September 13, 2006

**VIA EMAIL**
Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303

**RE: NYSE Proposed Changes to NYSE Rule 431 (SR-NYSE-2005-03)**

Dear Ms. Morris:

Citigroup Global Markets Inc. ("CGMI") is pleased to respond to the New York Stock Exchange's ("NYSE") proposed changes to its Rule 431 (the "Proposal").[1] Among other proposed rule changes, the Proposal would allow firms who have qualified for alternative "consolidated supervised entity" (CSE) net capital treatment under Rule 15c3-1 of the Exchange Act of 1934 to be exempt from Rule 431 for exposures arising from those OTC derivative transactions ("Qualifying Derivative Transactions") where the firm uses CSE treatment to calculate credit risk for net capital purposes. Such exemption would be subject to the CSE firm maintaining written risk analysis methodology for assessing the amount of credit that may be extended with respect to OTC derivative transactions, and having such methodology subject to periodic review by an independent unit within the firm. The Proposal follows other recent proposals by the NYSE to amend Rule 431 to allow portfolio margining subject to certain conditions.[2] CGMI supports the Proposal and believes that it, along with other recent proposed amendments to Rule 431, represents a positive step towards providing firms that possess adequate risk controls an appropriate level of flexibility with regard to margin requirements.

CGMI believes that the flexibility provided to CSE firms under the Proposal is appropriate because it maintains the common goal of net capital and margin requirements: protecting the financial condition of broker-dealers.[3] Rule 431 as amended by the Proposal

[1] We note that the Proposal also amends NYSE Rule 325 and Rule 326. The scope of our response is limited to the NYSE's proposed amendments to its Rule 431.
[2] See SR-NYSE-2005-93, Release No. 34-53126, filed January 13, 2006 ("Track I" Portfolio Margin Proposal); SR-NYSE-2006-13, Release No. 34-53577, filed July 11, 2006 ("Track II" Portfolio Margin Proposal).
[3] While regulatory capital requirements seek to ensure a sufficient level of capital at a broker-dealer, particularly in order to ensure an orderly liquidation if necessary, margin requirements seek to restrict the amount of credit a broker-dealer may extend. This common purpose is reflected in several securities regulations. See, e.g. Exchange

would continue to meet this goal given that CSE firms are required to be well-capitalized and must have "comprehensive internal risk management procedures that address market, credit, liquidity, legal, and operational risk at the firm."[4] The controls required of a CSE firm are further bolstered by the additional risk controls required by the Proposal to maintain a written risk analysis methodology, subject to periodic review by an independent unit of the firm. The Proposal, along with CSE, also has the beneficial effect of providing further incentives for financial institutions to conduct derivatives activity through a regulated broker-dealer entity. We further believe the Proposal is in line with the goals of CSE and recent amendments by the NYSE to Rule 431 to make net capital and margin requirements more reflective of actual risk. The Proposal's increased risk sensitivity would result in a more sensible and efficient allocation of capital. Coupled with rigorous risk controls and appropriate regulatory oversight, CGMI believes that the Proposal would advance the goal of prudent and efficient risk management in the financial markets.

In light of the above, CGMI believes that exempting CSE firms from Rule 431 requirements for Qualifying Derivative Transactions is appropriate and in accordance with the goals of Rule 431. CGMI strongly supports the prompt implementation of the Proposal.

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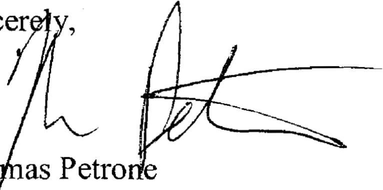
Act Rule 3a40-1 (designating both SRO margin rules and net capital rule 15c3-1, among others, as "financial responsibility rules"), Rule 15c3-1(c)(2)(xii) (net capital rule provision providing that a broker-dealer that fails to collect margin as required by applicable SRO rules must reduce its regulatory capital to the extent of such failure).

[4] Proposal, 71 FR 45088. Specifically, under CSE alternative net capital treatment, the SEC allows qualifying firms to use proprietary mathematical models to calculate regulatory capital under Rule 15c3-1. In order to qualify for CSE status, a broker-dealer must at all times have tentative net capital ("TNC") of $1 billion and net capital of not less than $500 million. In addition, if TNC falls below $5 billion, the broker-dealer must notify the SEC, which will determine if any action is necessary. Firms applying for CSE treatment must also disclose substantial information regarding both the broker-dealer applying for CSE treatment and (in the case of firms that are not otherwise subject to a scheme of consolidated supervision by another regulator) its holding company to the SEC and the broker-dealer's designated examining authority (DEA); this disclosure includes information on the financial condition and risk controls at both the broker-dealer and the holding company level. The firm is also required to submit to extensive examination of its various control functions by both the SEC and the firm's DEA, including the review and approval of the internal models to be utilized by the broker-dealer in calculating its net capital requirements.

We appreciate the opportunity to respond to the Proposal. Please contact Omer Oztan at 212.723.3391 if you have any questions.

Sincerely,



Thomas Petrone
Managing Director

CC:

Michael Macchiaroli, Associate Director, Division of Market Regulation, Securities and Exchange Commission
Grace Vogel, Executive Vice President, Member Firm Regulation, New York Stock Exchange