

May 22, 2007

Ms. Nancy M. Morris
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number SR-NASDAQ-2007-004

Dear Ms. Morris:

On behalf of the Options Committee of the Securities Industry and Financial Markets Association (“SIFMA”),¹ we appreciate this opportunity to comment on the proposal (the “Proposal”) by The Nasdaq Stock Market LLC (“Nasdaq”) to establish the Nasdaq Options Market, LLC (“NOM”), a new options market which will be a trading facility of Nasdaq. SIFMA supports the Proposal, but notes the existence of some market structure issues that warrant careful consideration. For example, NOM would have low barriers to entry for market participants seeking to act as liquidity providers, whether or not as market makers. These low barriers to entry could have a positive effect, in the form of attracting new sources of liquidity, but also raise some questions that should be answered in the Proposal. These questions surround such issues as surveillance, rights and responsibilities. In addition, despite the obvious significance of the addition of a seventh options exchange, there exist some important concepts that bear consideration which do not appear to be addressed or fully developed in the Proposal, which we have outlined below.

National Market System Concerns

Although the Proposal would require Market Makers to continuously quote in at least 75% of the series in which the Market Maker is registered, the NOM rules do not appear to provide assurance that, with respect to a particular series of options, there will be continuous quotes. Rather, it appears that a Market Maker could cease disseminating quotes for a series of options at any time, even within a trading day. SIFMA believes that the precise scope of Market Maker’s continuous quoting obligations should be more clearly defined in the Proposal.

¹ The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

One aspect of the Proposal that SIFMA believes should be clarified involves the treatment of options series without a Market Maker. It is not clear from the Proposal what actions will be taken should a Market Maker withdraw from making a market in a particular option series, including whether NOM will continue to match orders in the series. Similarly, the Proposal does not address Market Maker use of the matching system for new customer orders following withdrawal as a Market Maker.

Functions and Responsibilities of Market Makers

SIFMA believes that the aspects of the Proposal relating to the function and responsibilities of Market Makers should be further developed. The Proposal envisions the selection of one Market Maker per eligible class as the “InterMarket Linkage Market Maker” responsible for settling orders that would be sent to away markets. However, the Proposal does not describe who will fulfill the role of the InterMarket Linkage Market Maker in the event this Market Maker is temporarily excused from its responsibilities. Similarly, SIFMA believes that the Proposal should more clearly specify who would be responsible for erroneous trade-throughs or, more generally, trade errors.

The Proposal indicates that a Market Maker must maintain a two-sided market, but only for ten contracts in at least 75% of the series for which the Market Maker is registered. SIFMA notes that the comparable requirement on other options exchanges is generally 80%, and uniformity of the quotation requirements among the various exchanges would be desirable.

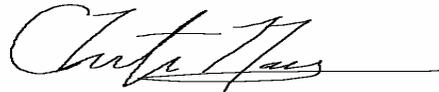
Other Considerations

Under the Proposal, barriers to entry for liquidity providers are low -- order entry firms, like Market Makers, can enter orders on both sides of the market for the same customer. This has potential benefits, in that it may result in an overall increase in liquidity for options series listed on NOM. However, it does raise some questions, particularly with respect to the rights and responsibilities that apply to the order entry firm and the customer in such cases. For example, the Proposal does not explain whether Market Makers will have exclusive access to certain NOM systems or other tools, or otherwise have rights that differ from those of these customers. Moreover, the Proposal is not clear as to who has responsibility for surveillance of the activities of these market participants. It is important that broker-dealers using NOM understand how this surveillance will occur so that they may assess their own responsibilities with respect to their customers who may disseminate two-sided quotations.

Under the Proposal NOM’s opening time is 8:00 a.m., but the “market close” is stated as the time designated by NOM on a particular trading day. SIFMA believes that an expressly stated and quantifiable closing time would be preferable, and that the use of different closing times will lead to customer confusion and burdens on broker-dealers’ systems. Such was the case when trading in the Gold Shares exchange-traded fund was permitted to begin over an hour before the normal market opening.

SIFMA appreciates the opportunity to submit these comments on the NOM Proposal. If you would like to discuss the above issues in further detail or have any question about the comments presented in this letter, please do not hesitate to contact me at (402)970-5656, or Melissa MacGregor, SIFMA staff advisor to the Options Committee, at (202)434-8447.

Very truly yours,

A handwritten signature in black ink, appearing to read "Chris Nagy", with a horizontal line extending to the right.

Christopher Nagy
Chair, SIFMA Options Committee

cc: Elizabeth King, Division of Market Regulation, SEC
Adam Nunes, Director of Strategy, Nasdaq Stock Market
Ira D. Hammerman, Senior Managing Director and General Counsel, SIFMA
Melissa MacGregor, Vice President and Assistant General Counsel, SIFMA