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CBOE
CHICAGO BOARD OPTIONS EXCHANGE

January 10, 2007

Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

RE: CBOE Response to Comments Letters Submitted by Citadel Investment Group, L.L.C. and SIFMA to SR-CBOE-2006-92 and SR-CBOE-2006-98

Dear Ms. Morris:

The Chicago Board Options Exchange, Incorporated ("CBOE") submits this letter in response to the comment letters submitted by the Securities Industry and Financial Markets Association ("SIFMA") and Citadel Investment Group, L.L.C. ("Citadel") pertaining to the quote mitigation strategies that CBOE has implemented or intends to implement in connection with the Penny Pilot Program scheduled to commence on January 26, 2007.[1] CBOE's quote mitigation strategies are described in SR-CBOE-2006-92 and SR-CBOE-2006-98, and include: limiting the number of messages sent by members accessing CBOE electronically pursuant to CBOE Rule 6.23A; adopting a Hybrid Electronic Quoting Fee; amending Market-Maker and RMM obligations; adopting a delisting policy; and monitoring the quotation activity of its members submitting electronic quotations to CBOE.

SIFMA Comments

SIFMA submitted a comment letter addressing the various quote mitigation strategies proposed by all of the options exchanges. In summary, SIFMA believes that the SEC and the options exchanges should adopt a comprehensive and uniform approach to quote mitigation, and strongly endorses the use of a "holdback timer". SIFMA states that a lack of uniformity among quote mitigation strategies will result in a burden on member firms and confusion for market participants, especially retail investors. SIFMA opposes the NYSE-Arca proposal to not disseminate quotes in certain less active series, because SIFMA believes that the proposal will limit market transparency. SIFMA is not opposed to the assessment of a quoting fee to promote more efficient quoting, but believes the effectiveness of such a fee is tied to setting the fee at the "correct level" that penalizes inefficient quoters.

CBOE agrees with SIFMA that it would be beneficial for the options exchanges to implement uniform quote mitigation strategies. Indeed, over the years, CBOE has taken a lead in developing joint mitigation strategies for the options industry. Ultimately, however, these joint

[1] Citadel's comments focus on CBOE's adoption of a Hybrid Electronic Quoting Fee as described in SR-CBOE-2006-98.

mitigation strategies failed to garner unanimous support from all of the options exchange. In light of the past difficulty in having the options exchanges agree on uniform joint mitigation strategies, CBOE believes that an exchange should be allowed to implement strategies that make sense for its particular marketplace, and does not believe that a lack of uniformity among quote mitigation strategies will result in confusion for market participants, especially retail investors. CBOE has identified five specific quote mitigation strategies that it has implemented or intends to implement in connection with the Penny Pilot Program. If none of the other options exchanges was to adopt these strategies, CBOE does not believe that it would lead to any confusion among market participants and investors.

With regard to the use of a "holdback timer", which SIFMA strongly endorses, CBOE submitted comment letters to the International Stock Exchange's ("ISE") and American Stock Exchange's ("Amex") rule filings which proposed to codify their use of a "holdback timer". In its comment letters, CBOE noted that at this point, CBOE does not have fundamental objections to the usage of such a timer. However, CBOE wrote that ISE and Amex should be required to provide more information concerning how the "holdback timer" functions and how it may impact the execution of orders sent to ISE and Amex by CBOE members or by CBOE through linkage. CBOE identified a number of questions that it believes ISE and Amex (as well as any other exchange intending to use a "holdback timer") should address so that all market participants understand how the timer functions and how it may effect the execution of orders. CBOE notes that it is unclear how effective a "holdback timer" will be in reducing the number of quotations sent to OPRA given that ISE and Amex have had a "holdback timer" for some period of time and are simply codifying their usage for purposes of the Penny Pilot Program.

Citadel Comments

Citadel's comment letter focuses on CBOE's new Hybrid Electronic Quoting Fee as described in SR-CBOE-2006-98. Specifically, Citadel states that CBOE's fee could be improved by taking into consideration other factors such as the number of markets made by each member, the quality of markets quoted by each member, the volume traded by each member, and the quoting obligations of each member.

CBOE believes that the Hybrid Electronic Quoting Fee described in SR-CBOE-2006-98 is fair and reasonable, and designed to provide for the equitable allocation of reasonable dues, fees, and other charges among CBOE members. CBOE anticipates that the fee will promote and encourage more efficient quoting by its members. Nonetheless, CBOE recognizes that the Hybrid Electronic Quoting Fee may be enhanced by taking into consideration other factors, including some of those identified by Citadel in its comment letter. CBOE intends to assess the effect of the Hybrid Electronic Quoting Fee after it is implemented on February 1, 2007, and amend the fee as appropriate in the future.

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If you have any questions concerning CBOE's responses to the comment letters from SIFMA and Citadel, please feel free to contact me at (312) 786-7467.

Respectfully Submitted,

Patrick Sexton

Patrick Sexton

cc: Edward Joyce
Joanne Moffic-Silver
Philip Slocum
Thomas Knorring