January 25, 2006

From: Brad Corbin

To: marketreg@sec.gov; Rule-Comments@sec.gov

Subject: Re: [Fwd: SEC Response - File # HO960670] - Ref SEC File No: S7-07-04

I just wanted to note that yet another year has gone by since my comments below and nothing has been changed or improved in the option markets to give the retail investor fair access to option trading.
The market makers continue to control the spreads for options at high increments making it very difficult for the investing public to buy or sell options at a fair price.

The following 3 items need to be urgently addressed to allow fair trading of options by the public:

1. Elimination of cancellation and change order fees for options.

2. Allow investors to place both buy and sell orders for the same option at the same time.
   - Such an unfair rule would be unthinkable in the stock market, why is it considered 'acceptable' in the option market?

3. Reduce the minimum spread to 1 cent or less for options trading at less than one dollar.
   - A five cent spread is way too high for such low priced options.

Regards,
Brad Corbin

Brad Corbin wrote:

In addition to my previous email where I commented on minimum increments I would also like to comment on Maximum increments.
For very thinly traded options, spreads (difference between the Bid and Ask) can go as high as $.80 Pricing at such large spreads becomes so inefficient that trading these options is not feasible.
Many times I have seen instances where the bid of the option is way below even it's intrinsic value.

Due to the fees imposed on investors to change or cancel an option order it is not feasible for an investor to manually participate in the market and reduce this large spread.   Investors need an order facility where an option order can be placed that is automatically adjusted as the underlying stock moves.

Only such an automatic order would give the investing public any chance at all to participate in the market for thinly traded options and have a chance at getting a fair price for such options. These cancellation fees are fundamentally unfair to investors and prohibit active trading in options. This must be addressed if there is any desire to have more active participation by the investing public in the option markets.

Regards,
Brad Corbin

Brad Corbin wrote:

Thank you for the reference provided.
This is a very large and complex document so I will comment on my specific concerns and what I would like to see from the perspective of a retail investor.

It is very encouraging indeed that the issue of option spreads is being investigated in such detail. There is definitely a great need for reform in this area.
I have concerns in the following 4 areas:

1. Minimum Trading increments

Moving to lower minimum increments would certainly result in narrower spreads and more fair and efficient pricing of options.
The current increment of $.05 is not at all reasonable for lower priced options especially those trading at less than $1

The main problem I see here would be the concern of increased quote traffic as noted in Sec V Part B:
"At the same time, however, penny pricing in the options markets could greatly
increase quote traffic, which could diminish the quality and timeliness of options quotation information"

If the issue of increased quote traffic were to become a serious problem then I would suggest the following compromise.
Rather than making all options quote in pennies, I would suggest simply reducing the increments of the current system where options trading at more than $3 would price at increments of $.05 and only options trading at less than $3 would trade in pennies. Lower priced options are less sensitive to movements in the underlying stock and will result in less quote activity as the underlying stock changes.

I would also suggest going a step further and allow very low priced options trading at less than $.05 to trade in tenths of a penny.
Under the current system no market at all is possible for options worth less than $.05

2. It is not permitted to place both a buy and a sell order at the same time for the same option.

As a retail investor I find this rule very unfair and it makes the trading of certain option strategies very difficult.

3. Cancellation fees

Cancellation fees have been introduced to cancel or change an option order.
Again this is very unfair to the retail investor and makes certain trading strategies very difficult and prohibitive.

These rules are obviously only in existence to protect the market makers. This kind of thing is not necessary in the stock market and I don't see why it should be necessary in the option market. Why not let free and fair markets prevail.

4. Commissions

Option commissions for retail investors are very high when compared to commissions for trading stocks. There is generally a per contract charge of anywhere from $1 or more regardless of the number of contracts traded. For low priced options the commissions can be very high in comparison to the value of the trade since large numbers of contracts are traded for a low value. I do not know if commissions are under the jurisdiction of the SEC or whether brokers are freely allowed to compete. Maybe it is the exchanges that are responsible for the high commissions. No brokers that I am familiar with offer any kind of cap on commission for larger orders. I think more reasonable commissions are very important if more active trading in options by the investing public is desired.

I hope these comments and suggestions are helpful. I would be very interested in keeping in touch with developments in this area.
I can be contacted by phone at 246-429-3252 or by email: bradcorbin@compuserve.com - should you have any further questions.

Regards,
Brad Corbin

marketreg wrote:

Dear Mr. Corbin:

Thank you for your message to David Powers, which was referred to us for further guidance. After reviewing your comments, we suggest that you look at our 2004 concept release on the options markets, which is available at the following hyperlink: http://www.sec.gov/rules/concept/34-49175.htm. Some of the issues of concern to you may be addressed in that release. Although the comment period for the release has closed, we continue to welcome comments on this and other issues relating to the secondary markets at any time. We would be pleased to receive your comments after you review the release. You may direct them to rule-comments@sec.gov and to marketreg@sec.gov. Please reference the SEC file number, S7-07-04, in your caption so that your comments are directed appropriately. To the extent that you have questions, you may also present them to us in writing at marketreg@sec.gov (and include your telephone number), or you may call us at 202/942-0069.

Thank you again for writing to us, and we look forward to hearing from you.

Sincerely,
Division of Market Regulation