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Mr. Jonathan G. Katz
Secretary
United States Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: File Numbers SR-AMEX-2005-066 and SR-BSE-2005-30

Dear Mr. Katz:

Citadel Derivatives Group LLC ("Citadel Derivatives") appreciates the opportunity to comment on SR-AMEX-2005-066 and SR-BSE-2005-30 (collectively, the "Proposed Rules"). The Proposed Rules permit each exchange to declare quotes from other exchanges to be unreliable and therefore not part of the NBBO.

Both contain provisions permitting the exchange to declare another exchange to be out of the NBBO when that other exchange is disconnected from Linkage (that is, that it is not accepting linkage orders). The AMEX proposal goes further than the BOX proposal in one important respect. The AMEX proposal would permit the AMEX to make a unilateral determination that the other exchange is disconnected from Linkage, whereas the BOX proposal would require the BOX first to get confirmation from the other exchange.

Citadel applauds these proposals and strongly recommends that the Securities and Exchange Commission (SEC or Commission) approve them. We submit, however, that the AMEX's proposed ability to take unilateral action is preferable given the need for immediate action when an exchange is rejecting linkage orders on a wholesale basis. The BOX may wish to consider amending its proposed rule to give itself the same ability.[1]

Confusion, unfairness, losses, and customer dissatisfaction occur when an exchange appears to be at the NBBO but, in fact, is not filling Linkage orders. This is a

[1] In proposing a non-unilateral rule, the BOX stated that it was modeling its rule on the Chicago Board Options Exchange's (CBOE's) Rule 6.13(e). But the relevant provision of the CBOE rule (Rule 6.13(e)(i)(C)) provides for unilateral action. In light of this apparent oversight, the BOX may wish to amend its proposed rule to bring it in line both with the CBOE rule on which it was intended to be modeled and with the proposed AMEX rule.

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common occurrence and unfairly places market makers between a rock and a hard place: They can follow the rules and continue futilely sending orders (including P/A orders on behalf of customers) to an exchange that purports to be at the NBBO but, in fact, is not responding to Linkage orders. Or they can decide to ignore that exchange and trade at a facially inferior price on another exchange, thereby risking incurring liability and discipline from the SEC and the exchanges for violating the trade-through rule. These proposals should help reduce the duration of instances in which the market is distorted by quotes that are not, in fact, firm and therefore will cut down on the resulting harm. Accordingly, we urge that they be approved.

In addition to approving these proposals, we also urge the Commission to tackle the broader problem of non-firm quotes in the options market. The market distortions and other harms caused by non-firm quotes result not just from the types of wholesale systems problems addressed by these proposals but also from the thousands of instances every day that individual floor-based market makers choose not to honor their quotes. On January 22, 2005, Citadel Derivatives submitted a rule making petition (File No. 4-496) to amend the Options Intermarket Linkage Plan to limit trade-through protection only to automated quotes, just as the Commission has done in the equities markets pursuant to Regulation NMS. We urge the Commission to adopt Citadel Derivatives' proposal or to enact such other changes as will reduce the problem of non-firm quotes associated with manual order handling.

Sincerely,

Matthew Hinerfeld
Managing Director and
Deputy General Counsel
Citadel Investment Group, L.L.C.
on behalf of Citadel Derivatives Group LLC