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January 27, 2006

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

RE: File No. SR-PCX-2005-132

Dear Mr. Katz:

Casey Securities, LLC ("Casey Securities")[1] appreciates the opportunity to comment on the proposed rule change by the Pacific Exchange, Inc. (the "PCX") relating to obligations of a Lead Market Maker ("LMM"). The PCX is proposing to delete sub-paragraph 15 of PCX Rule 6.82(c) and amend Commentary .02 to PCX Rule 6.82, which addresses PCX Rule 6.82(c)(15). Under PCX Rule 6.82(c)(15), when a public customer order is not automatically executed on the PCX due to a better bid or ask price being displayed at a competing exchange, an LMM is obligated to either execute the public customer order at a price that matches the best price displayed or route the order, via the intermarket linkage plan (the "Linkage" or the "Plan") for execution to any other exchange(s) displaying the best price. Casey Securities believes that sub-paragraph 15 should continue to be an obligation of LMMs and that removing this paragraph is detrimental to public customers and incongruous with the Linkage as approved by the Securities Exchange Commission ("Commission" or "SEC"). Casey Securities strongly urges the SEC to reconsider its decision of making the rule proposal effective and operative upon filing and reject the rule proposal in its entirety.

The following is a discussion of the concerns of Casey Securities regarding the PCX proposal.

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[1] Casey Securities is one of the most active independent order execution firms on the Pacific Exchange providing quality executions for both institutional and public customer orders. Founded in 1976, Casey Securities, on an average day, accounts for approximately 33% of the daily volume of the Pacific Exchange.

I. Deleting Sub-Paragraph 15 of PCX Rule 6.82(c) implies that Linkage is an optional practice

All options exchanges have agreed to subscribe to the Plan and participate in Linkage to ensure public customer orders priced at the National Best Bid or Offer ("NBBO") receive that price.[2] The Commission encouraged options market participants to participate in a Commission-approved intermarket linkage plan, in part, to provide an exception to the Trade-Through Disclosure Rule. While the Commission was reluctant to mandate participation in a single linkage system, it noted that all five option exchanges were participants in the Linkage.[3] While a specific linkage plan may not be mandated by the Commission, it would not be extraordinary to expect that once an exchange is an approved member of a linkage plan, such as the PCX is with the Linkage, that its participants utilize the Linkage and abide by its rules. In fact, some options exchanges have emphasized to its members that Linkage is not an optional practice and that the Linkage is an SEC mandated program.[4]

Deleting sub-paragraph 15 of Rule 6.82(c) attempts to abrogate LMM obligations associated with the Linkage, and as a result, there will continue to be negative regulatory and/or business implications on PCX floor broker firms such as Casey Securities. Instead of Linkage being a required element of customer order handling for the LMMs, the proposal makes Linkage an optional practice for them.

Had the proposal by the PCX merely deleted sub-paragraph 15 of Rule 6.82(c), our concern would be less as we believe that LMMs are obligated to abide by the Linkage even absent a separate delineation of Linkage requirements under LMM obligation rules. However, the proposal adds language and offers direction that greatly concerns us in our capacity as agents of the public customer. The proposal sets forth "…*in the event that an LMM does not execute the order at the better price displayed on another exchange, the LMM would not be required to send the order to the competing exchange via Linkage. Public customer orders that are not executed on the PCX could still be rejected to the initiating brokerage firm for rerouting to a competing exchange.*" This language suggests that LMMs are relinquished of their obligations under the Plan and instead, the proposal attempts to obligate OTP firms and non-LMM floor brokers for Linkage-type responsibilities, as described in more detail below. The proposal is clearly inconsistent with the Linkage pursuant to the requirements of the Commission and PCX Rules.

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2 *See* PCX Rules 6.92 through 6.99, Chicago Board Options Exchange ("CBOE") Rules 6.80 through 6.85, American Stock Exchange ("AMEX') Rules 940 through 945, Philadelphia Exchange ("PHLX") Rules 1084 through 1087, International Securities Exchange ("ISE") Rules 1900 through 1905, and Boston Options Exchange ("BOX") Chapter XII.

3 *See* Securities Exchange Act Release No. 43086 (July 28, 2000), 65 FR 48023 (August 4, 2000).

4 *See* CBOE Regulatory Circular RG04-79 (June 30, 2004).

Approving this filing not only discredits PCX rules but results in regulatory arbitrage by creating different regulatory Linkage requirements for competing exchanges.

II. Deleting Sub-Paragraph 15 of PCX Rule 6.82(c) disadvantages public customer orders

Deleting sub-paragraph 15 will increase order handling and processing times, resulting in greater opportunity for missed prices and the possibility that an order for a public customer will be disadvantaged.

In the current PCX environment, if a retail public customer order is sent to the PCX automated execution service but is not executed, it defaults from the PCX's system to our OTP firm booth on the trading floor of the PCX or to one of our floor broker's hand held terminals ("FBHHT"). After receiving the order in his FBHHT, the floor broker will proceed immediately to the appropriate trading crowd, announce the order in open outcry while reviewing the markets available at competing exchanges and display the order if it does not lock or cross a market. If a better market is available at a competing exchange, the floor broker will encourage the LMM to execute the order at the better price or "link" the order. Typically, the LMM will review competing markets, determine if market quotations are firm, and will either accommodate the customer by executing the order at the best market price, or execute the order and simultaneously send an order to the competing exchange in an attempt to procure that better away market. While attempting to link an order may not be an automated process in every instance, the alternative outlined in the proposal adds an additional layer of intervention and therefore, additional time for order processing and execution.

According to the proposal, an LMM is not required to "link" the order or execute the order at the better away market and instead, can require the order to be rejected. In this instance, if the LMM gives rejection instructions, the order will be rejected to the non-LMM floor broker's booth. The non-LMM floor broker and his firm remain responsible for the order, since it came from the PCX execution system. The booth will reject the order manually, via the telephone to the control room in New York where the originating firm routed the order. After contacted by the control room, the originating firm will re-route the order to what hopefully is still, after this extended processing and handling period, the better market at the competing exchange.

As described, the mechanics of rejecting a public customer order because an LMM chooses to neither link an order nor to provide the customer with a superior execution price can greatly disadvantage the public customer who may not understand the nuances of the Linkage, routing procedures and trading floor functionality, or lack of functionality. Furthermore, the non-LMM floor broker is also disadvantaged because he is placed in the difficult position of rejecting orders, which can result in significant loss of additional order flow.

The proposal eliminates any LMM risk in connection with Linkage order execution and places it on the public customer, the customer's broker, and the non-LMM floor broker/order execution firm(s). This exceptional bias in favor of the LMM is yet another example of the inequities that endure among market participants at the PCX. We urge the Commission to consider the negative impact this proposal has on the public customer orders and other market participants.

III. Delays in technology development result in compliance issues with the Linkage and other PCX Rules

Casey Securities agrees that the lack of certain technology developments is impeding the operational efficiency of PCX Linkage, as well as other PCX operations and services. Yet, OTP Holders and OTP Firms are routinely required to comply with PCX rules despite inadequacies or lack of functionality in current PCX systems. The proposal does not clarify why, in this instance, it is permissible for certain OTP Holders to "opt out" of an SEC required program while other OTP Holders and Firms are held to regulatory standards regardless of imperfect trading and trade processing systems.

Non-LMM floor brokers, such as those employed by Casey Securities, do not have immediate access to competing market places. As suggested by the rule proposal, an LMM would not be required to execute a public customer order at the better price displayed on another exchange or to send the order through the Linkage. Instead, the order will typically be sent to the non-LMM floor broker, exposing the non-LMM floor broker to numerous potential regulatory issues, such as limit order display and other order handling issues.

Many of the orders subject to linkage are represented by non-LMM floor brokers, who are employees of order execution firm such as Casey Securities. However, it is the LMM who has better and more immediate access to competing markets. Once the LMM has relinquished his order handling responsibilities in connection with Linkage, the non-LMM floor broker still has order handling responsibilities associated with the order and to act as a conduit for Linkage purposes. The non-LMM floor broker may, at a minimum violate the 30-second display rule by not executing, displaying or linking the order within 30 seconds[5] and at worse, be non-compliant with best execution requirements for not

[5] Pursuant to PCX RBO-05-19, the order must be linked, displayed or executed by the floor broker within 30 seconds. However, Casey Securities disagrees with the PCX's application of this rule to non-LMM floor brokers. Competing exchanges as well as the SEC apply similar display rules only to "specialist-type" traders/market makers.

providing the customer with the best price available in the marketplace at the time the trade was entered onto the trading floor. When these regulatory issues were brought to the attention of the PCX, the PCX suggested the alternative; reject the order. This PCX alternative, however, leaves non-LMM floor brokers with the inability to explain the appearance of possible due diligence violations as there does not appear to be a document produced for OTP firms that describes the systematization of order events occurring between the time the order is represented in the trading crowd and when the order is rejected and rerouted back to the originating firm, including the events occurring at the booth.[6] The non-LMM floor broker is exposed because of the limited functionality of PCX technology not only to collect and disseminate this data but also to provide an efficient linkage mechanism for OTP Holders and Firms. To illustrate, if a floor broker requests that an LMM link or execute a public customer order, the floor broker may appear to have violated his 30 second requirement to display, execute or link orders pursuant to PCX Rule 6.46 because of the time the LMM needed to review competing markets, to determine if those quotes were firm and vocalize his refusal to trade or link.

Respectfully, Casey Securities is requesting that the Commission grant its floor brokers relief from PCX display and order handling rules for any public customer order that could be subject to Linkage for the same reason it is granting relief to PCX LMMs from the Linkage; lack of system functionality.

In light of our concerns noted above, we urge the Commission to either commence proceedings to disapprove the proposal or offer additional relief to those market participants who remain subject to the regulatory by-products of the proposal.

We thank the Commission for the opportunity to comment on the proposal. If you have any questions concerning these comments or would like to discuss these comments further, please feel free to contact me at 415-544-9100.

Sincerely,

George Gasparini
President
Casey Securities, L.L.C.

[6] As discussed previously, non-LMM floor brokers do not have immediate access to competing markets. Thus, there is no ability to link with the traditional "back-door" access.