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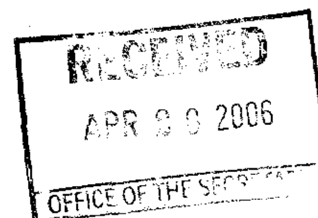


Re: File Number SR-OCC-2006-01

Ladies and Gentlemen:

We are writing with respect to OCC's proposed rule change relating to adjustment policies for options (*File No. SR-OCC-2006-01*). We recognize that our comment on the proposed OCC rule change is being submitted after the deadline for comments and respectfully request that our comments be considered nevertheless.

Alopex Capital Management, LLC (ACM), an investment adviser registered with the Commission (CRD 137377), is the advisor to three separate funds with total assets under management of $225 million USD. During the last twelve months, funds advised by ACM have invested, in the aggregate, in options representing more than 250 million shares. Principals of ACM have combined twenty years experience trading options at major securities firms and as market makers on the various exchange floors. As such, we believe we are uniquely positioned to comment as a current options exchange customer with substantial experience as a direct and indirect liquidity provider to the options markets. We have strong reservations regarding both the implementation of the proposed rule change and the effect of the change on the overall liquidity of the options markets.

The proposed rule change would provide for:

"…the adjustment of outstanding options for special dividends (i.e. cash distributions not declared pursuant to a policy or practice of paying such distributions on a quarterly or other regular basis)….adding a $12.50 per contract threshold amount for cash dividends and distributions to trigger application of OCC's adjustment rules."

Our first concern would be that the word "special" is not particularly well defined. In the case of Microsoft's extraordinary dividend declared in July 2004, the issue was fairly well settled as the amount of $3 was well in excess of the company's ordinary dividend of $.03 and clearly a one time event. However, other examples are much less

certain. Nucor Corporation has declared "special" dividends of between $.25 and $.50 every quarter for five consecutive quarters. Those dividends, in our view, have ceased being "special" as they occur with such regularity as to be viewed as quarterly dividends. In this case, it would be equally easy to argue that the dividends could qualify for treatment as special or as regular dividends. This situation is not unique to Nucor, as many other boards choose to designate a regular quarterly as a special quarterly dividend to ensure maximum flexibility in the issuer's capital structure. Further, a number of companies pay dividends annually which exhibit such fluctuations as to appear irregular or special (McDonald's Corporation as an example) creating further uncertainty for investors. As such, we worry that there could be even more arbitrary application of the new rules than the previous 10% threshold, which provided at least a high enough threshold for us (and other market participants) to avoid contemplating the matter on special $.125 dividends.

Assuming that adjustments are made for every "special" dividend in excess of $.125 per share (or $12.5 per contract), we believe that the liquidity will disappear for adjusted options. European options have been adjusted for special dividends for some time and have, in our experience, greatly suffered for it. Should a "special" dividend in Nucor be declared, the option strikes would be adjusted leaving all new strikes in the market with very odd figures (i.e. the $80 strike may become $79.75). Investors are naturally drawn to round increments in strike prices. As such, as new round increment options are listed, the $79.75 strike option no longer trades, market makers ignore it, and liquidity for the odd strike option diminishes substantially. In Europe, options on Enel SPA have generated such odd strikes as €6.81, and €7.01 which virtually never trade while the €7.00 strike trades hundreds of thousands of shares per day. The proposed rule change, thus, would incredibly disadvantage any existing holder of options whose position moves from liquid and "on the run" to incredibly illiquid. In fact, in the case of Enel, market makers have ceased providing screen markets for odd strike options, leaving investors in those options with effectively zero liquidity.

Longer dated options (LEAPs) in the U.S. have increased in popularity and liquidity; however, imagine the poor investor with Nucor options that have gone through four adjustments and have such an apparently random strike that neither option market makers nor investors contemplate trading it. Further, already taxed price dissemination services and pricing models could be overwhelmed by this incredible proliferation of new strikes. By setting the threshold so low, the OCC effectively risks disenfranchising all existing option holders by removing liquidity from the market simply to accommodate a very small dividend amount. The higher 10% threshold has always avoided that by only creating odd strikes when the dividend is so extraordinarily disproportionate as to require adjustment.

Our second concern is that, as investors in options, we have very large existing positions that may be negatively affected by the proposed rule change. While the change is suggested to be applied going forward to current and future listed options, we believe that this is inherently unfair to those with existing positions. In many cases, our investment choices were driven by the 10% threshold. As such, should the rule change

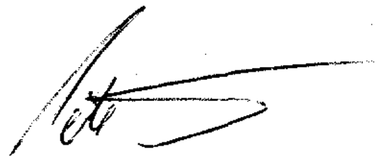
be implemented, our investors could be adversely affected as a number of our existing positions would dramatically change in value as anticipated dividends in a number of stocks would effectively be reclassified as strike adjustments rather than dividends. From our perspective, this change would effect a fundamental adjustment of contract terms not unlike changing the expiration date or changing the underlying from Intel to Microsoft. Option investors have the right to expect that the terms under which they invest in options not be subject to such dramatic change. Applying this change to existing options would seem contrary to the essence of contract law. We certainly respect the OCC's right to regulate the markets; however, even an impartial third party should not have the right to enforce new provisions on contracts duly entered into between parties under the 10% threshold.

The objective of the change was to avoid uncertainty as, according to the OCC, "special dividends cannot be anticipated in advance and cannot be integrated into pricing models." While that may be true for such dramatic dividends as the Microsoft 10% dividend, in general, we believe that option investors understand that companies pay special dividends from time to time as cash flows change or companies restructure. As GM's prospects declined over the last two years, investors priced in a dramatic cut in the future dividends expected from the firm. Nucor's special dividends of less than 50 basis points per quarter were also anticipated by investors. It would seem odd to implement such a change to Nucor options and not to GM when one year ago the GM dividend cut arguably was less anticipated than the Nucor quarterly "special" dividends.

In summary, we believe the change is not in the interest of investors in options. The collapse of liquidity due to strike proliferation, the use of the word special to define the basis for adjustment, and the dramatic impact on existing option positions all suggest further refinement of the change is needed. At a minimum, we believe no existing options should be included in the change as its effect on option values will be dramatic. With open interest near $1 trillion, it is no small issue to make such a fundamental change to the contract terms.

Thank you for you consideration of these comments.

Very truly yours,



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