

December 3, 2009

Via Facsimile and Overnight Delivery

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: *Order Granting Petition for Review and Scheduling Filing of Statement in the Matter of Chicago Board Options Exchange, Incorporated Petition for Review; File No. SR-ISE-2009-35; Exchange Act Release No. 60989*

Dear Ms. Murphy:

Pursuant to Rule 431 of the Rules of Practice of the Securities and Exchange Commission, Citadel Investment Group, Inc. ("Citadel") hereby submits its statement in opposition to the action of the Division of Trading and Markets by delegated authority approving a proposed rule change by the International Securities Exchange, LLC ("ISE") to facilitate the crossing of options orders called the Qualified Contingent Cross ("QCC").¹ We applaud the Commission's decision to grant review of the ISE Approval Order in response to the above captioned petition filed by the Chicago Board Options Exchange, Incorporated ("CBOE").²

¹ See Securities Exchange Act Release No. 60584 (August 28, 2009), 74 Fed. Reg. 45663 (Sep. 3, 2009) ("ISE Approval Order"). In general, the proposed rule change by the ISE provides that when a member effects a Qualified Contingent Trade ("QCT") in a Regulation NMS Stock, the member is permitted to cross the options leg of the trade on the ISE immediately upon entry if the order is (1) for at least 500 contracts, (2) part of a QCT and (3) executed at a price at least equal to the national best bid or offer. The ISE's rule filing to implement QCC orders was approved by the Division of Trading and Markets pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 19b-4 thereunder.

² The CBOE filed a Petition for Review on September 14, 2009 under Rule 430 of the Commission's Rules of Practice, requesting the Commission to review the ISE Approval Order. See Letter from Joanna Moffic-Silver to Elizabeth M. Murphy (Sep. 14, 2009), available at <http://www.sec.gov/rules/other/2009/cboepetition091409.pdf> (the "CBOE Petition"). On November 12, the Commission has issued an order granting the CBOE Petition, thereby initiating this review process. See Exchange Act Release No. 60989 (Nov. 12, 2009), Order Granting Petition for Review and Scheduling Filing of Statements.



Citadel believes that the Commission should set aside the ISE Approval Order and disallow the proposed rule change to implement QCC orders.

As one of the most active market makers admitted to dealing on both CBOE and ISE, Citadel shares many of the concerns previously articulated by the CBOE and other market participants about the adverse impact of the proposed rule change. In particular, Citadel agrees that QCC orders (1) represent a significant change from the existing rules mandating order exposure,³ (2) have the effect of establishing ISE as a *de facto* “print facility” for large orders,⁴ (3) provide a disincentive for market makers to display liquidity,⁵ and (4) diminish transparency and order protection.⁶

In the ISE Approval Order, the Division of Trading and Markets acknowledged that the proposal represents “a change in certain long-held principles in the options market because it would permit the execution of a cross order without requiring exposure or customer priority.”⁷ This fundamental shift in options market structure, if permitted to take effect, likely would be followed by similar rule filings by other options exchanges, as recently noted by the

³ See Letter from Jeffrey S. Davis to Elizabeth M. Murphy (Sep. 22, 2009), available at <http://www.sec.gov/comments/sr-ise-2009-35/ise200935-5.pdf> (the “PHLX Comment Letter”); Letter from Megan A. Flaherty to Elizabeth M. Murphy (Oct. 2, 2009), available at <http://www.sec.gov/comments/sr-ise-2009-35/ise200935-7.pdf> (Wolverine); Letter from Janet M. Kissane to Elizabeth M. Murphy (Oct. 5, 2009), available at <http://www.sec.gov/comments/sr-ise-2009-35/ise200935-8.pdf>; Letter from Kimberly Unger to Elizabeth M. Murphy (Oct. 29, 2009), available at <http://www.sec.gov/comments/sr-ise-2009-35/ise200935-11.pdf> (The Security Traders Association of New York, Inc.).

⁴ See CBOE Petition; Letter from Anthony Saliba to Elizabeth M. Murphy (Oct. 7, 2009), available at <http://www.sec.gov/comments/sr-ise-2009-35/ise200935-9.pdf> (the “LiquidPoint Comment Letter”).

⁵ *Id.*

⁶ See PHLX Comment Letter; LiquidPoint Comment Letter.

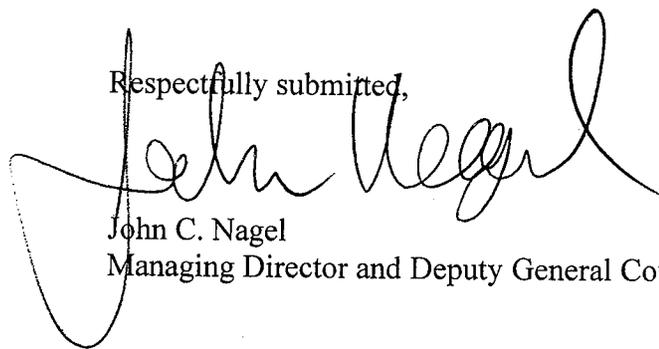
⁷ See ISE Approval Order, 74 Fed. Reg. at 45665.

Commission.⁸ Such developments implicate a host of significant policy issues, including potential concerns about the quality of quote competition among options market makers in the future.⁹

In our view, given the gravity of these issues, the ISE's response to date and the staff's discussion of QCC orders in the ISE Approval Order have failed to establish an adequate basis for the required statutory finding under Sections 6 and 11A of the Exchange Act. We are not persuaded that, as currently envisioned, the implementation of QCC orders would promote just and equitable principles of trade, remove impediments to competition or facilitate economically efficient execution of transactions. Accordingly, Citadel believes that the ISE Approval Order should be set aside and the Commission should disapprove the ISE's rule filing.

If you have any questions about this statement, please do not hesitate to contact me at (312) 395-3115.

Respectfully submitted,



John C. Nagel
Managing Director and Deputy General Counsel

⁸ See Exchange Act Release No. 60988 (Nov. 12, 2009): Order Denying International Securities Exchange, LLC's Motion to Lift the Commission Rule 431(e) Automatic Stay of Delegated Action Triggered by Chicago Board Options Exchange, Incorporated's Notice of Intention to Petition for Review.

⁹ The Commission in a separate release has expressed its general concerns about changes in trading practices that potentially create a disincentive for market makers to quote competitively. See Exchange Act Release No. 60684 (Sep. 18, 2009), 74 Fed. Reg. 48632 (Sep. 23, 2009) at 48636.



cc: Hon. Mary Schapiro, Chairman
Hon. Luis A. Aguilar, Commissioner
Hon. Kathleen L. Casey, Commissioner
Hon. Troy A. Paredes, Commissioner
Hon. Elisse B. Walter, Commissioner