



September 28, 2006

Ms. Nancy Morris  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1090

**Re: Release No. 34-54154; File No. S7-12-06**

Dear Ms. Morris:

CTC LLC ("CTC" or the "Firm") appreciates the opportunity to comment on File No. S7-12-06 - Amendments to Regulation SHO. In this release, the U.S. Securities and Exchange Commission ("SEC") is proposing amendments to Regulation SHO, the SEC's regulation applicable to short sales including an amendment that would narrow the options market maker exception in Regulation SHO. The Firm generally concurs with the comment letter submitted jointly by the Options Exchanges and believes that the narrowing of the options market maker exception would significantly harm the ability of options market makers to provide liquidity. The Firm respectfully submits the following remarks.

Although naked short selling abuses certainly exist, the benefits that short selling contribute to equity capital markets should not be ignored. There is a host of academic research spanning the last 25 years that generally supports short selling as an important contribution to stock market efficiency, ultimately reducing the risk of manipulation and increasing liquidity. Commentary on these proposed rule amendments should not be focused on further impeding the ability to sell short, but addressing realistic solutions to settlement disruptions that will not impede legitimate trading activity.

CTC is a registered broker dealer with the SEC and is presently a member of the American Stock Exchange, Boston Options Exchange, Chicago Board Options Exchange, International Securities Exchange and the Philadelphia Stock Exchange. The Firm operates solely in a proprietary capacity as an options market maker and/or Designated Primary Market Maker as well as an options specialist on each of these exchanges. As a major liquidity provider of SEC exchange listed index options, including many ETF options, the Firm is required to make deep and liquid two sided markets in its allocated options. Much of the volume is from institutions seeking to reduce their portfolio risk or otherwise manage its P&L profile. In order for market makers to provide the risk transfer function of options, the liquidity providers have to be able to hedge their risk at the time of the transaction, not just to contain their risk, but also to incorporate the price of the hedge into the option price quoted to the ultimate customer. Any uncertainty in the ability to obtain the hedge can lead to aberrations and unnecessary volatility in option pricing.

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CTC fully supports the SEC's effort to eliminate abusive short sale practices. However, CTC is unaware of any statistics that would establish that fails to deliver attributable to legitimate options market making activity are correlated to abusive short selling practices. All of the Firm's short stock sales are hedging options. The Firm manages the risk of its entire inventory as a consolidated, US equity index portfolio. This portfolio risk based assessment has been recognized in the industry, including the SEC, as is evidenced that most of the US equity based derivatives can be consolidated and haircut together on a combined basis. The current language in Rule 203(b)(3)(ii) specifically recognizes the need for portfolio risk based assessment when referring to "options positions" within the context of the rule. The risk neutralizing facet of a hedge generally does not require it being soldered to specific option positions. While this seems inherently obvious to options market makers, we would like to make sure this wide spread industry practice is recognized in any potential revisions to Regulation SHO.

Per the Commission's own Release, the prior amendments to short selling regulations were an outstanding success. What is not clear in the current Proposed Amendments is any research that would evidence the anticipated levels of additional improvements in eliminating fails to deliver. If the Commission is truly serious about eroding the market maker exemptions, the possible detrimental effects on options markets in threshold securities should first be quantified to guard against an unanticipated, significant peril to another facet of the capital markets.

Thank you for the opportunity to comment on the proposed amendments to Regulation SHO. The Firm would welcome the opportunity to discuss any of the issues raised in this letter.

Sincerely,

CTC LLC



Margaret Wiermanski  
Chief Operations Officer



Matthew Abraham  
Compliance Officer

Cc: Elizabeth King