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secretary

From: dlev@comcast.net
Sent: Saturday, January 03, 2009 1:44 PM
To: secretary
Subject: Proposed rules for trading off the centralized market

COMMENT

Dear Sir or Madam,

I have been a professional market maker in options for over 24 years, in both equities and commodities. In that time I have seen many changes which have made the market place a fairer, less costly and more transparent way to do business. And I applaud most of these initiatives.

However, the present rules for block trading are non-transparent, uncompetitive and fly in the face of fair and open trading. The present rules give market access to some participants and not to others, and in many cases result in a trading price which is a gross distortion of what the price would have been had more participants had access to the trade.

I trade options on the ICE US futures exchange (formerly NYBOT). From time to time a block trade is reported which, illegally I feel, trades through a market egregiously. For example, a straddle may be quoted on the trading floor, with a given market of 14.50 bid 15.00 offered. Then, ten minutes later, a block trade is reported at 16.00, not only denying participation by those who provide liquidity on a daily basis, but also giving one participant an anti-competitive profit at the expense of an ignorant second party. Why would a buyer pay 16.00 in this example? Well, I don't know what goes on behind the scenes but suspect the answer involves an unscupulous broker or some illegal soft payment arrangement. Otherwise, there is no economic reason to make such a price dis-advantaged trade.

If the rationale for block trading is that liquidity must be sought elsewhere that doesn't exist on the trading floor, then the present contract limit of 250 is way to small. There is no question that a trade of 250 or 500 contracts can easily be accomadated in the trading pit. And even very large trades could benefit by the liquidity provided if more, not fewer potential participants have access to the trade. In fact, I really can't come up with a single reason why privately negotiated block trades improve the market place.

So, in summary, I believe block trading should be abolished because it is by nature anti-competitive and non-transparent.

Respectfully, David Levine

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