GROUP ONE
TRADING LP

October 1, 2013

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

Dear Ms. Murphy:

Group One Trading, L.P., ("Group One") would like to thank the Securities and Exchange Commission ("SEC") for providing us the opportunity to comment on the NYSE Arca proposal to amend Rule 6.72 and make permanent the Penny Trading Program for Options. Group One is one of the largest, privately held equity options market makers in the United States. Group One makes markets in over 2,600 individual issues and provides a significant amount of liquidity on every major US based equity options exchange. Group One supports the NYSE Arca proposal and applauds the rigorous research that went into its proposal.

In support of the NYSE Arca proposal, we would like to provide some internal data that demonstrates the differential in quote traffic generated in penny-priced names ("pennies") vs. non-penny-priced names, and to paint a picture for what that means in terms of the costs for a market maker to make markets in those classes. In addition, we do not believe that there is any hard economic data to support the view that increasing the number of classes traded in pennies is a benefit to the marketplace, and therefore we do not support the proposal set forth in the comment letter submitted by the International Securities Exchange ("ISE").

Group One firmly believes that there needs to be a unified plan that that the SEC requires all exchanges to follow. If one exchange institutes a rule or practice that is different from the other exchanges, the other exchanges will effectively be forced to follow that rule regardless of their opinion as to the negative impact of the rule or change on the industry. If exchange A were to list pennies in a larger number of classes, then every other exchange would be required to follow suit even though such a move would likely cost the industry millions of dollars per year. The remaining exchanges would feel strong competitive pressure to follow the "lowest common denominator" or risk losing volume in the classes in which they are not trading in pennies.

To give a simple example, if the Oct 50 calls in ABC have a BBO of 1.40-1.45 on Exchange B, where there is no penny trading in ABC, and a quote of 1.41-1.45 on Exchange A, that allows for trading of ABC in pennies, the order flow providers would be forced to send any sell order to Exchange A to fulfill their Best Execution requirements. There is historical evidence of this happening with the original Penny Pilot Program. The major exchanges wanted a different program, but were forced to adopt the Arca plan even though the major exchanges believed it would be a detriment to the business. Qualified Contingent Cross (QCC) is another example where one exchange wanted to make a rule change that other exchanges opposed. Once that rule was approved, the opposing exchanges had to adopt the rule for competitive reasons even though they believed it was not in the long term best interest of the industry.

440 South LaSalle, Suite 3232, Chicago, IL 60605

Next, we would like to corroborate some of NYSE Arca's points with data and information of our own. We believe this data justifies NYSE Arca's proposal, and provides additional data points that NYSE does not have.

The first data point is the spread widths of the classes outside of the top 150 penny names. Our analysis agrees with NYSE Arca's, namely that the average width in the classes outside the top 150 in the Penny Pilot is significantly wider than a nickel. We also drilled down to look only at the Front Month At-the-Money ("ATM") widths in those names, and the average width, even when only looking at the ATM's (generally considered to be the most liquid, most actively quoted, and tightest spread), was 4.6 cents. We agree with NYSE Arca's contention that removing these names from the Penny Program is unlikely to have a material impact on widths in those names. In addition, to the extent that spreads were to widen, there exist a multitude of price improvement mechanisms that can be used to expose customers to improved penny pricing without the added costs and overhead associated with quoting in pennies.

Our data also supports NYSE Arca's claim that quote data increases significantly for classes in the penny pilot, and that those added quotes are not resulting in increased volume or trading. When looking at the amount of quotes we send per trade in issues 150-364 in the Penny Pilot, and comparing that with the number of quotes we send relative to the number of trades we make in classes 365-528 (based on 30 calendar day Average Daily Volume) we send in approximately 40% more quotes-per-trade in the penny names than we do in the non-penny names, even though in general the names just outside of the pilot have less volume and a lower probability of making a trade.

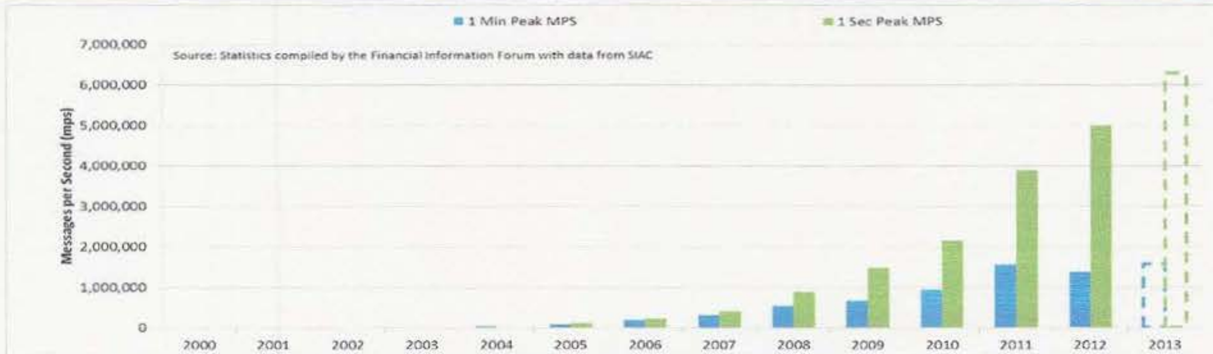
This increased quote traffic is expensive for both market makers and the rest of the financial industry. The exchanges charge market makers for quotes through a variety of mechanisms, including CBOE permits, port charges on PHLX, Session ID's on AMEX or ARCA, or API fees on the ISE. Every major options exchange passes through a cost to the market makers based on the number of quotes they send into the marketplace. Trading penny issues requires market makers to submit significantly more quotes. In addition to the increase in exchange costs, the necessity to send in more quotes will result in higher fixed costs. Higher quote traffic results in having to upgrade your trading hardware and your market data hardware more often. It also means having to upgrade your network capacity more frequently. Further, there are additional "soft costs" such as increased software development to enhance your trading system, and upgraded hardware monitoring to help detect when your hardware is having issues keeping up with the increased market data load. Group One understands that not all of these costs are applicable to all market participants; however, all market participants will see some increased costs and these costs are not trivial. Group One's individual estimate of the cost to add classes to the Penny Pilot per ISE's proposal would be over 1.5MM dollars per year. When that number is multiplied across all market participants, the cost to do business significantly increases. To be clear, Group One accepts that there will occasionally be increased costs and that is something the entire industry has come to accept, but we believe that the industry shouldn't be forced to take on increased costs when there is no apparent benefit and there is data to support the fact that these costs can be eliminated in a way that will not be harmful to the marketplace.

In addition to the obvious direct costs to the industry, our opinion is that there are other costs to increasing the amount of bandwidth that we all have to consume. Anyone looking at the recent performance of the industry in terms of efficiency and the ability to stay open would no doubt be disappointed. As Group One noted in our Reg SCI comment letter, the exchange space is a very complicated "ecosystem", and any time a market participant has to upgrade software or change hardware to process more quote traffic, that participant runs the risk of having an unforeseen technical issue. In addition, it is clear from the latest spate of outages that even without having to upgrade your system, that the significant increase in OPRA data has put a significant strain on the marketplace. According to the Financial Information Forum ("FIF"), OPRA 1 second peak message rates have increased 4,200% since

OFFICE (312) 922-2620 FAX (312) 341-3980
440 SOUTH LA SALLE SUITE 3232, CHICAGO, IL 60605

2005, a compounded annual growth rate of 60%. This has been during a time of relatively low market volatility, particularly in the last twelve months, where 1 second peak message rates have gone from approximately 5MM to approximately 6.3MM, while the price of VIX has remained relatively low. Since the Penny Pilot was introduced, peak messaging rates have increased more than twenty-fold, while OCC volume has increased only twofold. These are problems that the industry needs to and will address. However, by continuing to enable the industry's "open season" on market data, the entire industry runs a much greater risk of having recurring stability issues. While an increase in market data is inevitable, by restricting the available penny classes to only the top 150 names, there is an opportunity to mitigate this ballooning growth with no apparent downside for the customer. The following chart demonstrates the year over year increase in OPRA market data.

OPRA Traffic Review
Year Over Year OPRA Increases



OPRA Statistic	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1 Sec Peak MPS	-	-	-	-	-	114,681	216,086	411,838	882,301	1,470,242	2,145,754	3,896,024	4,999,610	*6,278,899*
Annual % Change	-	-	-	-	-	-	88%	91%	114%	67%	46%	82%	28%	26%
Total Change						Grew 4,260%, CAGR 60%								
R^2														0.93
1 Min Peak MPS	5,834	7,018	10,091	15,699	38,259	86,339	182,956	306,038	543,627	673,994	931,692	1,548,436	1,358,212	*1,566,312*
Annual % Change	-	20%	44%	56%	144%	126%	112%	67%	78%	24%	38%	66%	-12%	15%
Total Change	Grew 23,181%, CAGR 52%													
R^2														0.530
OPRA Statistic	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	
Quote to Trade Ratio	347	392	562	828	1,759	3,543	4,423	4,507	7,045	5,337	6,248	7,745	5,660	
Annual % Change	-	13%	43%	47%	112%	101%	25%	2%	56%	-24%	17%	45%	-9%	
	Grew 1,531%, CAGR 24%													

1

There are other reasons that we believe that NYSE Arca's proposal will be a net benefit to the marketplace. First, we believe that in non-penny classes, there is a much greater chance that a customer resting on the book will maintain their priority rather than being "pennied". We also believe that the amount of liquidity on the NBBO will increase, benefitting the institutional customers and providing a more stable market for the retail customers (both of whom can still get price improvement as previously noted). Both of these outcomes provide a significant benefit to the customer, particularly in classes where the spread is already incredibly close to the nickel increment. TD Ameritrade makes many of the same comments in their comment letter on the NYSE's "Retail Liquidity Program" stating, "Additionally, 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 same paradigm exists in penny class options, where predatory orders step ahead of customer interest without materially improving the liquidity in the name.

[1] FIF Market Data Capacity 2012 Year in Review Report. http://www.fif.com

Group One also believes the NYSE Arca proposal will benefit customers by helping maintain a robust market making community. Since the launch of the Penny Pilot, we have seen the number of market makers at the top of NBBO degrade significantly. In the top traded names, this may not be problematic, but as you move out the spectrum into the less liquid names, it becomes increasingly important to have a healthy market making community providing pricing and liquidity to customers. We agree with NYSE Arca's statement that moving the less active names out of the pilot will result in increased liquidity in the names and our contention is that this will come as a result of a more stable pool of liquidity providers. This may even serve to halt the exodus of liquidity providers from the market making space that we have seen over the last five years. This will benefit customers, particularly in the long run.

In conclusion, we support NYSE Arca's proposal to make permanent the Penny Program by reducing the number of classes to 150. We believe there is strong evidence that this will not degrade market quality, and that customers will continue to have the capability to have their orders price improved via existing price improvement mechanisms. We believe that the cost of the current pilot in the classes above 150 outweighs the benefit that quoting in pennies provides. We believe that taking advantage of an opportunity to decrease the market data rates will enhance the stability of the market. In addition, we believe that the decrease in costs associated with a decrease in market data would allow market makers to allocate capital to providing liquidity instead of building "a bigger market data plant." We believe that trading in nickel increments will be better for customers, more liquidity will become available in issues where liquidity has recently gone away, and that this will provide a better and more robust experience for customers in the future.

Group One appreciates the ability to comment on this proposal, and we welcome the opportunity to work with the Commission and the exchanges on these efforts. Should any member of the Commission have questions, please contact the undersigned at [redacted]

Respectfully submitted,

/s/ Benjamin R. Londergan
Benjamin R. Londergan
Chief Executive Officer
Group One Trading, L.P.

OFFICE (312) 922-2620 FAX (312) 341-3980
440 SOUTH LA SALLE SUITE 3232, CHICAGO, IL 60605