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August 10, 2016

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

Re: File Number SR-NYSEMKT-2016-45

Dear Mr. Fields:

The FIA Principal Traders Group (“FIA PTG”)¹ appreciates the opportunity to comment in support of the letter filed by The Securities Industry and Financial Markets Association (“SIFMA”) on July 12, 2016 (the “Letter”)², in connection with the above-captioned proposed rule change (the “Proposal”).

FIA PTG members, most of whom are market makers, are a key source of liquidity in futures, options and equities markets globally. We agree with SIFMA that competition results in tighter quotes—which in turn results in enhanced price improvement opportunities for market participants. When exchanges materially increase transaction fees, especially disproportionately across types of participants, these increased costs result in decreased competition, less liquidity and wider quotes—all to the detriment of retail customers.

According to the Proposal, NYSE MKT (“MKT”) seeks to (i) increase (“break-up”) fees on responders in the MKT’s auction cross mechanism (“CUBE”), (ii) increase rebates paid to auction initiators for CUBE transactions under its ACE program, and (iii) pay

¹ FIA PTG is an association of more than 20 firms that trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy and has previously made recommendations about a variety of equity market structure issues, including Regulation NMS (*See* <https://ptg.fia.org/keywords/equity-market-structure>).

² <https://www.sec.gov/comments/sr-nysemkt-2016-45/nysemkt201645-3.pdf>

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“break-up credits” to auction initiators when they do not participate in an auction. FIA PTG agrees with SIFMA that “[h]igh internalization rates, which may be promoted by fee schedules such as the one proposed by MKT, could result in a deterioration of the tight and liquid market maker quotes and an overall decline in the execution quality of options.”

We Join SIFMA’s Call for a Holistic Review of Price Improvement Mechanisms

Options markets price improvement mechanisms are currently on a slippery slope, deteriorating to “clean cross” mechanisms offering price improvement in name only. In competition for order flow, options exchanges have introduced a number of revisions, tweaks, or enhancements—depending on one’s point of view—to these mechanisms, all of which are designed to capture the order flow of internalizers. Break-up fees, break-up credits, allocation guarantees, auto-match functionality and the ability to initiate an auction at the BBO are all part of the mix designed to incentivize internalizers to send their orders to an exchange with the expectation that it will not be broken up. As independent market makers and responders to calls for liquidity, we view the current design as out of balance and anti-competitive. We therefore agree with SIFMA that a holistic review of these mechanisms—“not only pricing, but functionality”—is appropriate and timely.

Accordingly, FIA PTG joins SIFMA in respectfully urging the Commission not to approve NYSE MKT’s proposal.

If you have any questions about these comments, or if we can provide further information, please do not hesitate to contact Joanna Mallers ([REDACTED])

Respectfully,

FIA Principal Traders Group



Joanna Mallers
Secretary

cc: Mary Jo White, Chairwoman
Kara M. Stein, Commissioner
Michael S. Piwowar, Commissioner
Stephen Luparello, Director, Division of Trading & Markets

Thomas Farley, President, NYSE Group