Sept 19, 2006

Nancy Morris
United States Securities and Exchange Commission
Washington, D.C.

Re: File number S7-12-06

Dear Ms. Morris,

I appreciate the opportunity to comment today. I wish to address my concerns over the considered rule change eliminating the Option Market Maker Exception and the Grandfather provision. As a Market Maker on the floor of the Philadelphia Stock Exchange, I believe that the revocation of the Exception and elimination of the Grandfather provision would cause irreparable harm to the liquidity of the Option Markets.

Eliminating the Grandfather provision would limit our ability to make liquid markets in illiquid securities, and discourage many of us from making markets in these securities since the risk associated in maintaining the hedges to these option positions would be too great. The forced buy-ins and resulting short squeeze will result in economic harm to the Market Makers and the public who may be legitimately trying to purchase the security. The Grandfather provision preserves the integrity of legitimate hedging practices and prevents manipulative short squeezes. I have experienced the fall out of from pump and dump schemes, and the elimination of the Exemption and the Grandfather provision may encourage these types of practices to thrive again.

Abusive shorts do undermine the integrity of the marketplace and undermine investor confidence, but by restricting the ability of Market Makers to provide liquidity by eliminating these provisions may create unintended consequences. Structured products may become flawed hedging instruments. The liquidity that we enjoy in our domestic capital markets may instead flow overseas where rules are not as overly restrictive. Many of these stocks are newly formed issues that may become the Intel's or Microsoft's of the future, and thus may be listed overseas where more liquidity exists for these securities.

If General Motors can be a fail stock as witnessed at the beginning of 2006, then no stock in the marketplace is immune from becoming a fail stock.

I suggest other tools to differentiate legitimate hedging from naked short selling. For instance, use a source fail ticket to target the originator of the trade to see if it is a legitimate hedging strategy. It would be more productive to determine the

original route source, than to restrict Market Maker activity. Similar to risk based margin tools, create rules to ascertain appropriate stock hedges for legitimate option positions, and therefore maintain the Market Maker exception and allow some Market Maker fails to provide liquidity to the marketplace. Since Market Maker positions can be spread out over several maturities, dating as far as 2 years, it would best serve the public to allow some failed shorts for a longer period than 35 days to maintain legitimate hedges against multiple option maturities. Using a risk based tool, legitimate hedges in multiple maturities could be easily ascertained.

I suggest suspending Rule 203 when certain definitive liquidity events are to occur. For instance, a lockup period of restricted securities is set to expire on a definitive date, a stock dividend is to occur, or a merger of securities creating more stock.

Thank you for the opportunity to comment on the proposed rule change narrowing the Market Maker exception. I am available to discuss this further, if you wish to contact me at 215-405-7095.

Sincerely Yours,

Timothy D. Lobach
Keystone Trading Partners