GROUP ONE
TRADING LP

August 8, 2016

VIA E-MAIL

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

RE: Suspension of and Order Instituting Proceedings to Determine Whether to Approve or Disapprove Proposed Rule Change to Modify the NYSE Amex Options Fee Schedule with Respect to Fees, Rebates, and Credits for Transactions in the Customer Best Execution Auction

Dear Mr. Fields:

Group One Trading, L.P. ("Group One" or "the Firm") appreciates the opportunity to comment on the order instituting proceedings ("the Order") by the Securities and Exchange Commission ("SEC" or "the Commission") to determine whether to approve or disapprove the proposed rule change ("the Filing" or "the Proposal") to modify the NYSE Amex Options ("AMEX" or "the Exchange") fee schedule.

The Proposal by AMEX intends to increase fees assessed to non-initiating responders to the AMEX auction mechanism ("CUBE"). These fees, which are significantly higher than execution fees paid by initiators, are commonly known as "break-up fees." The Proposal also seeks to increase both the rebates paid to the initiator of a CUBE auction and to increase the credit paid to the initiator when a non-initiating responder offers price improvement to the agency customer of the initiator.

Group One applauds the Commission both for evaluating this fee increase carefully and for requesting comments and data on whether the Commission should undertake a broader review of the fee structures applied by the options exchanges to their price improvement auctions. Group One views this as an opportunity to examine the effects of all aspects of current auction pricing in the context of the original intent of such mechanisms.

In the Order, the Commission asks if different fee levels are unfairly discriminatory, impose an unnecessary or inappropriate burden on competition, or are otherwise inconsistent with the Securities Exchange Act of 1934 ("the Act"). Group One advocates that any fee designed as a break-up fee, regardless of amount, meets all three of those criteria.

As an independent non-wholesaling market maker, Group One's perspective allows the Firm to posit that the current state of the auction market has strayed from its intended purpose of providing price improvement to customers. Instead, the main side-effect of the prevalence of auction mechanisms is that they have enabled internalization of order flow and perpetuated an uneven playing field amongst participants. Group One acknowledges that price improvement is currently occurring, and the Firm believes that auctions can still be a valuable tool for customers and the market place in general; however, Group One contends that the current auction mechanism structures are not as effective as they could be, stop short of the ideal, and foster a lack of competition that is dangerous to all market participants.

The impact of the proposed fee changes on incentives for non-Initiating Participants that respond in the CUBE Auction to offer price improvement

The relevant fee to participate in any trade is directly accounted for in market maker pricing models, and a break-up fee is added to the amount of edge necessary for a market maker to price improve an auction. When break-up fees paid by non-initiators exceed transactions fees paid by initiators, non-initiator auction responses are forced wider than initiator responses, and competition for the auction order is suppressed. The break-up fee (that exchanges pass back to the initiating participant in the form of a break-up credit) effectively penalizes the non-initiating responder for providing price improvement to the agency order.

In addition to hampering the ability for non-initiating responders to provide price improvement, we assert that break-up fees result in initiating participants submitting less competitive prices at the outset of an auction as well. Armed with the knowledge that non-initiating responders have a pricing disadvantage, it is logical to conclude that initiators incorporate the advantage they have in their own pricing. The end result of a break-up fee is that the agency order does not receive that valuable price improvement that would otherwise be provided in a free and open market with a level playing field of transaction fees.

Whether the Commission should view a specific differential in the net fees imposed by an exchange on Initiating Participants and potential auction responders as unfairly discriminatory

The existence of break-up fees for only one type of participant impairs their ability to compete and is unfairly discriminatory. Furthermore, this structure of break-up fees and credits results in a market where non-initiating responders are forced to subsidize the operations of initiating participants that are often their direct competitors.

The initiating participant already has an informational advantage over non-initiating responders in that the initiating participant knows where the order is coming from and thus knows the nature of the order flow. The non-initiating responders are blindly responding to all auctions from all initiators, often times without even being provided the starting price of the auction for which they are expected to price improve. When the pricing advantage that comes with this structure of break-up fees and credits is combined with the informational advantage and the proliferation of auction mechanisms, the result is two-tiered market place. Non-initiating responders are penalized for providing price improvement to the agency orders with which the initiating participant chose not to interact and instead collect a credit. If given the ability to fairly compete on pricing, non-initiating responders would directly impact the execution quality achieved for agency orders in auction mechanisms such as CUBE.

Whether the Commission should view break-up credits, which are paid to Initiating Participants for not executing a transaction, as presumptively inconsistent with the Act

The persistence of this asymmetrical competition is directly inconsistent with the Act. The agency order execution prices are not subject to the complete and transparent competition that auctions were designed to create. The resulting dynamic is an increased rate of internalization and consolidation. This too is inconsistent with the Act, as the deepening economic rift between initiating participants and non-initiating respondents forms a barrier to entry and results in less competitive markets.

The current market structure leans on a payment for order flow ecosystem funded by these break-up credits. Initiating participants can use the rebates to subsidize their payments to retail firms. However, with these fees sitting at artificially and dangerously high levels, the system has become economically broken. If the only way that payment for order flow levels can be maintained is through restricting competition, Group One questions the true value of payment for order flow to the customer. Rather than propagate an obfuscated system of payment for control of order flow, which has opaque and undocumented benefits to the end user, Group One strongly supports a system consistent with unhindered competition and which supports the best execution goals outlined in the Act. The elimination of the gulf in fees between initiating participants and non-initiating responders will help drop the artificial barriers that prevent the agency order from receiving the best possible fill.

Group One strongly supports the Commission's thorough review of the Proposal as well as the collection of comments and data surrounding the fee structures applied to price improvement auctions. The market has reached an uneconomic level of subsidization, with an increasingly disjointed market lacking true competition. The full benefit of price improvement auctions will not be achieved when barriers to entry in the form of punitive break-up fees are only charged to a subset of market participants. Group One urges the Commission to continue to investigate the appropriate assessment of fees in order to permit the greatest level of price improvement available, in a non-discriminatory manner.

Sincerely,

John Kinahan
Chief Executive Officer
Group One Trading, L.P.