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Ms. Nancy Morris
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: SEC File No. SR-OCC-2006-01

Dear Secretary Morris:

We would like to thank the SEC commission and the OCC for allowing us the opportunity to comment on the proposed changes to the current 10% option adjustment rule. We would also like to thank the OCC for the opportunity to speak to them about the issues in person.

Nonetheless, we still express significant concerns with the proposed change to the 10% dividend rule because it will hurt both the customer and the marketplace.

Many of the issues have already been mentioned in previous letters to the SEC:

- Lack of clarity and guidance as to what determines a special dividend or a consistent dividend policy. Per my two conversations with the OCC, two possible and very different policies were put forward: the determination would be made by the date of the dividend, or alternatively by the company's own guidance on disclosure of the dividend. Some clarification would be required before the rule could be implemented.
- Lack of guidance on foreign dividends that are declared, both those that may be "special" and those that are declared after the companies Ex-Date. (For example, Korean companies as a matter of policy tend to declare the dividend and wait a period of time before telling shareholders the amount they would receive.) Would I require an accurate translation of the foreign press release to determine whether a foreign company's dividend is special? Under the policy, would options be re-adjusted (even those that have expired) in the event of a surprise announcement?
- Temporary Dividend Suspensions also affect the value of options. Are option positions going to be adjusted for the temporary suspension of a dividend? Should not all changes in expected cash flow deserve an adjustment per the new philosophy?
- The Option market remains one of the few public forums for participants to hedge and control dividend risk. Although this issue has decreased in importance, its

popularity as a risk control tool could easily be re-ignited under different tax laws and rates. In Europe, it is one of the most popular reasons for using options.

However, it is important that the committee recognize that there are inherent costs to the customer associated with the change in the policy.

Option Illiquidity

It is clear to all parties that when an option is going to be adjusted for a special dividend, that contract will no longer be the benchmark for that security. Experience has shown that the resulting illiquidity for the customer increases in much wider spreads and costs. (Spreads will move from .10 wide to at least .25 wide.)

Secondly, since the open interest for the option will not disappear (no reason to exercise), the actual outstanding contracts for customers on the illiquid line may be dramatically increase.

Furthermore, customer errors in the now illiquid securities will increase dramatically. Under the new regime of electronic trading these errors are typically borne by the customer. The cost of the error is going to be the newly widened spread. Although this may be resolved by the new symbology proposed by the OCC, it would be prudent to wait for the implementation before significantly changing the rules.

Needless to say with the current capacity issues associated with the dramatic increase in quoting, it is easy to envision a scenario where there are no quotes being updated for a particular illiquid series.

Cost to Buy-Write Strategy

It has also been proposed that the adjustment for the special dividend is going to be beneficial for the customer, as they tend to be long calls. However, there is a very important section of the retail market, (the buy-write) that actually benefits from the current regulations. They need the benefit of the change in the option premium to offset the increased risk of the more leveraged (because of the decrease of cash in the underlying company) stock.

These are significant costs to the retail customer that have not been acknowledged by the OCC.

Per our discussion with the OCC, it was indicated that many of policies and precedents established under the old policy will be re-evaluated. Although we believe that precedent should be carefully considered, there are appropriate circumstances to revisit it. However, the OCC needs to declare its policy regarding numerous situations in advance of approval of the rule. One of the great aspects of the American markets is its ability to quickly adjust to changes in expectations and maintain deep and liquid markets. The policy and the lack of clarity mentioned above could significantly impact the ability of market makers to maintain liquidity in the event of special dividends.

For the retail market, the cost of increased spreads, increased errors, and failure to compensate for the increased leverage for the important buy-write market justify rejection of this proposal in its current form. Professionals will be equally troubled by the current lack of clarity in the implementation of the policy.

Kind Regards,

Erik Hartog