

June 30, 2009

Ms. Elizabeth Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street  
Washington, DC 20549-1090

RE: Securities and Exchange Commission File Nos. SR-NYSEArca-2009-44, SR-CBOE-2009-031, SR-ISE-2009-32

Dear Ms. Murphy,

UBS Securities LLC ("UBS Securities"), the U.S. investment banking arm of UBS AG, respectfully submits this letter in response to the above-referenced filings of the Chicago Board Options Exchange, Inc., the International Securities Exchange, LLC and NYSE Arca, Inc. to amend the rules of the exchanges to quote and trade certain options in pennies. The exchanges are currently trading a limited number of options in pennies under a pilot program (the "Penny Pilot Program" or the "Pilot"). The Penny Pilot Program is currently scheduled to expire on July 2, 2009. Each of the exchanges is proposing an expansion of the number of options trading in pennies and the phased extension of the Penny Pilot Program through December 31, 2010. The proposals of the exchanges differ in the number of options to be covered under the Pilot and in the price breakpoints and minimum quoting increments applicable to specific options.

The Penny Pilot Program has been in place for more than two years and currently more than half of the national volume of all options trading is subject to the Pilot. There has been sufficient time to analyze the impact of quoting and trading options in penny increments on market quality and systems capacity. During the Pilot, the exchanges have periodically submitted reports on their findings to the Securities and Exchange Commission (the "Commission"). Those reports have shown that while spreads have narrowed as a result of penny quoting, there has also been a reduction in the displayed size at the BBO. Quote traffic has increased significantly; however, the quote volume has not resulted in significant problems for exchanges or market participants.

UBS Securities is uniquely qualified to directly assess the impact of penny trading in options on execution quality. We are a registered market maker in more than 900 options and as a broker we execute significant options order flow for institutional and retail investors. We have supported the Commission's effort to introduce penny quoting for options. With the implementation of the Pilot, we have seen the benefit of narrower quote spreads when executing orders for our customers and for our own account. However, executing larger client orders in Pilot options has been more difficult due to decreased liquidity at the inside market. To compensate for the loss of liquidity, UBS more frequently facilitates the other side of larger options orders. While the narrowing of average spreads has lowered the cost of options trading, we think the Commission should not ignore the liquidity issue in deciding how to expand the Pilot.

UBS has carefully considered the alternative proposals from the options exchanges. We believe the optimum breakpoint for penny quoting is \$1.00 premium, and therefore we think the current breakpoint should be reduced from \$3.00 to \$1.00. Premiums of more than \$1.00 should be quoted in nickel increments. We believe this approach to breakpoints appropriately balances the cost benefits of tighter spreads for an expanded number of options against the systems capacity strains of increased quote traffic and the execution problems presented by reduced liquidity at the inside market. By setting

the breakpoint for penny quoting at \$1.00, the benefits of penny trading and quoting will be directed to the options most actively traded by investors.

There should be uniform penny quoting rules across all of the exchanges to avoid the confusion different breakpoints would cause. Currently, there is some investor confusion regarding which options trade in pennies. There would be even greater confusion if the different exchange proposals for the expansion of the Pilot were approved by the Commission. Exchanges would adopt different breakpoints which would make trading options more complicated and would not provide any benefit to market participants.

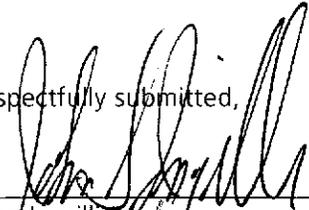
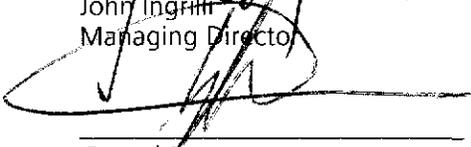
A gradual implementation of the Pilot expansion will give market participants and the Commission the opportunity to examine the impact of penny quoting and trading under different market conditions. Each of the exchanges is proposing a phase-in of the additional option classes over four successive calendar quarters. This approach will allow UBS, our customers and their order management vendors time to adjust their systems for an increase in market data. It will also give the Commission time to assess any system capacity stress as well as any impact on liquidity before the next phase of the expansion adds new options classes to the Pilot.

An expansion of the Pilot should also be contingent upon the implementation of the new linkage plan expected by the end of the third quarter of 2009. The introduction of Intermarket Sweep Orders and anticipated improvements in order routing technology anticipated as part of the new linkage plan will provide an improved trading environment for the expansion of penny quoting.

The expansion of the Pilot and implementation of the new linkage plan will result in significant market structural change for the options markets. To respond to these changes, the Commission should encourage marketplace competition and the development of more flexible and progressive approaches to order crossing and price improvement mechanisms for options trading. The development of such mechanisms could provide tangible benefits for options investors by improving the pricing and speed of executions for options orders.

We appreciate the opportunity to comment on the proposals to expand the Penny Pilot Program. We urge the Commission to carefully weigh the costs and benefits of the alternative proposals submitted by the exchanges before approving a phased implementation of penny quoting and trading for additional options classes. Should you have any questions, please do not hesitate to contact Karen Wendell at (203) 719-8989.

Respectfully submitted,

  
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