Mary Yeager
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March 16, 2007

Nancy M. Morris, Esq.
Secretary
U.S. Securities and Exchange Commission
Station Place
100 F Street, NE
Washington, DC 20549

Re: SR-NYSE-2006-37– Response to Comment Letter ("Response")

Dear Ms. Morris:

The New York Stock Exchange, LLC (the "Exchange" or "NYSE") is writing to respond to a letter[1] submitted in response to the Securities and Exchange Commission's (the "Commission") solicitation of comments in connection with SR-NYSE-2006-37 and Amendment Nos. 1 and 2 thereto (Rule 86 - NYSE Bonds℠).[2]

Background

The proposed rule change is intended to replace and expand current Exchange Rule 86 (Automated Bond System®) ("ABS") with a rule set that will govern quoting and trading on the Exchange's new automated bond system, named "NYSE Bonds." NYSE Bonds will accommodate and promote increased bond market activity and greater transparency of bond trading on the Exchange.

Users of NYSE Bonds will have the ability to buy and sell bonds through the NYSE Bonds automated execution facility. As is the case today with ABS, to obtain authorized access to NYSE Bonds, a member organization of the Exchange must enter into a NYSE Bonds "service" agreement with the Exchange thereby subscribing to NYSE Bonds. Non-members who wish to trade via NYSE Bonds must do so through a written "sponsorship" agreement with a subscribing member organization.

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1 See letter from Mary C.M. Kuan, Vice President and Assistant General Counsel, Securities Industry and Financial Market Association ("SIFMA") dated November 14, 2006 (the "SIFMA Letter").

2 See Securities Exchange Act Release No. 54615 (October 17, 2006), 71 FR 62338 (October 24, 2006)(SR-NYSE-2006-37).

Securities that currently trade on ABS will also trade on NYSE Bonds. Such securities include, but are not limited to, the following: corporate bonds (including convertible bonds), international bank bonds, foreign government bonds, U.S. government bonds, government agency bonds, municipal bonds and bond structured products.

In addition, bonds that are not registered under Section 12(b)[3] of the Securities Exchange Act of 1934 ("the Exchange Act")[4], but are issued by NYSE-listed companies and their wholly-owned subsidiaries, will trade on NYSE Bonds and any other successor bond-trading facility on the Exchange pursuant to exemptive relief granted by the Commission.[5]

As described in the proposed rule amendment, the Exchange will publish a real-time bond data feed to NYSE Bonds customers and subscribers that will reflect all orders in time sequence on the NYSE Bonds order "book." NYSE Bonds is an order-driven system and, therefore, the Exchange will not disseminate any information on a particular bond if there are no orders entered on the "book" for such bond. The data feed will also include the last sale price (with corresponding number of bonds), as executions occur. The data feed will be available for purchase by non-subscribing market participants, third party data vendors and other interested parties.

1. Comments Concerning the Cost and Dissemination of Market Data

The SIFMA Letter pays much attention to the charges that investors would have to pay to receive NYSE Bonds market data. However, the proposed rule change does not propose to amend any market data fee. If the Exchange determines to increase, reduce or establish a market data fee for NYSE Bonds, it will submit a proposed rule change to the Commission, giving its reasons for the changes. Under existing Commission procedures, SIFMA and anyone else would then have an opportunity to assess the Exchange's justification for the fee change and to make an educated comment as to whether or not it agrees with the Exchange's justification.

2. Comments Concerning Trade Reporting and Regulatory Jurisdiction

SIFMA raises various concerns regarding trade-reporting obligations in connection with executions on the NYSE Bonds platform. In particular, SIFMA is concerned that

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[3] 15 U.S.C. 781(b).

[4] 15 U.S.C. 78f(a).

[5] See Securities and Exchange Act Release No. 54766 (November 16, 2006) (S7-06-05). See also Securities and Exchange Act Release No. 54767 (November 16, 2006)(SR-NYSE-2004-69) (regarding the approval of Exchange Rules 1400 – 1401 - Trading of Debt Securities on the Automated Bond System).

amended Exchange Rule 86 will require redundant trade-reporting obligations for Users of NYSE Bonds.[6]

These concerns are without merit. On November 16, 2006, the Commission approved an amendment to NASD Rule 6230[7] that provides for a two (2) year pilot program exempting trade-reporting obligations for unlisted bonds that are traded on the NYSE and subject to NYSE trade-reporting requirements for public dissemination of trade data. Pursuant to that approval order, the Exchange and the NASD will enter into a data-sharing agreement governing the reporting of data related to bonds traded on the NYSE Bonds platform.[8] It will eliminate any inference that the NYSE Bonds User will have to report bond trades to both the Exchange and the NASD.

Rather, the NYSE will share its bond market data with the NASD pursuant to the terms of the data-sharing agreement. The NASD may use that information for regulatory purposes. However, the Exchange's sharing of NYSE Bonds market information does not mean that the NASD will have regulatory jurisdiction over the NYSE Bonds trading platform. NYSE Regulation currently regulates ABS, and will regulate NYSE Bonds. The NASD has been the informational receptacle for over-the-counter ("OTC") bond transactions since the inception of TRACE, and the intent of the data-sharing agreement and the approved rule is to provide each SRO with sufficient trading data to allow each SRO to regulate its own market adequately.

3. Comments Concerning Clearly Erroneous Execution Rules for NYSE Bonds

SIFMA asserts that the Clearly Erroneous Execution ("CEE") provision in the proposed rule is vague and may allow legitimate bond executions to be improperly "busted and adjusted." To the contrary, the Exchange believes that the proposed rule adequately provides for appropriate parameters governing this process. CEE determinations will be based on any and all relevant factors of an execution on a case-by-case basis. However, in response to a request by the Commission, the Exchange has included in the proposed

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6 See SIFMA Letter at pages 3 and 4.

7 See Securities Exchange Act. Release No. 54768 (November 16, 2006) (SR-NASD-2006-110).

8 Amended NASD Rule 6230 depends on NASD's receipt of certain information from NYSE for NYSE-traded bonds that are TRACE-eligible and NASD's ability to successfully integrate this trade information into a consolidated audit trail. Implementation of the new rule will commence on the later of the following two events: "1) approval of this rule by the Commission, or 2) execution by the NASD and the NYSE of a data sharing agreement addressing data related to transactions covered by this Rule, transactions in TRACE-eligible securities that are executed on a facility on NYSE in accordance with NYSE Rules 1400 and 1401 and reported to NYSE in accordance with NYSE's applicable trade reporting rules and disseminated publicly by NYSE."(See NASD Rule 6230, as amended).

rule factors that may be considered to determine if an execution is clearly erroneous. The factors that may be considered will also be posted on the Exchange's website.[9]

Additionally, we recognize that the unique characteristics of bond trading do not lend themselves to the numerical thresholds and "objective standards" of equities trading as suggested by SIFMA. However, the factors that will be used with respect to NYSE Bonds will allow for CEE determinations that take into consideration, among other things, the trading characteristics of a particular bond, including the bond rating, various yields for the bond and the liquidity of the bond. The objective criteria inherent in these factors will provide market participants with an understanding of how CEE determinations will be made. As such, the Exchange is confident that the application of the proposed CEE rule and the published CEE factors create an appropriate methodology to ensure that the official determinations of erroneous executions will be based on quantitative and qualitative criteria.

The proposed CEE provisions establish an appropriate methodology to help maintain the integrity of bond trading on the Exchange. Further, the Exchange believes that the proposed CEE provisions permit greater transparency into bond trading while not unnecessarily encumbering the NYSE's duty to efficiently operate its business. The ability of an exchange to have flexibility to adopt policies, practices and procedures in order to operate its business is recognized in Commission Rule 19b-4(c), which permits policies, practices and procedures that are reasonably and fairly implied by a rule to be made without the requirement of a rule filing. In other words, it is not necessary to include in the CEE rule text all policies, practices and procedures in order to protect customer orders and the overall integrity of the bond trading system effectively.

In addition to the CEE provisions and the published factors used to determine a clearly erroneous execution on NYSE Bonds, Users of NYSE Bonds will have an opportunity to appeal decisions rendered by the ruling official, i.e., the "Reviewer." The Exchange strongly believes that the appeal process provides the proper "checks and balances" to the ruling process and mitigates any potential for discrimination that could be based on "undesired orders or disfavored trading strategies or firms." The proposed CEE rule provides that the CEE Panel, which reviews preliminary decisions made by the Reviewer upon request of an aggrieved NYSE Bonds User, is comprised of the Chief Executive Officer of NYSE Regulation or a designee, and representatives from two (2) NYSE Bond Subscribers. The decision rendered by the CEE Panel is a final action by the Exchange. The Exchange believes that this process helps to ensure that, among other things, determinations are made in a fair and non-discriminatory manner.

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9 The NYSE Bonds CEE guidelines will be available on the NYSE website at www.nyse.com/bonds.

If you have any questions regarding the foregoing, please feel free to contact Nancy Reich, Senior Vice President, Office of the General Counsel, at (212) 656-2475, Deanna Logan, Director, Office of the General Counsel, at (212) 656-2389, and Jean Walsh, Principal Rule Counsel, Office of the General Counsel at (212) 656-4931.

Sincerely yours,