January 19, 2005

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609
E-mail to **rule-comments@sec.gov**

Subject:
File Number SR-CBOE-2002-03
File Number SR-NYSE-2002-19
Portfolio Margin and Cross-Margin rule proposals of CBOE and NYSE

Dear Mr. Katz:

We appreciate this opportunity to comment on the Portfolio Margin and Cross-Margin rule proposals of the CBOE and NYSE that were published in the Federal Register dated December 27, 2004.

Background Information about Our Firm. For the past 15 years, Acorn Derivatives Management Corp. has been a Registered Investment Adviser regulated by the SEC and other governmental agencies. We manage almost $1 billion in S&P 500 index defined-risk strategies for conservative clients, predominately State and Corporate Retirement Plans who are required to keep their assets in custodian banks. Many of our corporate clients are subject to the ERISA federal law requirement that they diversify their portfolios so as to minimize the risk of large losses, and we help our clients in meeting this requirement. We engage in the low-risk strategy of doing certain spread transactions and writing index options to help provide our customers an absolute return with low levels of volatility The brokers we deal with tell us we are the largest users of S&P 500 index options.

Our Comments on the Margin Rule Proposals in General. We are very much in favor of the general proposition that SEC-regulated index options should be subject to risk-based portfolio margining and cross-margining (rather than the current strategy-based margining system). The lack of an encompassing risk-based margining system leaves the market with a patchwork of inconsistent rules by which to apply margin. For example, an all-call butterfly requires the customer only pay the debit. This treatment is sensible given the maximum risk in the trade is debit paid. The inconsistency in the strategy-based margin system is evidenced by the treatment of an certain low-risk condor positions. An all-call condor has an identical risk profile as a butterfly, but we understand that the strategy-based margin rules require the credit spread be margined as if it were a standalone credit spread. Since the current rules are based on discrete spreads or combinations, they are less understood and often adjusted for by hand by the member firms. Furthermore, many transactions are executed in CFTC-regulated markets and unregulated over-the-counter markets to avoid the shortfalls in the current SEC margin rules. We believe it is in all stakeholders' interest to move ahead with a risk-based margining system.

Our Concerns about Specific Provisions of the Margin Rule Proposals Although we believe the proposed rules are a step in the right direction, we still have some concerns and comments about our understanding of the rules as noted below:

1. It is our understanding that the proposed rules would require that customers place $5 million in a brokerage account. As noted above, most of our clients are regulated Retirement Plans that are required to keep their assets in custodian banks. We do not believe that one of our clients who wants to invest in a defined risk trade with a debit of $1 million should be required to put $5 million in a brokerage account. The CFTC-regulated exchanges have had a SPAN margining system with no $5 million requirement.
2. Although several of our Retirement Plan clients have assets in the tens of billions of dollars, these rules would effectively prohibit them from using our defined risk strategies because they are required by law to keep their assets at custodian banks.
3. If there is going to be a requirement to put $5 million in a brokerage account, there should be an exception from this requirement for companies and regulated Retirement Funds with more than $50 million in assets.

Conclusion. I would be happy to speak with an SEC representative regarding our comments and concerns.

Sincerely,

William O. Melvin Jr. , President, Acorn Derivatives Management

Cc: William J. Brodsky and Matt Moran – CBOE