SIFMA
Securities Industry and
Financial Markets Association

September 25, 2007

Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-7553

Re: Notice of National Association of Securities Dealers, Inc. Filing of Proposed Change To Rule 2860 to Expand the Class of Entities Permitted to use the Delta Hedging Exemption from Equity Option Position Limits [Release No. 34-56207; File No. SR-NASD-2007-044)]

Dear Ms. Morris:

The Securities Industry and Financial Markets Association (the "SIFMA")[1] Derivative Products Committee (the "Committee")[2] is submitting this letter in response to the Securities and Exchange Commission (the "Commission" or "SEC") request for comment on the captioned Proposed Rule Change ("Proposed Rule Change") filed by the National Association of Securities Dealers, Inc. ("NASD") (n/k/a Financial Industry Regulatory Authority, Inc.).[3]

The Committee strongly endorses the Proposed Rule Change and welcomes the opportunity to submit comments on the proposal.

The Proposed Rule Change is responsive to recent developments in the financial markets, including, specifically, the widespread reliance by professional intermediaries on 'delta hedging' as a preferred means by which to manage the market risk associated with non-linear

1 SIFMA brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Market Association, is based in Hong Kong. More information about SIFMA is available on its website at *www.sifma.org*.

2 Member firms represented on the Committee include Bank of America Securities, Bear Stearns, Citigroup Global Markets, Credit Suisse, Deutsche Bank Securities, Goldman Sachs & Co., JP Morgan Chase Securities, Lehman Brothers, Merrill Lynch, Morgan Stanley, Société Générale.

3 72 Fed. Reg. 45284 (August 13, 2007).

options positions and the corresponding use of proprietary models as a tool in evaluating capital adequacy in relation to the market risks associated with trading book assets generally and derivatives positions in particular.

The Proposed Rule Change is also responsive to recent supervisory developments affecting large, internationally active financial institutions and, in particular, the increasing harmonization of supervisory approaches to capital adequacy in relation to market risk. In this regard, the Proposed Rule Change is consistent with the increasing supervisory recognition of proprietary pricing and statistical models as important tools for monitoring and managing market exposures and evaluating capital adequacy. The Proposed Rule Change would also leverage, in an efficient manner, existing supervisory frameworks for the use of such models and oversight of such use.

The Committee believes that the Proposed Rule Change appropriately balances the need to accommodate developments in the derivatives markets and the need for an effective framework to prevent potential disruptions in the nation's option markets through the accumulation of excessive speculative positions. The delta hedging provisions of existing NASD Rule 2860 applicable to OTC derivatives dealers have generally demonstrated the efficacy of the delta neutral hedge exemption approach incorporated in the Proposed Rule Change. The proposed expansion of the category of supervised firms eligible for the exemption under the Proposed Rule Change appears to the Committee to be appropriately tailored to capture firms whose use of models is subject to expert supervisory oversight.

Many similar opportunities exist in which regulatory and operational efficiencies can simultaneously be achieved through the prudent use and oversight of proprietary models and we strongly endorse the approach adopted in the Proposed Rule Change as a constructive next step in this direction.

*　　　*　　　*

We thank the Commission for the opportunity to share the Committee's comments on the Proposed Rule Change. If the Commission has any questions or would like further information regarding the foregoing comments, please feel free to contact the undersigned (212-902-5457), Gerard J. Quinn, Staff Adviser to the Committee, at 212-618-0507 or Edward J. Rosen of Cleary Gottlieb Steen & Hamilton LLP, counsel to the Committee, at 212-225-2820.

Very truly yours,

/s/ John R. Vitha

John R.Vitha, Esq.
Chairman
Derivative Products Committee
Securities Industry and Financial
Markets Association