March 14, 2014

Via Electronic Mail

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File No. SR-NYSEArca-2014-04 / Floor Cross Priority

Dear Ms. Murphy:

Susquehanna International Group, LLP[1] (SIG) appreciates the opportunity to comment on the above-referenced proposed rule ("the filing" or "the proposal") filed with the Securities and Exchange Commission (the "SEC") by NYSE Arca, Inc. ("Arca").

Arca proposes to reduce the priority of non-customer orders on its options book when priced equal to floor crosses that have already been negotiated in the crowd but not completely systematized and tape reported[2]. The filing is meant to reduce the number of instances where high frequency, non-customer orders arriving onto the book during the "crowd negotiation phase" of the floor cross cause crowd participants to be scaled-back from agreed upon negotiated amounts. The new rule would deny such late-arriving orders same-price priority, thereby ensuring that crowd participants are not scaled back in these cases.

While being scaled-back after the trade has been negotiated in the crowd can present certain operational and hedging challenges, the filing is apparently focused on attracting block cross volume. This focus is made evident by Arca when it asserts that the new rule will "…provide greater opportunity for bids and offers of crowd participants to participate in an open outcry transaction and therefore promote larger–sized negotiated transactions."

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[1] SIG is comprised of multiple trading and investment entities. Some of these entities operate as options market makers (MMs) and others operate as agency brokers in listed options.

[2] While the proposal contains a book-ranking aspect that would permit higher-ranked (by time-priority) non-customer booked orders to keep their priority, it appears that a significant percentage of non-customer contracts on the book will, under this rule, be required to yield their same-price priority to floor crosses.

**When Arca uses the term "crowd participants" it is, apparently, referring mostly to off-floor trading houses attempting to internalize, in large part, block orders from institutional customers (i.e., so-called "clean-cross" orders). It is also referring to option market makers (MMs) on the trading floor, although their participation in clean crosses is quite often deminimus as a percentage of the total order size. In other words, this proposal is apparently an effort to safeguard the high-percentage level of participation by off-floor facilitators and a small group of floor MMs who arrange among themselves to fill block orders at "negotiated" prices on the trading floor. In connection with safeguarding the high-participation rates for crowd participants in block crosses, Arca ventures its belief that it will attract more larger-sized block floor crosses.**

**Our concern is that the proposal will actually achieve its intended result – and attract more clean-cross type orders that further insulate customer interest from competition by parties other than crowd participants. The underpinning problem is that these clean-cross orders are usually negotiated outside the view of the off-floor MMs responsible for the vast majority of the displayed liquidity in the subject options. This means that the crosses often occur at prices that have not been sufficiently vetted by those most likely to offer price improvement.**

**By way of background, the vast majority of the available MM liquidity is represented by a sizable group of off-floor MM firms (rather than on-floor MMs) that are collectively responsible for over 90% of the displayed liquidity in multiply traded options. While this group of top-liquidity MMs primarily display their liquidity electronically from off-floor through displayed quotes, they are also responsible for the vast majority of liquidity provided in the electronic "auction" crossing systems for blocks available at some options exchanges. Due primarily to these off-floor MMs, electronic crossing systems for block sized orders have generally shown to be a better alternative to floor crosses, at least on a transparency and price competition basis. This larger matter of option floor crosses vs. electronic crossing mechanisms is already the subject of a Petition for Rulemaking filed by several major option MM firms (including SIG)[3].**

**Given the above, we believe that increasing the amount of "larger-sized negotiated transactions" by way of option floor crosses on Arca is detrimental to investors. When decisions are made by off-floor firms to cross block orders of customers with their own trading accounts on the trading floor (rather than**

[3] The "clean cross" pricing issue surrounding option floor crosses is currently the subject of a Petition for Rulemaking (4-662) filed with the SEC in April of 2013. In that Petition, several MM firms (including SIG) assert that exchanges with trading floors would generate better priced executions for customers if they required crosses to be auctioned through electronic systems that included off-floor registered MMs in the respective option classes.

**electronically through an auction crossing system) the opportunity for price improvement can be significantly diminished.**

**While the filing does not provide an explanation as to how more crowd participation in larger-sized block floor crosses will benefit customers or the market in general, it does point out that two other floor exchanges already have rules that place booked parity interest behind crowd participants. In this sense, the proposal at least relates in part to a legitimate competitive concern. At the same time, however, it is important in the rule making process for exchanges to give sufficient reason for believing why a proposed rule is not injurious to customers or the market in general. The present proposal fails to give such reasons or provide any such reassurances or justifications – perhaps because there are none to give.**

**There are only four options exchanges with an open-outcry trading floor, and most option crosses involving firms attempting to execute clean crosses with their customer orders occur on these floors. Notwithstanding the overall migration to electronic trading, floor crosses continue to account for a significant percentage of all option block crosses. No doubt, Arca relies heavily on open outcry crosses for transaction volume. And, no doubt, the more often that high-frequency professional booked orders break-up "matched" floor crosses, the more likely it becomes that off-floor facilitating firms will send their orders to other exchanges to be crossed. The SEC should establish from Arca the reasoning behind Arca's desire to increase "block cross" volume and the reasons, if any, for Arca's belief that more (and cleaner) block floor crosses is good for investors. These are the questions that do not appear to be addressed in the filing – and are in need of answers.**

**Thank you again for the opportunity to respond and please do not hesitate to contact me with any questions regarding our comments.**

**Sincerely,**

**Gerald D. O'Connell**
**Chief Regulatory Officer – SIG**

**cc Heather Seidel, Associate Director, Division of Trading and Markets**
**John Roeser, Assistant Director, Division of Trading and Markets**