October 17, 2013

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

Dear Ms. Murphy:

Dynamex Trading LLC ("Dynamex") appreciates the opportunity to comment on the NYSE Arca proposal to amend Rule 6.72 and reduce the number of classes included in the Penny Program to the top 150 most active classes. Dynamex supports the NYSE Arca proposal and believes that the Securities and Exchange Commission ("SEC") should require all exchanges to follow a unified plan.

We support the NYSE Arca proposal for the following reasons:

Dynamex believes that tighter spreads actually reduce the overall displayed liquidity. As we have seen from the data released by the exchanges throughout the Penny Pilot, the displayed size at the top of the NBBO has decreased significantly. Since 2009 when the pilot was implemented, the average displayed size in penny denominated names has decreased by over 75%.[1] This decrease in the size at the top of the NBBO creates a major disincentive for market makers to provide liquidity. If you know where the market is 1500 up, it makes it considerably easier to make a 5000 up market for an institutional client. If the market is only 200 up, it makes it exceedingly difficult to find anyone willing to provide liquidity that is 5000 up. In addition, the best execution obligations of a broker become increasingly difficult to navigate when it is more difficult to find a market maker willing to commit capital to an order and the screens don't reflect a useful market either to the customer or the market maker to deal with an institutional sized order.

Recently the OTC Markets Group made a change where they reduced the required display size from 500 shares to only 100 shares in Bulletin Board names. The intent was to tighten the spread and bring liquidity. At a recent STA conference in Washington DC, Cromwell Coulson, CEO of OTC Markets Group,

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1 https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/nyse_amex_penny_pilot_phase_v_report_draft_6-30-09.pdf

indicated that while the average spread tightened from 16 cents to 12.5 cents, the actual displayed liquidity was reduced by over half from 2100 shares to 1000 shares at the BBO. This reduced liquidity not only unnecessarily complicates execution, but it also has zero impact on the execution cost. In the OTC Markets case study, the cost to execute 1000 shares remained identical both before and after the pilot, at .14 for buys and .18 for sells. The benefits of increased liquidity and transparency at nickel and dime decrements can be achieved with zero impact on the cost to execute a fixed quantity of option contracts.

As an agency broker representing many institutional customers, Dynamex believes that penny pricing will actually increase the cost of filling an order. Because many liquidity providers operate in a model where their pricing is dictated by the size of the NBBO, having less liquidity on the markets creates a positive feedback cycle. This reduced screen liquidity ultimately requires trading at multiple and more expensive levels of liquidity to execute an order, or worse yet, simply not being able to find the liquidity needed to satisfy the order in question.

While tighter spreads might create the illusion of better pricing for retail customers, the market structure actually decreases their ability to get a fill. When interest is consolidated at specific levels, the customer will get priority execution. If more granular levels are introduced in names that do not demand it, the ability for professionals to queue jump customer liquidity is significantly increased. Professionals with the ability to develop advanced scripts and algorithms disenfranchise the retail liquidity by boxing their interest out of the market.

We believe that many of the criticisms regarding equity executions in sub-penny increments are also applicable to penny priced options. TD Ameritrade stated in a comment letter on the topic of sub-penny executions in equities, “retail investors who place limit orders often complain about executions that occur in sub-penny increments ahead of their orders, and often point to sub-penny printing as the reason their order is not being executed.”

The price discovery process, and ultimately any best execution considerations, is thrown into flux by allowing lower liquidity names into the Penny Program. Having penny decrements in issues where the NBBO is thin and flickering perverts the incentives and creates confusion. When the prevailing best bid and offer is unclear and wavering at any given time, our end customers are faced with unnecessary uncertainty. Furthermore, in attempting to satisfy our best execution requirements and achieve the best price for their customers, ephemeral liquidity is detrimental to the process.

Where there is demand for both institutional and retail customers for trading at improved levels, a plurality of mechanisms for price improvement already exist. These are accessible across exchanges, and allow for many flavors of improvement in both spreads and single legs. By submitting their interest to auction, our customers can access any liquidity within the current spread without introducing the calamity of smaller decrements. It is in effect much easier for us to find someone willing to price improve an order or provide liquidity in the first place for orders with a stable and well established NBBO, and it is exceedingly difficult to even find enough liquidity to satisfy our customers’ orders in low volume names that trade in pennies.

We agree with Arca’s contention that removing these classes from the Penny Program is unlikely to have a material impact on spreads in the removed classes, and we agree with the notion that the increased quote traffic in penny classes is placing an added strain on an already fragile system. We support the Arca proposal because their data shows that the average width in classes above 150 is already

significantly wider than a nickel, and we believe this is an opportunity to decrease market data and enhance market stability without negatively impacting execution prices. Removing classes from the program would be a significant benefit to the customers with whom we do business.

For all of the reasons above, Dynamex supports the NYSE Arca proposal to reduce the Penny Program to the 150 most actively traded classes, and we appreciate the opportunity to comment on the proposal.

Sincerely,

/s/ Harris Bock
Harris Bock
Chief Executive Officer
Dynamex Trading LLC