

HUDSON RIVER TRADING LLC

June 25, 2010

Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Re: Comments on Market Structure Roundtable, June 2, 2010 (File No. 4-602)

Dear Ms. Murphy,

Hudson River Trading LLC ("Hudson River Trading") appreciates the opportunity to comment on the Commission's June 2 Market Structure Roundtable. Hudson River Trading is a quantitative trading firm that develops automated trading strategies that provide liquidity and facilitate price discovery on exchanges and ATSs. We applaud the Commission's decision to hold an open discussion about market structure issues and to provide the opportunity for written comments in response to the discussion. While we found the discussion informative, Hudson River Trading would like to address two points that were raised during the discussion.

Commissioner Paredes asked what aspects of the current market structure have been beneficial to price efficiency.

Hudson River Trading believes that the primary cause of improved market quality, as measured by spreads, trading cost and pricing efficiency is competition. As we noted in our comment letter on the Market Structure Concept release, several actions by the Commission, including the Order Handling Rules, Regulation ATS, Decimalization, and Regulation NMS have opened the markets to greater competition. Together, these reforms removed barriers to entry for new professional traders and gave retail and institutional investors greater control of their orders leading to improved competition among orders.

As the Commission considers policies such as additional market making and trading obligations, we believe it is important to consider the increased barriers to entry that would likely accompany such policies. Increased barriers to entry will degrade competition and, as a result, degrade market quality.

Chairman Shapiro asked about firms entering 1000 orders and canceling 999 of them within a second.

The ability to enter and cancel orders due to changing market conditions as well as internal risk factors allows market participants to effectively manage risk and provide efficient prices and lower trading costs for investors. However, potentially excessive order entry and cancellation practices raise two potential

issues. First, as some panelists noted, processing market data is costly for all market participants and there is a cost to excessive orders and cancels. In fact, Nasdaq has imposed an excessive message fee for certain order types.<sup>1</sup> While we do not believe that exchanges and ATs should be compelled to implement message fees, we believe that exchanges and ATs could consider fees designed to encourage more efficient participation in the market and to more directly align fees with the costs incurred. Second, while the rapid entry, modification and cancelation of orders is not necessarily indicative of manipulative activity, we do not believe a pattern and practice of overly excessive entry and cancelation of orders is desirable. Market participants should enter orders because they would like them to be executed. While changing market conditions and internal risk factors combined with a large number of trading venues lead to cancelations that may result in relatively low execution rates, this is in sharp contrast to entry of orders with the intent to cancel the orders prior to execution. Thus excessive order entry could be one of multiple factors that regulators look at when trying to identify manipulative activity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alexander Morcos', with a long horizontal flourish extending to the right.

Alexander Morcos  
Managing Director

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<sup>1</sup> <http://nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>