary to currently approved rules and what is in the best interest of the customer. Additionally, it is the result of an obvious lack of due diligence by the broker if he does not re-announce the order when re-entering the trading crowd. It is surprising to MJT that OX would even try to amend the crossing rule(s), as nothing has changed with respect to the processing of these orders as we understand it.. This rule seems to only cover the exchange’s inability to provide a clean structure to the mechanics of the physical trading floor in conjunction with the electronic platform. The proper solution to this problem, as provided by many exchanges, is to RFQ all participants electronically, since the conflict between physical trading crowds/posts and electronic primaries has not been resolved by NYSE Arca prior to attempting to launch the OX system.

OX needs to define “in the crowd” and “crowd participant”. For instance,

- What is a post if there are no primaries based on post?
- How many posts does an LMM occupy when they have 500 issues under their LMM obligations?
- How does an LMM operate a post from off the floor?

Cost Structure

There is a tremendous amount of cost associated with the new OX market Structure. The largest is a result of the newly implemented quoting obligations being imposed upon MMATs (Non-LMMs). It could amount to a $20,000.00 additional per month quoting cost to become compliant with the OX rules. These new costs of doing business added to the existing payment for order flow are going to have a significant thinning effect on the current Market Maker population. The new cost structure being rolled out allows a LMM to trade at a cost of only $.09 per contract vs .$16 per contract for a Non LMM Market Maker. This equates to a 78% differential in pricing.

<u>Inequality of treatment for different classes of Market Makers.</u>

- Market Makers (MMATs) pay 178% of OX per contract fees that LMM's do.
- Maket Makers (MMATs) have more than 60% of the quoting responsibility of the LMMs.
- LMMs garner 40% gaurenteed particicipation when at the price.
- Market Makers get schuffled to the back in time when an LMM is present at the NBBO.
- LMM firms have the benefit of collecting and distributing payment for order flow as they see fit, with no required input from the MMATs as to where the funds should go.

<u>Cabinets are missing from the OX platform .</u>

Cabinets will not be accepted by the electronic order book and will therefore have to be maintained by an Order Book Official, not a Trading Official since they "do not handle orders."

- How will these be viewable, consummated, entered, and how will they be systematized and COATS compliant?
- How do remote users supply, access, or query this trading interest?

These are questions that we don't have answers to and just want to make sure that NYSE Arca has explained it in detail to the Commission.

Our understanding is that they may actually be posting them on pieces of paper in front of the trading crowd.

MJT feels that the best solution is to have all Options Markets post their respective Cabinet orders in the book and allow them to be published to OPRA in order to provide market participants a chance to electronically trade. Cabinets provide the market place a way of reducing risk for liquidity providers, which ultimately helps the customer. The allowance of Cabinet trades to be viewed nationally will help preserve capital and minimize money allocated to a Haircut that serves no benefit to anyone. If additional Haircut money was freed up, it would allow capital to move to new areas providing the overall market greater liquidity.

<u>Closing the Market</u>

The OX rules make no mention of how they will operate Closing Rotations or Closing auctions. This should not be a significant problem outside of year end closing or any unforeseen need to close after the regular closing time. Recently (February 2006), the options closing time was moved to 4:00 pm EST, which is generally before the closing print of the underlying security. This has caused numerous pricing disparities.

If the underlying, upon which the derivative is based, closes after to the actual derivative it seems mandatory to have a closing rotation. If the closing time for the derivative was actually after the closing time of the underlying, then no Closing Rotations would be needed.

MJT feels that the solution to this problem at expiration is to keep the OX system open until 4:15 for expiring Options similar to the way Indexes and ETF remain open for options trading an additional 15 minutes each day.

Elimination of the Floor Broker Handheld System

The fact that OX will not interface with the Floor Broker Handheld system means there will be no way for customers to trade in a closing rotation after 4:00 on expiration Fridays. The result is that Market Participants will be frozen out from reacting to the closing print of the underlying instrument for the derivative upon which they are trading.

Conflict with new definition of how and/or which orders must be systematized prior to being announced in floor environment.

Today there are many ways in which Floor Brokers represent orders in the trading crowd. Floor Brokers receive orders via MFI lines, telephones, Instant Messages, Faxes and Email. These orders are often sitting on desk for hours before they are represented to the crowd or systematized. The new OX rules are silent on when these must be entered into the OX or EOC systems. Often a Floor Broker will represent 50 orders spelled out on one fax of an Excel sheet. After consummating a part of this list they will then input these trades to EOC which inevitably are printed much later than there true time that they were announced. MJT would ask that the SEC please provide clarity on how this is process is supposed to take place and request that the exchange enforce these rules.

COATS compliance issue for orders?

Item 3 of the purpose statement, section A, states that "NYSE Arca proposes to establish rules for OX, a fully automated trading system for standardized equity options intended to replace the current options trading platform, PCX Plus."

However, in rule 6.47(e)(1) the following comment is made: "the option order must be entered into EOC or the Electronic Tablet or, for orders excepted from EOC or the Electronic Tablet, trade tickets must be given to the Trading Official"

This statement is very disconcerting for a few reasons: Firstly, MJT is under the impression that all orders must be systematized prior to being vocalized on the trading floor, currently. Since the functionality provided by the combination of the EOC and the Electronic Tablet systems seems to have functionality to account for all order types, why would there still be a need for the use of paper tickets within an "all electronic trading platform"?

MJT is asking that SEC request a list of the order types that will not be systematized within OX and explain why, so we may understand why brokers must use paper tickets. And if brokers are going to still use paper tickets, is OX in any way a "fully automated trading system"? The use of paper tickets dramatically slows the process of trade reporting and does not allow for good audit control.

Also, if they are not required to systematize all orders at the exchange, MJT Securities would have to question why the implementation of the Electronic Tablet and the overhaul of the EOC system were mandated by the previous PCX Chief Regulator a few years ago. We have the understanding that this was an attempt to systematize all order types. MJT believes that there is no reason why all orders should not be systematized prior to being vocalized on the trading floor. MJT also believes that OX has made no attempt to systematize most of the order flow, by volume, and it should be mandated that all orders can be systematized within OX prior to being approved to launch a "fully automated trading system for options".

Market Structure in contradiction to rule 11A

The OX Platform as it currently is proposed has several areas that are concerns of ours in terms of time and place advantages (rule 11A). The OX rules state that the trade allocation methodologies are based on strict price time with one exception. It is the exception that allows an LMM quoting at the trade price will be moved forward in time in order to guarantee 40% participation at the expense of competing Market Makers. This is clearly an exchange sponsored time benefit afforded to the LMM's. For many years throughout the options industry there have been various pro-rated and guaranteed percentages given to Specialist DPM's and LMM's, but the residual was allocated on a prorata basis. If approved, this will be the first time that the SEC will allow a professional trader to move in front of another quote or order in a price time based allocation model.

Additionally, the contents of the OX book are re-organized based on the presence of the LMM at the trade price and if the incoming order is large enough to trade against the LMM. The OX platform actually has two different allocation methodologies based on the size of the order and based on whether the LMM is at the top of book at the time the order trades. This does not seem to be a consistent allocation methodology and creates confusion for all participants in addition to clearly giving certain market participants time advantage based on their classification of user type. This advantage is limited to Customers and LMMs, only.

Below is an example of potential allocation with current OX rule set, where MMATs repeatedly lose time priority based on contents of book.

Market Maker1 is first in priority at given price.
Customer1 is second in priority at same price.
Market Maker2 is third in priority at same price.
Customer2 is fourth in priority at same price.
LMM is fifth in priority at same price.

An incoming order is large enough such that it would trade against the LMM, so the book is re-organized to the following priority:
Customer1 is first.
Customer2 is second.
LMM is third (retaining 40% guaranteed participation)
Market Maker1 is fourth.
Market Maker2 is fifth.

The order is large enough such that it trades against Customer1, Customer2, LMM quote, and Market Maker1 for some volume. While the LMM is re-quoting, two other customer orders (customer3 and customer4) enter the system. Then LMM re-enters the system with a new quote. Because the two customers are in front of the LMM in time priority, but behind the two Market Makers with initial time priority, they move to the front of the line again, bypassing Market Maker1 and Market Maker2 in time priority.

Another incoming order is large enough such that it trades against Customer3, Customer4, LMM quote, and Market Maker1 for some volume.

In this example, though Market Maker 2 was second in time priority initially, he has not been allocated even one contract. The LMM, however, has "dipped twice" into the trading interest. If Market Maker1 is there for large size, customer orders continue to stream in, and the LMM continues to re-quote after each trade (common among large quoting firms, such as LMMs), Market Maker2 is essentially excluded from trading. Is this fair for Market Maker2? This seems to be a huge tax on technology to the smaller participant in addition to the fact that the market structure has provided a vehicle for LMMs to "double dip" into the trading interest prior to others trading, who initially had priority.

This realistic and probable scenario is very disconcerting to MJT Securities and we ask that the Commission carefully examine trading scenarios specific to the OX allocation methodology in their market structure in order to ensure fair and orderly treatment to all market participants – not just the "customer" and "LMM" user types.

Opening Rotation or Opening Auction Rule 6.64A(b)(B)

In this rule it states that all Orders will trade ahead of all Quotes. This does not seem fair or in line with a strict price time market. It also provides incentives for Market Makers to send Orders to compete on a level playing field with Market Maker Orders from other Exchanges. Market Makers should be given the capability to provide GTC quotes in order to not askew volume in primary requirements and these should trade strictly by price time. More importantly, MJT believes there is no precedence for placing priority of orders (behind in actual time priority) ahead of quotes (ahead in actual time priority), and this rule makes the platform unfair to certain market participants.

Market Maker Obligations.

The "75% in primary appointment trading volume requirement" states that a Market Maker must trade 75% percent of their volume within their primary appointment. Two questions MJT has are:

1. "Does this include the Volume from Quotes and Orders or just Quotes?"
2. Does the OX platform have the capability to include orders consummated in one's Primary appointment calculations?

The rules as stated are silent on this issue, and since orders have priority over quotes in the opening, it is likely that most Market Makers will use orders to make markets in the opening versus quotes. If OX gives priority to order over quotes, it should at least count orders traded on OX on behalf of the MMAT towards the 75% rule. MJT asks that the commission address this on the behalf of the Market Maker community as we believe that NYSE Arca has not adequately addressed this issue.

Rule 6.37B(c)
The Sixty percent quoting requirement is vague as stated and needs clarity so that Market Makers may understand how to keep a running total of their compliance prior to the end of the quarter. MJT feels that OX should also provide a real time method of observing how the exchange views each Market Maker's compliance with the 60% quoting obligation. This should be available to the LMMs as well so they may also know their compliance with their 99% quoting obligations in real time.
Should it be the number of seconds a MM provided a quote in a series within their primary divided by the number seconds all series in that Market Makers primary were open for the Quarter. It would be acceptable to provide this through the OX API as we do not expect OX to provide a front end mechanism for this. However, to not provide any mechanism by which all participants, including the exchange, can agree upon the method of calculation, nor provide clarity on how the exchange plans to calculate this would be unfair to the entire market making community.

Quality of markets issue:
Rule 6.40A(f) states, "if there are no Market Makers quoting in the issue and there are no orders in the OX Book in the issue, OX will disseminate a bid of zero and an offer of zero." MJT is concerned that smart routers and linkage might be deleteriously affected by this market shown by the exchange. For instance,

1. Would all sell stop orders be triggered by this market?
2. Would all buy side smart routers be affected?

Closing Statements

Our global thought is that this system, as described, is very helpful for the LMM's and very appealing to anyone who wants to internalize order flow or cross orders with relatively little additional market exposure, if any. Additionally, now a Remote LMM can legally look at any order off the exchange and interact with it via the new crossing rules. This seems unfair that any MM off the floor has more access to contra party paper than those MM on the floor. The fact that LMM is allowed to quote $5.00 wide does not seem like they are worthy of any price breaks or guaranteed participation.

MJT believes that the OX system is not ready for implementation, because the new OX system, as proposed, does in fact have numerous burdens on competition. Because the majority of orderflow is internalized from the LMM's brokerage operation, the LMM collects payment for orderflow from all crowd Market Makers and has control over those collections. They can divert those funds back to brokerage side of their firm creating a wash for the LMM and tax on the rest of the Market Makers who paid in to the "Payment for Orderflow Pool".

Our understanding is that OX will be launched without many of the features represented within the filing. Past experience with the PCX Plus platform (in addition to other electronic venues in the nation) has proven that it is better to wait until most of the critical functionality provided is implemented prior to launch. It seems, based on feedback from the exchange and from this rule filing, there are many missing pieces to the platform as proposed for implementation on July 31st, 2006.

MJT believes that if a new electronic platform is to be installed, it should move forward not backward, from the previous platform. NYSE Arca is taking steps back from PCX Plus if OX is implemented under its current state.

- Open and closing order types lost.
- Lost functionality for stop orders for launch.
- No method for rotations.
- Lost functionality by elimination of Floor Broker Handheld. Brokers currently provide a crucial function on the floor by monitoring contingency and complex trading interest in order to provide best execution possibility. The OX platform is clearly unable to perform the basic functionality of even matching AON versus another AON and cannot handle complex orders. Why would NYSE Arca rush launching OX until they are ready to replace currently functionality, instead of simply eliminating it?

It is evident that Archipelago has revolutionized the equities business and has made great contributions to the innovation of that industry. MJT respects Archipelago's ability to be creative in building electronic functionality enhancing and replacing the manual handling of equity orders.

However, as proposed, the OX platform created by newly merged NYSE Arca is not going to revolutionize the options business nor enhance current processing. Rather, they will be taking steps back, and all Market Participants (including other exchanges) could be negatively affected if the OX Platform is approved and implemented in its current state.

Additionally, it seems natural that NYSE Arca, as a for profit company, would want to automate the order flow type associated with the most volume. This is actually opposite to their approach with the OX system. The order type with the largest volume associated with it at this exchange (crossing orders) seems to be one of the only non-automated pieces and this concerns MJT.

We are a strong advocate of automation and believe that NYSE Arca could produce an excellent offering if they were given more time to build what they intended to rather than attempting to simply launch by a specific date.

It is clear to us that NYSE Arca needs more time to solve the fundamental issues with their proposed market structure as defined, finish building order types they desire to implement, and create a plan for dealing with the new structure of the exchange floor and how it will work in conjunction with their newly proposed electronic platform.

MJT greatly appreciates the Commission's efforts in representing our concerns and protecting all Market Participants from the risk of launching an electronic trading system which is not ready for implementation.

Sincerely,

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