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OFFICE OF THE SECRETARY

Nancy M. Morris
Secretary
United States Securities and
Exchange Commission (the "Commission")
100 F Street, NE
Washington, DC 20549-9303

Re: **SR-Amex- 2005-060; Response to Citadel Derivatives Group LLC Comment Letter**

Dear Ms. Morris:

The American Stock Exchange LLC (the "Amex" or the "Exchange") would like to take this opportunity to respond to the November 28, 2005 comment letter[1] filed by Citadel Derivatives Group LLC ("Citadel") relating to the above-referenced rule filing (the "Filing"). The Filing proposed certain amendments to the Amex Obvious Error Rules (such rules, as amended by the Filing, the "Rules"). In the Comment Letter, Citadel suggests certain modifications to the Rules. The Exchange respectfully disagrees with Citadel's contentions. The Amex submits the following considerations in support of the Rules and the Amex position.

Since the transfer of ownership of Amex from the NASD to the seatholders last year, Amex has acted assertively to improve customer protections in our options marketplace. Indeed, we have further improvements in mind. Our goal has been to introduce fair, objective standards to any trade break or adjustment resulting from erroneous trades or quotes. Independent regulatory staff are involved in any such decision. We are also considering additional measures to assure our customers of the finality of trade executions, notwithstanding any failure of internal systems. Amex is cognizant of Citadel's concerns, and has made meaningful strides to address issues affecting all our customers.

The Rules Were Based on CBOE Precedent

Without dissecting all of the specific details of Citadel's Comment Letter, the Exchange respectfully submits that the Rules were based upon the obvious error provisions

[1] Such letter dated November 28, 2005, on behalf of Citadel Derivatives Group LLC, from Matthew B. Hinerfeld, Director and Deputy General Counsel, Citadel Investment Group, L.L.C. addressed to Jonathan G. Katz, Secretary, United States Securities and Exchange Commission (the "Comment Letter").

contained in the rules of the Chicago Board Options Exchange which were approved by the Commission. Our submission, thus, is based on well-settled precedent, and breaks no new ground. We should be allowed sufficient discretion to improve our market quality simply because it is good business to do so, and not because we are regulated differently from other markets.

The Exchange submits that the majority of the criticisms contained in the Comment Letter are unfounded and have been thoroughly vetted in connection with the CBOE Rule and the original Amex approval.

Objections to Specific Provisions

Citadel objects to the amendments relating to the determination of obvious price errors. They claim the amendments lead to "uncertainty and unpredictability" with regards to the method of determining what constitutes a numerical obvious error by excluding the quotes of the competing options exchange if such quote was widened to incorporate a prior erroneous quote of the Exchange. The Amex submits that it is obvious when a bad quote has been disseminated and another exchange widens its quotes in response to such bad quote and therefore, the claim that it is impossible to know why another exchange widened its quote is without merit. Additionally, Citadel claims that the Exchange proffers an "extreme example" in support of the amendments to the quote widening provisions. The Amex disagrees. The example in question is typical of the type of situation that the proposed amendments are designed to address. Moreover, pursuant to the proposed amendments, trades will not be subject to cancellation or adjustment where an obvious price error is not readily apparent.

For example, the Amex recently performed an obvious error analysis on a series of trades involving a particular options series. The quotes in the particular option opened on the most liquid options exchange at 0-0.50, and seconds later on the Amex at 1.65-1.90. The most liquid options exchange subsequently widened its quote to 0-1.65 and thereafter, options were sold to the specialist on the Amex at 1.65. Upon realizing that a bad quote was disseminated, the Amex changed its quote to 0-0.25 and the most liquid options exchange changed its quote to 0-0.25, 16 seconds later. Even though it was readily apparent that an obvious price error had been made, the trades were neither adjusted nor cancelled since current rules do not permit cancellation or adjustment in such a situation. Therefore, we believe that the example proffered in the Filing was not "extreme" and was merely offered to illustrate a cancel or adjust situation.

The Exchange notes that during the first quarter of 2005 it established the Trading Floor Regulatory Liaison group, which in addition to its other responsibilities, must participate in all options obvious error rulings and appeals. This group reports directly to the Chief Regulatory Officer of the Exchange, and helps to ensure that all rulings are in accordance with the Rules.

Citadel also incorrectly claims that the provision allowing for the cancellation of trades occurring during a "verifiable disruption or malfunction" allows Amex market makers (i.e. registered options traders) to profit by using this provision to pick and choose which trades to honor. The provision permits any market participant, not just an Amex specialist or market maker to request cancellation of a trade occurring during a system malfunction. The Rules also contain specific criteria delineating the requirements constituting a system malfunction, and such criteria were included to preemptively address the "pick and choose" scenario asserted by Citadel.

Adoption of Uniform Obvious Error Rules

Citadel claims that investors and the options markets as a whole, would benefit from the adoption of uniform rules across all markets. The Amex has been a proponent of uniform rules, and in fact chaired an Options Linkage Advisory Committee comprised of the options exchanges and certain market participants whose sole purpose was to establish a set of uniform rules applicable to the Options Linkage Plan. The Exchange notes however, that notwithstanding the best efforts of the Amex, the Committee was unable to agree on a uniform set of rules, and therefore, the effort was abandoned.

Citadel's Ownership Interest in the Philadelphia Stock Exchange

In June of 2005, Citadel, for the sum of $7.5 million, acquired a 10% equity interest in the Philadelphia Stock Exchange (the "Phlx") plus the option to double its ownership stake in the future upon delivering order flow to the Phlx. The investment has transformed Citadel from an unrelated market participant to a significant shareholder in one of the Amex's direct competitors. Citadel is not unbiased in the context of its comments.

Conclusion

The Amex believes that the proposal to revise the current Obvious Error Rules relating to equity and index options is a legitimate exercise of Exchange authority and consistent with the Securities Exchange Act of 1934. The Exchange is willing to work with the Commission to address legitimate concerns deemed necessary for the protection of investors and the marketplace.

We look forward to discussing the matters covered in this letter with the Commission.

Sincerely,

cc: Nancy Sanow, Esq.
Susie S. Cho, Esq.
Michou H.M. Nguyen, Esq.