February 7, 2012

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File No. SR-CBOE-2011-123

Dear Ms. Murphy:

CTC Trading Group, L.L.C. ("CTC" or the "Firm") is submitting this comment letter in response to the proposed rule submission, SR-CBOE-2011-123, ("Rule Filing") by the Chicago Board Options Exchange ("CBOE" or the "Exchange") which addresses the electronic auction trading of Flexible Exchange Options ("Flex Options") on the Exchange's Hybrid Trading System platform. CTC believes that this Rule Filing, if implemented as drafted, will reduce competition and market transparency.

Flex options were developed to provide investors with the ability to customize key contract terms of equity or index contracts including exercise prices, exercise styles and expiration dates, thereby providing the flexibility of over-the-counter market with the benefits of a regulated exchange. Among these perceived benefits, Flex options are intended to provide price discovery in competitive, transparent auction markets. The Firm believes the Exchange's Rule Filing discourages market makers from providing liquidity and will therefore reduce the quality of customer execution. CTC believes that as presently drafted, the Rule Filing prevents market makers from having a meaningful chance to compete and participate for customer business. CTC asks the Commission to consider the comments raised in this letter so that the Rule Filing may be revised to incentivize market makers to provide liquidity, engage in the price discovery process and provide more transparency for these contracts.

The Firm's specific concerns and suggested changes are as follows:

Minimum timer on newly listed series should be extended to 1 minute:

Pursuant to the Rule Filing, the duration of the Request for Responses ("RFR") period will be established by the Exchange on a class-by-class basis and shall not be less than three (3) seconds. A three (3) second response time for a new flex strike and cross would present an exceptional technological challenge to market making firms attempting to provide liquidity in flex. To be prepared for any new flex strike and cross, market making firms would have to be ready to price an infinite possibility of strikes (which can be in decimals) on any trading day of the year (a.m. or p.m. expiration) with American and/or European settlement to meet this three (3) second requirement. Responding to Request for Quotes ("RFQ") on newly added flex strikes is extremely risky as market making firms would be responding with quotes into a dark market. A three (3) second response time would add to the existing risk associated with responding with quotes into a dark market by placing additional reliance and stress on systems to anticipate infinite trading outcomes. It will also prevent firms like CTC from having a reasonable chance to validate their pricing through a series of safety checks. This will ultimately increase the likelihood of erroneous transactions on these illiquid assets and remove participants from the market due to the expense and complexity of the system requirements to support necessary speed and proper controls and safety checks.

CTC proposes that the response time for newly added flex strikes be increased to one minute. The three (3) second window is inconsistent with long established rules on the trading floor which require a five (5) minute window on new flex strikes. As flex orders are not normally time sensitive because flex customers do not normally need highly customized hedges on a moment's notice, lengthening the three (3) second window should not result in additional market problems. Please note that CTC has no objection to the three (3) second window for existing flex contracts, as market participants will have had ample opportunity to price these options. The Firm merely wishes to propose amending this Rule Filing to extend the window to one minute window on newly added flex strikes and not on all flex auctions.

Flex Solicitation Auction Mechanism

Adherence to order protection rules such as locked and cross markets and trade through restrictions should be applied to the Flex Auction in the same manner as they are administered in a floor based or electronic market. The electronic system as currently deployed at CBOE for the Flex Auction is used to circumvent competition and price improvement from other market participants and to cross trades at prices often detrimental to the customer. The current Flex Auction mechanism should not be allowed to migrate to the CBOE Hybrid platform under the proposed Rule Filing. Participants that submit RFQs can receive quote responses that lock and/or cross markets. Participants can use multiple logins to the Flex Auction system which provides a mechanism to: (i) respond to their own RFQs; (ii) intentionally cause a locked or crossed market; and (iii) execute a trade through the best bid or offer. As a result, the current Flex Auction undermines well-established market controls existing in traditional floor-based and electronic markets created to ensure that inverted markets are avoided as well as adherence to customer trade through protections.

In addition, due to the unique nature of electronic auctions, controls and standards should be implemented or improved for the creation and supervision of unique user passwords and logins. This would further minimize potential market abuses resulting from single entities or persons accessing multiple passwords/logins with the overriding objective of crossing a trade for their own benefit or advantage to the detriment of the ultimate customer.

In sum, approval of the Rule Filing, as drafted, is in contravention of long standing marketplace rules and principles established to obtain price discovery, transparency, and investor protection. CTC appreciates the opportunity to comment and would welcome the chance to discuss any issues raised in this letter. Should you have any questions regarding this letter, please contact me at (312) 863-8135.

Sincerely,

Jonathan Grodnick
Managing Director