Merrill Lynch

Global Markets & Investment Banking

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OFFICE OF THE SECRETARY

January 3, 2005

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

Re: SR-CBOE-2004-56

Dear Mr. Katz:

Merrill Lynch Pierce Fenner & Smith Incorporated ("Merrill Lynch") welcomes this opportunity to submit this comment letter to the Securities and Exchange Commission (the "Commission") in support of the Chicago Board Options Exchange, Incorporated's ("CBOE") proposed rule change as described in File No. SR-CBOE-2004-56 (the "Proposal") and the extension of the pilot program related thereto.

Merrill Lynch is a CBOE member which clears and carries the accounts of options customers and broker/dealers engaged in effecting complex option spreads. Merrill Lynch believes that certain complex option spreads, as specified in CBOE's Regulatory Circular RG03-66, are the equivalent of combining two or more spreads that are currently recognized in the margin rules of the CBOE and of other self-regulatory organizations. These complex spreads can be shown to equate to aggregations of two or more currently recognized spreads, having the same profit/loss and risk potential, whether established outright or through netting of offsetting contracts.

Merrill Lynch agrees with the CBOE that the complex spreads in question are simply another way of expressing a collection of two or more basic option spreads (i.e., the butterfly spread, the box spread, and the time spread) already covered under the margin rules. Merrill Lynch believes that because the applicable rules already provide a margin requirement for each recognized spread in the equivalent aggregation, the appropriate margin for each complex spread is no more than the total of the margin for the various combined recognized spreads.

Merrill Lynch further agrees with the CBOE's statement that the complex spread margin requirements are reasonably implied by, and are a logical extension of, the current margin rules. Merrill Lynch believes that the proposed rule change and the interpretation set forth in the Regulatory Circular are consistent with the requirements of the Securities Exchange Act of 1934.

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440 South LaSalle Street
Suite 2500
Chicago, IL 60605

We urge the Commission to approve the extension of the pilot program and to permanently implement the margin requirements proposed by the CBOE as described in the Proposal. Merrill Lynch believes such action will benefit all market participants for whom options are an important part of their investment programs.

Merrill Lynch appreciates this opportunity to provide this comment letter and would be happy to discuss this matter further with staff of the Commission. Should you wish to discuss this further, you may contact me at 312.431.7222.

Sincerely,

Patrick K. Blackburn
Managing Director