

October 31, 2006

Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: File No. SR-NYSEArca-2006-73

Dear Ms. Morris:

optionsXpress, Inc. appreciates the opportunity to offer comments on the Securities and Exchange Commission ("Commission") proposal for the implementation of a pilot program to quote and to trade certain options in pennies for the NYSEArca Exchange.

optionsXpress (the "Firm") applauds the Commission's Penny Pilot impetus in options. The Firm expects a net positive effect for our customers seeking tighter markets and improved transparency in the most liquid option classes. The Firm believes it is necessary for the Securities and Exchange Commission to play an active role in guiding the pilot. A lack of coordination and communication will lead to an ineffective pilot and a bad experience for the growing customer segment of the options business.

The Firm's main concerns for the pilot center on the quality of quotes, latency in the system due to increased quote traffic, and problems with the options market linkage system. optionsXpress hopes the SEC reviews the pilot data thoroughly with the help of industry representatives, to determine the optimal products in which the benefits of pennies outweigh the costs to the marketplace. optionsXpress also hopes that a more logical threshold between penny and nickel quoting will result from the pilot program and that the Commission will encourage more efficient "private" linkages between exchanges.<sup>1</sup>

The NYSEArca proposal contains a quote mitigation plan that will reduce transparency and hurt the retail investor. There has been large growth in the use of options by the growing number of self-directed investors. These investors often use third-party software to analyze trading opportunities in the marketplace, relying on

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<sup>1</sup> The current proposals use a \$3.00 threshold where all options under \$3 will be quoted in .01 increments and above \$3 will be quoted in .05 increments, with the exception of QQQQ options which will all be quoted in .01 increments. The Firm believes this is due to current exchange technology and encourages a more open approach for future trading thresholds.

disseminated quotes to look at the potential risk and return of new trading opportunities. By removing quotes from the marketplace, the NYSEArca plan is essentially reducing investor opportunity. The options industry currently has a quote to trade ratio of over 3500 to 1, yet has enjoyed significantly more growth than the equity market over the last 5 years.<sup>2</sup> The transparency provided to the investor by way of competitive quoting has been a major factor in this growth. Although NYSEArca appears to have done significant research and planning to limit the possible negative effects of removing quotes, optionsXpress believes the NYSEArca plan will result in undermining the transparency of the market. We ask the Commission to closely monitor the option series where NYSEArca goes “dark” (removes quotes) and to analyze the market quality before and after the change. We also encourage the Commission to recognize the larger effects if other exchanges utilize a similar mitigation strategy.

optionsXpress values its opportunity to provide these comments to the Commission and would be pleased to discuss the proposal further. We look forward to reviewing and commenting on the proposals not yet submitted from the other four options exchanges.

Sincerely,

Peter J. Bottini  
Executive Vice-President  
optionsXpress, Inc.

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<sup>2</sup> Based on OPRA Quote to Trade Ratio provided by the Financial Information Forum.