TRADING MACHINES

June 21, 2010

Chairman Shapiro
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Proposed Amendments to Rule 610 of Regulation NMS (File No. S7-09-10)

Dear Chairman Shapiro,

Re: SEC Proposes New Measures to Protect Investors in Options Markets

Trading Machines LLC ("TM") wholly supports the intention of the Securities and Exchange Commission to limit exchange access fees for options markets. TM anticipates that the SEC proposal will benefit US options markets Investors by lowering direct and indirect execution costs. TM believes that the proposed SEC measure to limit the options access fee to 30% of the minimum quoting increment is critical for achieving a post-decimalization equilibrium in options markets. TM anticipates that the reform of options fee structure will lead the way to a US options market that is characterized by lower execution fees, enhanced market quality, higher trading frequency, greater diversity in options market participants, and increased options volumes.

Founded in 2007, TM is a registered Broker Dealer member of all US options exchanges. TM currently trades for its own account; ranging in activity from 0.25% to 0.75% of daily US options market volume. TM specializes in "mid-point" trading in Penny Pilot names, acting both as a maker and a taker in nearly all markets in which it conducts business. TM is currently focused on launching a professional execution services unit that will leverage its platform for institutional clients.

TM welcomes the opportunity to comment on the following points that it finds implicit in the Proposal on Amendments to Rule 610 of Regulation NMS.

The measure will reduce the total execution cost to the Investor

Investors in the options markets are for the large part takers. The limiting of taker fees to 30% of the minimum quoting increment will undoubtedly lower Investor execution cost. It is unlikely that an options fee cap will adversely impact market quality. The Maker-Taker exchanges that have already adopted lower fee structures are visibly competitive at posting at the National Best Bid and Offer despite higher rebates offered by competing exchanges. In addition, with fee normalization, the traditional order flow exchanges are more likely to adapt their alternative market models to produce posted markets competitive with Maker-Taker market models.

The measure reduces the distortion of the National Best Bid and Offer by limiting fees to a reasonable percentage of the minimum quoting increment

TM agrees with the Commission that the National Best Bid and Offer has become distorted by the complexity in fee structures. The fee differentials between traditional order flow exchange and Maker-Taker exchanges creates dramatic differences in execution cost for Investors accessing identical prices on competing exchanges. In addition, the differences between Market Maker, Firm, and Customer fee structure adversely distorts the ability of Investors to attract a willing counterparty should such an Investor choose to post at the National Best Bid and Offer.

The measure reduces the potential of Market Maker, Firm, and Customer fee differentials to be used by an exchange to unfairly impede access to its Best Bid and Offer by undesirable order flows, thereby distorting market quality and liquidity

The reduction in the minimum quoting increment has created situations whereby access to the National Best Bid or Offer will have extreme differentials in fee structure depending on the participant. The historical differentials between Market Maker, Firm, and Customer fee structures have recently become an important element of competitive activity between exchanges that seek to attract retail order flows, and appear to have become an impediment to market quality. TM believes that an important area for volume growth and enhanced liquidity in US options markets is professional and institutional order flow. TM urges the Commission to cap fee structures that effectively penalize professional and institutional participants that would be willing to post liquidity and/or take liquidity at superior prices to that of traditional liquidity providers.

The measure will help normalize the bid and offers posted to exchanges by the major liquidity providers

It is not uncommon for major liquidity providers to have market making status on a majority of options exchanges, where they must satisfy a continuous quoting operation. The dramatic differences in the National Best Bid and Offer between traditional order flow exchange and the Maker-Taker begs the question of how much impact the fee differential has in causing the top liquidity provider to post at the National Best Bid and Offer versus posting bids and offers at inferior prices and competing in the various Flash and Match Away auctions provided by exchanges. The proposal fee normalization will encourage market makers to post their best price on a majority of exchanges, thereby enhancing the quality of the National Best bid and Offer available to Investors.

The measure will reduce the potential for order flow arrangements to unreasonably increase Investor cost

The best execution practices employed in the options industry have only recently become fee sensitive, and are sometimes at odds with order routing arrangements. An order routing firm that maintains an options market making operation has an incentive to route its order flow to the exchanges where it posts markets with participation rights. If these exchanges have significantly higher execution fees than other markets at the National Best Bid or Offer (i.e. the exchange pays a higher rebate), the Investor will unnecessarily bear the increased execution cost

TRADING MACHINES

associated with the higher taker fee. The proposed options fee cap will reduce the potential for current order routing practices to unreasonably increase fees for Investors.

The measure will increase the degree of taking activity by a greater diversity of market participants, thereby increasing market volumes, trading frequency, and enhancing overall market liquidity

The implementation of an options access fee cap will encourage greater diversity in options market participation, leading to more aggressive taking and posting alike by participants that do not trade to capture traditional market making spread. The fee cap will increase the probability that fee sensitive takers will cross the spread, thereby providing price improvement to resting customer orders that are close to the midpoint of the market. The fee cap will also change the composition of liquidity posed on Maker-Taker exchanges resulting in more aggressive posting by professional and institutional participants that are less reliant on significant rebate to post liquidity.

The fee structure distortions in options markets appear to have acted as an impediment to achieving a post-decimalization equilibrium in the options industry. TM anticipates that the options fee cap will correct the distortion, and will likely encourage exchanges and options market participants to focus on competitive aspects that can help grow the options markets overall. TM appreciates the opportunity to comment on the proposal and looks forward to continued action by the Commission regarding options market fee structure.

We appreciate your consideration and review of our comments on these proposed amendments and will make ourselves available at your convenience to discuss the issues raised. Please do not hesitate to contact me at (203) 588-2600 or haim.bodek@tradingmachines.com.

Sincerely,
Trading Machines LLC

Haim Bodek

Digitally signed by Haim Bodek
DN: cn=Haim Bodek, o=Trading Machines LLC, ou, email=haim.bodek@tradingmachines.com, c=US
Date: 2010.06.22 00:08:39 -04'00'

Haim Bodek, Chief Executive Officer