

**American Stock Exchange
Boston Options Exchange
Chicago Board Options Exchange
International Securities Exchange
NYSE/Arca
The Options Clearing Corporation
Philadelphia Stock Exchange**

April 30, 2007

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

Re: File No. S7-12-06

Dear Ms. Morris:

The American Stock Exchange, the Boston Options Exchange, the Chicago Board Options Exchange, the International Securities Exchange, the Options Clearing Corporation, NYSE/Arca, and the Philadelphia Stock Exchange (“the Options Exchanges”) appreciate the opportunity to comment on new information recently submitted by the National Association of Securities Dealers, Inc. in File No. S7-12-06, Amendments to Regulation SHO.¹ In July 2006, the Securities and Exchange Commission proposed amendments to Regulation SHO, the Commission’s regulation applicable to short sales. Among other things, the proposed amendments would narrow the options market maker exception in Regulation SHO. We filed a comment letter on these proposed amendments to Regulation SHO on September 22, 2006. Our comment letter stated that, as proposed, the narrowing of the options market maker exception would significantly harm the ability of options market makers to provide liquidity and narrow quote widths for options when the underlying security is a “threshold security”² without addressing

¹ Securities Exchange Act, Release No.55520 (March 26, 2007), 72 Fed. Reg. 15079 (March 30, 2007) (the “Re-opening Release”); Comments of the National Association of Securities Dealers, Inc. (March 12, 2007).

² A threshold security is defined in Regulation SHO as any equity security of an issuer that is registered pursuant to section 12 of the Exchange Act or for which the issuer is required to file reports pursuant to

the root cause of the abusive naked short selling. We contended that the result would be unnecessary harm to investors and the marketplace.

The Commission has now re-opened the comment period to permit an opportunity to respond to a comment letter filed by NASD. The NASD comment letter summarizes an analysis of threshold securities that appeared on NASDAQ's Threshold List for 40 days or longer between January 10 and August 11, 2005. There were 148 unique securities that met this standard. In our view, the NASD analysis indicates that the options market maker exception is only a minor cause of extended fails to deliver of these threshold securities. Only 5 of these unique issues appear to have been on the list as the result of reliance on the bona fide market maker exception of SEC Rule 203(b)(3)(ii). Another 22 unique issues appear to have been on the list as a result of reliance on either the bona fide market maker exception or the grandfather provision of SEC Rule 203(b)(3)(i) or both. In other words, fewer than 3% of the unique securities on the NASDAQ Threshold List appear to be on the list as a result of reliance on the options market maker exception alone, and, fewer than 20% had any connection at all to the market maker exception in Regulation SHO.

The NASD analysis supports our contention that the benefits of narrowing of the options market maker exception would be far outweighed by the costs of doing so. The NASD analysis shows that only a very small number of persistent fails are the result of reliance on the options market maker exception. This small number of persistent fails is not indicative of abusive activity by options market makers but, rather, is the result of the need to hedge options positions acquired during the course of market making. As we explained in our September comment letter, the cost of reducing this small number of persistent fails is likely to be more limited or non-existent options market maker liquidity in all current and future threshold securities. This is the case because options market makers are likely to be very reluctant to make markets on options on threshold securities if they cannot be certain that they will be able to establish and maintain effective hedges. It makes little sense to risk this result in order to eliminate extended fails in a small number of threshold securities.

section 15(d) of the Exchange Act for which there is an aggregate fail to deliver position for five consecutive settlement days at a registered clearing agency of 10,000 shares or more, and that is equal to at least 0.5% of the issue's total shares outstanding; and is included on a list disseminated to its members by a self-regulatory organization. 17 CFR 242.203(c)(6).

The Options Exchanges continue to support the current options market maker exception, and urge the Commission to maintain it without any modification. We strongly believe that any benefit of the proposed amendment would be very small compared to the costs imposed on options market making and the resultant harm to options customers and the options markets.

Thank you again for the opportunity to comment on the new information provided by NASD on this important issue. If you would like to discuss any of the issues raised in this letter, please contact Susan Milligan at The Options Clearing Corporation at (202) 756-1972.

Sincerely,

The American Stock Exchange
Boston Options Exchange
Chicago Board Options Exchange
International Securities Exchange
NYSE/Arca
The Options Clearing Corporation
Philadelphia Stock Exchange

cc: Erik Sirri
James Brigagliano