ADIRONDACK
ELECTRONIC MARKETS

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OFFICE OF THE SECRETARY

April 6, 2004

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: File No. S7-07-04; Competitive Developments in the Options Markets

Dear Mr. Katz,

Adirondack Electronic Markets LLC ("AEM") commends the Commission for its continuing effort to seek public input on improving the efficiency of the options markets. AEM is a market maker on the International Securities Exchange (ISE). AEM's parent, Adirondack Trading Partners LLC, was the corporate founder of the ISE and has been a major promoter of improving the competitiveness, efficiency and transparency of the options markets.

We welcome the opportunity to present our views on recent market developments in connection with the above-referenced Concept Release. In addition to joining in the Securities Industry Association's (SIA) comment letter, AEM would like to bring to the Commission's attention some issues related to inter-market linkage and the impact that linkage has had on certain market participants, which are outside of the scope of the SIA's comment letter

As the Commission states in its Concept Release, in early 2003, an automated linkage system enabled options exchanges to route orders to other options exchanges for execution. The purpose of the linkage system is to allow orders to be executed at the market displaying the best price, thereby encouraging efficient pricing and best execution of customer orders. While there are significant benefits to customers resulting from the linkage system, there have been some concurrent, and we think unintended, negative consequences. In particular, the linkage system has imposed additional obligations to the market on the specialist firms, without any commensurate offsetting benefits. Specifically, there are intermediate execution, trading and infrastructure costs related to routing orders through linkage (duplicate exchange and comparison fees, duplicate clearing charges and duplicate OCC fees) in addition to added operational risks, substantial technology investment and trade price adjustment liability related to communication lags - all of which are disproportionately borne by one group of market professionals - the Primary Market Makers. These additional costs decrease the ability of market makers to further

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reduce spreads and may even force market makers to widen their spreads. Thus, while linkage was intended to increase efficiency and competition in the options markets, the unfair allocation of the costs related to linkage may actually have the opposite effect in the long term.

We believe that this problem can be easily resolved by allocating the costs associated with linkage trades more fairly among all market participants. Currently, only the Primary Market Makers bear the costs associated with linkage trades, while all market participants share in the benefits. One solution could be for the recipient exchange to charge the costs associated with linkage orders to the originating exchange. The originating exchange could then fairly spread the cost among all of its members as well as compensate the specialist for the value it adds. In this way, all of the market participants which benefit from linkage would likewise share in the burden.

AEM appreciates this opportunity to submit our views on this matter. We would be pleased to discuss our comments as set forth herein with the Commission or its staff.

Very truly yours,

Marty Averbuch
President and Chief Executive Officer