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

Re: CBOE Comments on Amendment No. 3 to SR-NYSEArca-2009-44

Dear Ms. Murphy:

The Chicago Board Options Exchange, Incorporated ("CBOE") is writing in reference to the above-captioned rule filing by the NYSEArca, and in particular the proposal by NYSEArca to quote all option series in SPY and IWM (two ETFs which are currently participating in the Penny Pilot) entirely in penny increments, like the QQQQ options.¹ Today, the minimum increment for bids and offers in SPY and IWM is a penny for all option series below \$3, and a nickel for all option series \$3 and above.

Previously, CBOE commented against this proposal which NYSEArca had made in its original filing.² CBOE noted in its comment letter that NYSEArca's statements in support of its proposal were not persuasive and, in fact, were either incorrect or misleading. In Amendment No. 3, NYSEArca does not offer any empirical data to support its proposal or weigh the costs and potential benefits of it, just as it failed to do in its original filing. That is not surprising since the data, as noted below, simply does not support the elimination of the \$3 breakpoint in IWM and SPY. It appears that NYSEArca's proposal to trade these classes entirely in pennies is premised on that fact that they are two of the most-active option classes and the QQQQs are also quoted entirely in penny increments. And, its proposal appears to be motivated by the business model that NYSEArca has adopted, namely, maker-taker.

CBOE, however, believes that the potential benefits to retail investors of eliminating the \$3 breakpoint in these two classes are small, and do not outweigh the costs of such a change. In its reports to the SEC, CBOE and others have consistently identified certain negative consequences of quoting in penny increments, including a drastic reduction in liquidity at the BBO (averaging 91% in Phase I classes), the explosion of quote traffic, and an increase in off-exchange trading in options in penny increments. With regard to the expected increase in quote traffic if the \$3 breakpoint was eliminated in these two classes, CBOE estimates that the quote traffic in IWM and SPY would increase 128%. To put that in perspective, during the most recent reporting period the average number of quotes per day in SPY and IWM was 38.5 million and 16.7 million, respectively.³ SPY ranks first among the Penny Pilot classes in terms of average

¹ In Amendment No. 3, NYSEArca consented to a bifurcation of the filing so that its proposal to quote IWM and SPY entirely in pennies would be subject to further notice and comment.

² See letter from Edward J. Joyce, President and COO, CBOE, dated June 12, 2009.

³ See CBOE Penny Pilot Report, dated September 21, 2009.

number of quotations, and IWM ranks fifth (QQQQs ranks eighth). If the NYSEArca proposal was implemented, these negative trends would continue in these two classes in the series priced \$3 and above.

Additionally, it is important to note that investors are already receiving the benefits of penny quoting in these two classes under the current Pilot Program, since an overwhelming majority of volume and trades in these two classes occurs in options quoted in penny increments. For example, during the period June 1, 2009 through September 30, 2009, over 87% of IWM's contract volume and nearly 90% of its trades, and over 86% of SPY's contract volume and over 87% of its trades, were in options quoted in pennies. Moreover, there does not appear to be pressure on the minimum increment in these two classes in the series priced \$3 and above. During the past year and a half, IWM's average spread width in series with a premium \$3 or greater has fluctuated between \$.20 and \$.34, increasing with market volatility. The average spread width for SPY during this timeframe has been nearly identical, ranging between \$.20 and \$.35.

Sincerely,

A handwritten signature in cursive script, appearing to read "Edward J. Joyce". The signature is written in black ink and is positioned above the printed name.

Edward J. Joyce