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Jonathan G. Katz  
Secretary  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

RE: File No. SR-CBOE-2005-46

Dear Mr. Katz:

The Chicago Board Options Exchange, Incorporated ("CBOE") is taking the opportunity to respond to the one-page comment letter ("Comment Letter") dated July 29, 2005, from CTC, LLC, ("CTC") regarding proposed rule change SR-CBOE-2005-46 (the "Rule Change").<sup>1</sup> In its letter, CTC endorses and agrees with the purpose and intent of the Rule Change, which proposes to eliminate a CBOE Designated Primary Market Maker's ("DPM") ability to execute orders as agent and which also creates the CBOE PAR Official, who would be an Exchange employee or independent contractor responsible for, among other things, operating the PAR workstation and executing certain customer orders in DPM trading crowds ("PAR Official program" or "program").<sup>2</sup>

However, CTC proceeds to suggest that the Rule Change be approved only as a three-month pilot program in order to "give the CBOE community some working experience before the rule becomes finalized" and to "make it easier to tweak the proposed rule should modifications be necessary to take into consideration operational constraints." CTC does not provide any specific reasons as to why this rule change should be approved as a pilot program, other than providing general concerns pertaining to the implementation and operation of the rule change. In particular, CTC states that: "there are currently a few basic operational considerations that are still unknown;" that "the mechanics of how linkage orders will be booked into a DPM account is being addressed now;" that "there are a couple of other nuances that dovetail into the membership rules and procedures and COATS regulations;" and, that "[i]mplementation of this rule will require modifications to the CBOE systems."

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<sup>1</sup> Letter dated July 29, 2005, from Margaret Wiermanski, Chief Operations and Compliance Officer, CTC, to Jonathan G. Katz, Secretary, Securities and Exchange Commission, regarding File No. SR-CBOE-2005-46.

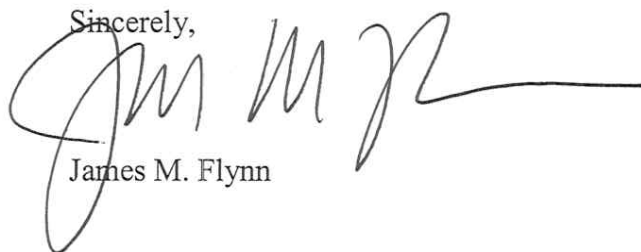
<sup>2</sup> See Release No. 34-52017 (July 12, 2005); 70 FR 41453 (July 19, 2005) (Notice of filing of SR-CBOE-2005-46).

While the Exchange appreciates the fact that the PAR Official program represents a significant departure from the manner in which CBOE DPMs have historically handled agency orders and that certain unanticipated operational challenges may arise, the Exchange does not believe that the Rule Change should be subject to a conditional period of effectiveness, as proposed by CTC. Doing so would be inconsistent with the long-term goals of the program, which include a firm commitment by the Exchange to eliminate the inherent risks associated with a DPM acting as both principal and agent with respect to orders they handle and trades they make as a DPM. A conditional implementation could frustrate these efforts and create an atmosphere of uncertainty on the direction of the Exchange's DPM program to members, their customers, and to the many newly hired employees and subcontractors who will be assuming the roles of PAR Officials on the Exchange. A transitory approval would make it difficult to attract, hire and train the requisite number of new employees needed to ensure the program's success.

Further, without speculating as to what specific concerns CTC may have, the Exchange believes that a short-term pilot would not be the appropriate means to resolve any complications that could arise in the operation of the Rule Change. Once the program is implemented, should the Exchange experience any complications in the general areas of concern raised in CTC's Comment Letter, the Exchange would act promptly to appropriately address the situations, whether through an additional rule change, systems enhancements, or operational modifications. These are measures the Exchange would take regardless of whether the Rule Change was subject to a pilot program period. Additionally, it is important to note that a current provision in the proposed Rule Change already gives the Exchange a three-month period after approval to fully implement the PAR Official program in all DPM trading stations.<sup>3</sup> This "roll-out" period was included in the Rule Change to ensure a smooth and orderly transition and to give the Exchange ample opportunity to address implementation issues, should any arise.

For these reasons, we respectfully submit that the rule change be considered in its original form. We thank you for the opportunity to respond in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Flynn", with a long horizontal flourish extending to the right.

James M. Flynn

cc: Elizabeth King, Associate Director, Division of Market Regulation  
Kelly Riley, Division of Market Regulation  
Ed Joyce  
Joanne Moffic-Silver

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<sup>3</sup> *Supra* at Note 2. See specifically proposed Interpretation and Policy .01 to Rule 7.12.