

March 26, 2014

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

Re: File Number SR-OCC-2014-05

Dear Sir or Madam:

The Options Clearing Corporation (“OCC”) has submitted a proposed rule change (“Proposal”) to the Securities and Exchange Commission (“SEC” or “Commission”) to raise current OCC fees significantly on OCC participants.¹ I am writing on behalf of a group of options market makers to express their concerns to the SEC about the size and nature of the fee increases in light of the unfairness of the increases and their likely harmful effect on the options markets. Although the higher fees would be imposed on OCC participants, it is a certainty that the increases will be passed on by clearing participants to the broker-dealers and customers executing options transactions. Due to the significant impact the higher fees would have on options market costs and liquidity, and the value to the Commission of reviewing industry comment on the likely impact of the fee increases, we urge the Commission to suspend the immediate effectiveness of the Proposal and take action to determine whether to disapprove the Proposal.

As an initial matter, we note that the Proposal is severely lacking in detail in key areas, such as how OCC determined it needed to raise its fees by the amounts in the Proposal, why OCC has determined to meet new regulatory costs solely by imposing higher clearing fees rather than other alternative means of raising funds, and how the proposed SEC rule referenced in the Proposal would lead to such huge increases in OCC fees,² as well as virtually every aspect of the Proposal. This very lack of detail makes the Proposal deficient under Sections 17A and 19 of the Securities Exchange Act of 1934 (“Exchange Act”). In addition, while we are submitting this comment letter to encourage swift SEC action to suspend the filing, we reserve the right to comment further on the Proposal as we learn the answers to these and other questions about the filing.

¹ Securities Exchange Act Release No. 71769 ((March 21, 2014) (the “Release”).

² Securities Exchange Act Release No. 71699 (March 12, 2014) (“Proposed Rule”).

The Proposal's fee increases are enormous, ranging from 66% on a pre-rebate basis for small trades to almost triple the current fees for large-sized trades. These fees are passed on by clearing participants to executing brokers and customers, so that the fees effectively are options transaction fees. We believe that, overall, the fee increases will result in between double and triple the amount of fees currently imposed by OCC. Thus, this portion of options transaction fees will double or triple for executing brokers, including market makers, and customers.

The OCC claims that the fee increases are needed for current and anticipated regulatory requirements. According to the Proposal, these include the SEC's Proposed Rule, costs associated with the engagement of outside professionals to address regulatory issues under the Dodd-Frank Act, and additional employee costs. We would like to know the details of how these three new regulatory requirements create the need for OCC to raise fees so dramatically. For example, we believe that the proposed fee increases may generate over \$100 million in additional revenue for OCC, and perhaps as much as \$140 million per year. There is no explanation in the Proposal as to how the three stated regulatory costs justify additional fees of this amount. In fact, the only explanation in the Proposal is provided in footnote 7, which states that OCC's annual expenses have increased by approximately 9%, hardly a justification for a potential \$140 million fee increase. A detailed explanation is critical so that a reasonable determination can be reached on how best to create the necessary revenue for OCC with the least amount of impact to investors and the options markets in general. Regardless, it is hard to fathom how any new regulatory requirement justifies fee increases of the magnitude being contemplated by OCC.

Equally important, if OCC needs to raise funds for regulatory requirements, there are other approaches it could use that would have a less harmful impact on the options markets, such as collecting funds from member exchanges or raising revenue through public or private investment. The release for the SEC's Proposed Rule, cited by OCC as a basis for the proposed fee increases, seems to contemplate that OCC could improve its financial strength through capital contributions and equity issuances rather than fee increases. Consequently, it is troubling that OCC apparently is not asking the options exchanges to make any contribution.³ There is no discussion in the Proposal about the rationale for imposing fees only on clearing participants, and by extension those transacting in the options markets, rather than consideration of other sources of revenue raising. Further, if as the release on the SEC's Proposed Rule suggests, the SEC's focus is on a capital reserve for clearing agencies, a potentially perpetual \$140 million annual fee increase is excessive and disproportionate. As a result, the Proposal does not result in a reasonable or equitable allocation of dues, fees, and other charges, as required by the Exchange Act.

The result of the Proposal would be a large increase in the cost of listed options trades. We fail to see why regulatory changes from the SEC would cause OCC to increase fees for transactions ranging from 66% to 200%, depending upon the size of a transaction. Section

³ We note that the exchange owners of OCC are not being asked to contribute to OCC's regulatory cost needs notwithstanding that a large majority of the revenue from the increased fees appears to be earmarked for a cash reserve fund of OCC, which is ultimately an asset of the owners.

17A(b)(3)(D) of the Exchange Act requires a registered clearing agency's dues, fees, and charges to be reasonable and not impose a burden on competition. Such a huge increase as is currently being proposed may not be reasonable or appropriate, irrespective of possible regulatory changes.

The fee increases would potentially cause great harm to options customers by raising significantly the cost of providing liquidity. Market makers' costs of executing trades would increase to the degree where quote spreads would widen and quote depth would decline, making it much more costly for investors to transact in the listed options markets, particularly retail investors who are more likely to transact at quoted spreads. Moreover, the increases are particularly acute for larger trades, where the clearing costs would double or triple. These effects place a heavy burden on competition in the listed options markets.

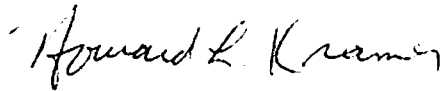
In the Proposal, OCC states that it discussed the fee increases with "each of the clearing members that would be most affected by these changes, most of which are represented on the Board." The fee increases contemplated by OCC, however, were determined without input from the participants in the options industry most affected by the Proposal, such as options market makers and retail broker-dealers. Given the increases' severe impact on the options markets, we strongly believe that a proposed rule change to implement the higher fees should not have been submitted as effective on filing but instead should be done as a "regular way" filing subject to a full comment period before the SEC determines whether such fees are consistent with the Exchange Act. In addition, we would like to see a detailed explanation of the need for the higher fees in light of each of the three regulatory costs briefly mentioned in the Release and the justification for increasing OCC fees exponentially in order to have a fair opportunity to comment on the fee increases.

Finally, the extremely large fee increases from the Proposal raise the question of whether it was appropriate for OCC to file the Proposal pursuant to Section 19(b)(3)(A) of the Exchange Act and thereby make the fee changes effective upon filing. While the effective upon filing provision aptly serves to save self-regulatory organizations from delays for changes that are of a routine business nature, and not significant in impact on trading markets, the Proposal is not one of those matters. If not suspended and disapproved, the new fee structure presents a material change to the way in which listed options will be traded. As noted above, options market makers, who provide over 90% of displayed options liquidity and participate in the overwhelming majority of listed options trades, will be heavily impacted by the fee increases. This will lead to wider and less liquid quotes to a meaningful degree – which means that customers will be adversely impacted by these new fees through decreased execution quality as well as higher transaction costs.

In conclusion, we urge the Commission to suspend the effectiveness of the Proposal and take action to determine whether to disapprove the Proposal given the deficiencies in the Proposal described in this letter as well as the enormous costs these potential fee increases would place on the options markets generally and on options market makers specifically. We make this recommendation with the greatest respect for OCC. We believe that OCC is a highly effective and trustworthy clearinghouse and an asset to the listed options industry. Nevertheless, the Proposal's effect would be so significant and its discussion of the necessity of the fee increases

so sparse that we believe the SEC should suspend its effectiveness. To discuss this further, please contact me at (202) 303-1208.

Sincerely,

A handwritten signature in black ink that reads "Howard L. Kramer". The signature is written in a cursive style with a small flourish at the end.

Howard L. Kramer, on behalf of

Belvedere Trading
Citadel Group
CTC Trading Group
Group One Trading, LP
Integral Derivatives
Spot Trading
Susquchanna Investment Group
Wolverine Trading

Cc: Joseph Kamnik, Securities and Exchange Commission
Susan Petersen, Securities and Exchange Commission