

August 29, 2005

These comments are in addition to the comments I made in my letter of July 12, 2005.

[ This is the same letter I sent on August 24,2005 with a few typos corrected.]

1. At its core this rule change {and the initial cancellation policy} is not about bandwidth, it is about competition. Bandwidth is not a function of the number of contracts of an order, it is at most about the number of orders. An electronic exchange should expect the use of bandwidth to increase as its volume increases. They should also expect cancellations to increase as increasingly sophisticated users react to the fluctuating variables of option pricing. Remember specialists have the ability to update their pricing electronically. Public customers cannot update electronically; therefore, their only alternative to a poor fill is to cancel their order.

2. When an order is cancelled there is no service performed for which a fee can be charged. The parties have failed to consummate a contract. The S.E.C. should deny this rule change and abrogate the initial cancellation rules for the I.S.E. and the other options exchanges.

3. If the S.E.C. is going to allow this rule to stand, then they should make sure it only targets those the I.S.E. alleges abuse the current rule. There is no need to allow the I.S.E. to overreach. Not allowing one lots executed in rapid succession would be an easy solution.

4. Back to the core of the problem. The reason the option exchanges introduced cancellation fees was to prevent competition to their specialists. They don't want booked orders that compete with their specialists on price. This is nothing but a round about way of reducing or eliminating those orders. The exchanges derive their income from the fees they impose on their specialists for the trades the specialist makes. The exchange is actually better off when the specialist makes a trade than when the public does; thus the incentive to promote specialist trading to the detriment of public participation. The I.S.E.'s poor business model does not justify trade restraints on their customers and anti-competitive conduct. I am not asking the S.E.C. to rule on the merits of the I.S.E. business model;only, to prevent the I.S.E. from imposing rules which deter participation from all users. Remember the role of the specialist is not to compete with public orders, to deter public orders, or to trade ahead of or instead of public orders. Imposing cancellation fees is simply a blatant attempt to do all of the above.It is simply an attempt to chill participation by sophisticated users who are extremely sensitive to price in order to preserve that participation for the specialist.

5. Additionally, there are numerous practical problems that have not been addressed by the rule. How are the following orders being treated: GTC orders,day orders that lapse,orders entered before the opening, partially filled orders, updated orders that are not cancelled but changed as to price, etc, etc? When they find that they are receiving more of one of these types of orders will they file another rule change request? Look at the first cancellation rule. It resulted in the very behavior they are now trying to prevent with the

new rule. Will the I.S.E. provide detailed accounting when they impose the fee? Will the fee be uniformly applied or will it be akin to payment for order flow where some customers are treated differently from others?

6. I hope the S.E.C. will realize that this rule [and its advocated change] is part of a larger matrix of rules and policy interpretations all designed to thwart competition to the specialist. I hope the S.E.C. will use this opportunity to review all exchange rules with an eye toward preventing the application and interpretation of rules and policies which are anti-competitive. And, I hope the S.E.C. will make it clear to the I.S.E. and the other exchanges that professional users [ who unlike specialists must meet extremely burdensome capital requirements for every order they enter and every order they execute] are entitled to the same protections and rights as less sophisticated users. As exchanges go public and consolidate the S.E.C is the public's only defense against current or future abuse.

Thank you for your consideration. I would be happy to speak personally with anyone from the I.S.E. or the S.E.C. [e-mail [cbc2973@yahoo.com](mailto:cbc2973@yahoo.com)].

Charles B. Cox III.