CITADEL

March 21, 2007

Nancy Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

      Re: File No. SR-NYSEArca-2007-06[1]

Dear Ms. Morris:

      Citadel Investment Group, L.L.C. ("Citadel") appreciates the opportunity to comment on the above-referenced filing (the "Filing") of NYSEArca, Inc.[2] The Filing proposes to change NYSEArca rules governing "obvious errors" in option transactions. The proposed rule change was effective upon filing on the basis that it is "non-controversial" as provided in Exchange Act Section 19(b)(3)(A) and Rule 19b-4(f)(6). Citadel respectfully urges the Commission to abrogate the Filing pursuant to Section 19(b)(3)(C) of the Exchange Act, and to require that it be refiled pursuant to Section 19(b)(1) of the Exchange Act. For the reasons stated below, Citadel believes that abrogation of the Filing is necessary and appropriate, in the public interest, and in furtherance of the purposes of the Exchange Act.[3]

      The Filing modifies the applicable time frame following execution of an order for a Customer (as defined in NYSEArca's rules) to request an "obvious error review" under NYSEArca Rule 6.87 for executions occurring "on the opening." Specifically, the Filing extends the applicable time frame for requesting reviews of such executions from 20 minutes following execution until 4:30 p.m. (Eastern Time). NYSEArca states that the Filing is based upon CBOE Rule 6.25 (which was amended in SR-CBOE-2005-63).[4] Citadel believes that obvious error rules should, in general, be treated with extreme skepticism, and, for the reasons stated in its comment letter dated May 17, 2006,[5] contends that the application of CBOE Rule 6.25 places a particularly unfair burden on market makers. However, the Filing suffers from one additional fatal flaw: it is hopelessly vague.

      The Filing does not define the term "opening" for purposes of amended Rule 6.87(a). In the "Purpose" section of the Filing, reference is made to "an obvious error during the opening

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     [1] *See* Exchange Act Release No. 34-55330 (Feb. 21, 2007) ("NYSEArca Release"); 72 Fed. Reg. 9052 (Feb. 28, 2007).

     [2] Citadel and its affiliates operate one of the world's largest alternative investment firms. On an average day, Citadel accounts for nearly one fifth of U.S. listed options market volume. Citadel is a Lead Market Maker and Remote Market Maker on the NYSE Arca.

     [3] *See* Exchange Act Section 19(b)(3)(C).

     [4] Exchange Act Release No. 34-54004 (June 16, 2006); 71 Fed. Reg. 36139 (June 23, 2006).

     [5] *Available at http://www.sec.gov/comments/sr-cboe-2005-63/cboe200563-1.pdf.*

auction"[6] and "transactions during the opening auction…"[7] However, the words "opening auction" do not appear in the rule text. If opening means executions that were part of the first trade of the trading day (which is the implication of the use of the words "opening auction"), Citadel would not be as concerned about this Filing. However, the NYSEArca staff has not been applying the rule in this way. Rather, NYSEArca staff considers the opening for purposes of this rule to potentially occur long after the first trade on NYSEArca.

We find this maddening because other NYSEArca rules, such as NYSEArca Rule 6.64A(b), provide some clarity regarding what executions would be regarded as part of the opening auction on the OX System. Likewise, CBOE's Rule 6.25(a)(1)(ii) and (iii), upon which the Filing was supposedly based, refers not merely to "the opening" when defining what executions are covered, but to "transactions during an opening rotation." This is a concept which is further defined in CBOE Rules 6.2, 6.2A (applicable to the rapid opening system) and 6.2B (applicable to the Hybrid opening system).[8] It is quite clear in CBOE's rules that an opening rotation will be for a brief period only,[9] and is for the specified purpose of establishing the opening price.[10]

The consequence of this vagueness is that NYSEArca staff is left to its own judgment regarding which executions "around" the opening of trading are eligible for the extended review request procedures, and which executions become final (in the sense that they are not subject to price adjustments) following the 20 minute (or other applicable) time frame specified in NYSEArca Rule 6.87(a)(3)(A). This invites favoritism, "widow's law" and the adoption of shadow standards and guidelines by the staff that are themselves the proper subject of proposed rule changes.[11] It has been Citadel's experience that, during the several weeks since the Filing has been effective, it is impossible to know what standard, if any, NYSEArca staff has been applying in defining what constitutes the "opening" for the purpose of accepting obvious error requests throughout the trading day under the amended rule.

This vagueness leaves Market Makers, such as Citadel, with considerable economic exposure (potentially expanding transactions subject to price adjustment). In addition, Market Makers have uncertainty as to which transaction prices for orders executed at the beginning of the day may be regarded as final for a full trading day. This hampers intra-day risk management. Since a large percentage of the day's orders are often executed at the opening, there could, potentially, be many price adjustments of orders executed early in the day, as to which requests

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[6] NYSEArca Release at Section II.A.1., top of page 3.

[7] *Id.* at top of page 4, text accompanying footnote 9.

[8] The lead-in language of CBOE Rule 6.25 makes clear that the relevant provision does not apply to "trades executed in open outcry."

[9] *See e.g.*, first sentence of CBOE Rule 6.2.

[10] *See e.g.*, CBOE Rule 6.2B(a) and (b).

[11] *See* Section 3(a)(27) of the Exchange Act, which defines "rules of an exchange" as including certain stated policies, practices and interpretations. The term "stated policy, practice or interpretation" is defined in Exchange Act Rule 19b-4(b) (which delineates what must be filed as a "proposed rule change" under Section 19(b)) to include "any material aspect of the operation of the facilities" of the exchange, including standards, limits or guidelines regarding rights, obligations or privileges of stated persons or the meaning or interpretation of an existing rule.

for review are received at the end of the trading day. Thus, the impact on the firm's understanding of its P&L position could be significant.

If NYSEArca intends the "opening" for purposes of its rule to be something other than the trade that establishes the initial execution or the initial trade or trades that are simultaneously executed at the beginning of the trading day (which appears to be the case), then the Filing should have made that clear. Citadel, and we believe others having an interest in the *controversial* question of what constitutes the "opening" would surely comment on such a proposal.[12] Citadel is of the view that this is, therefore, an appropriate circumstance for abrogation by the Commission, so that interested persons can know what specifically NYSEArca is proposing to do and to comment on the proposal before it can become effective.

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If you have any questions about these comments or would like to discuss these matters further, please feel free to contact me at 312-395-3115.

Sincerely,

John C. Nagel
Head of Global Compliance
Director and Associate General Counsel

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[12] Of course, the precise scope of the opening of trading is quite significant for unrelated reasons, including the application of trade-through obligations and other regulatory requirements, which in many cases apply differently to openings than for the rest of the trading day. *See* NYSEArca Rule 6.94(b)(6). Another concern relates to the fact that the NYSEArca has been endeavoring to open as early as possible, and sends out an electronic message to its Market Makers regarding the opening. Among other things, this message alerts Market Makers that various obligations, such as requirements concerning quotation widths that apply during normal trading, are in effect. *See* NYSEArca Rule 6.37A(b)(5). NYSEArca participants are now at a loss to know whether the "opening" will now mean different things for different purposes under NYSEArca's rules.