



June 1, 2007

VIA E-MAIL

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Proposed Amendments to NASD Rule 6540(c) (SR-NASD-2007-029)

Dear Ms. Morris:

Citigroup Global Markets Inc.¹ ("CGMI") is pleased to respond to the NASD's proposed amendments to its Rule 6540(c) (the "Proposal") on Access Fee Display Requirements for the OTC Bulletin Board ("OTCBB"). NASD Rule 6540(c) currently requires an alternative trading system ("ATS") or electronic communications network ("ECN") to reflect non-subscriber access or post-transaction fees in its posted quotation in the OTCBB. The Proposal would exclude from the access fee display requirements those access fees that are less than or equal to \$0.003 per share (or 0.3% of the published quotation price on a per-share basis in the case of published quotations below \$1.00 per share). CGMI makes markets in OTCBB securities and therefore has a substantial interest in the Proposal. CGMI respectfully opposes the Proposal for the following reasons.

The proposal would effectively eliminate NASD Rule 6540(c) altogether. While \$0.003 per share may appear *de minimus*, in the OTCBB market, given the typically low prices of such securities, the average execution size is much larger than in the broader markets, and therefore even access fees less than \$0.003 per share can quickly add up to create a substantial fee per trade. As a result, the Proposal would allow an ATS or ECN wide latitude to charge significant and unduly burdensome fees without disclosing such fees to market participants.

This effective elimination of NASD Rule 6540(c) will have several negative repercussions on the OTCBB market. First, it will create an unfair competitive advantage for an ATS or ECN by affording them a license to charge access fees, distorting the price/time auction by giving them parity with a market maker when in fact their quote is inferior. This will also force a broker-dealer, due to its best execution obligations, to necessarily transact with an inferior quote to satisfy customer orders in some instances. A market maker that enters quotes in the OTCBB is not permitted to charge access or post-transaction fees over and above its posted

¹ Citigroup Inc. is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate clients as well as governments and other institutions. Citigroup has some 200 million client accounts and does business in more than 100 countries. Citigroup's primary U.S. broker-dealer subsidiary, Citigroup Global Markets Inc., is registered as a broker-dealer in all 50 states, the District of Columbia, Puerto Rico, Taiwan and Guam, and is also a primary dealer in U.S. Treasury securities and a member of the principal United States futures exchanges. Additional information may be found at www.citigroup.com or www.citi.com.

quotation in the OTCBB. The result is that an ATS or ECN can charge fees of market makers that can be used to reduce fees charged of the customers of such an ATS or ECN, sending more order flow to such ATS or ECN than may be warranted by the quality of its service or competitive pricing.

Second, the effective elimination of NASD Rule 6540(c) will destabilize the current marketplace, increasing the frequency of locked and crossed markets² and opening the opportunity for “gaming” in the form of “rebate trading”. The Proposal increases the likelihood that market participants would take advantage of the market by placing quotes that would lock markets in securities where the trading increment is lower than the access fee. Additionally, the Proposal would incentivize market participants to trade just for rebates, or otherwise for reasons other than pure economic ones. Either of these scenarios would have a substantial negative impact on the OTCBB market.

Ideally, access fees of any type or price would be eliminated for all classes of broker-dealers. But if access fees are going to be charged, then they should be the same for all such classes, and they should be fully displayed, regardless of size. This would be consistent with Regulation NMS, which allows for any venue, including market makers, to charge access fees, not just an ATS or ECN. At a minimum, this should be the case for OTCBB securities if the Proposal is to go forward, though such a ruling could lead to billing and administrative burdens that outweigh its benefit. It is CGMI’s view that this Proposal should not be considered unless other issues are simultaneously addressed, such as fair and equal access, equal fees, and limit order display protection.

Failure to display an access fee decreases transparency, which again is not in the best interests of investors. In some cases, it would be only after the transaction was executed that a customer would know the actual price of the access fee charged. This lack of transparency distorts the market place and undermines investor confidence. Although CGMI’s affiliate is an ATS and ECN that will stand to benefit from this Proposal (LavaFlow ECN), we strongly oppose the Proposal because of the harm it would cause to the marketplace. Ultimately, investors will be disadvantaged if the Proposal is approved given the unequal playing field it will create between liquidity providers in the OTCBB.

Therefore, we believe that OTCBB securities ought to continue to be traded as is (i.e., with non-subscriber access or post-transaction fees reflected in the posted quotations of an ECN and ATS in the OTCBB), and NASD Rule 6540(c) should not be amended at the current time. Please feel free to contact me at (212) 723-5459 with any questions you may have. We appreciate the opportunity to comment on this rule filing and look forward to further discussion of the matter.

Sincerely,
/s/ Kevin Murphy

Kevin Murphy
Managing Director

² A locked market is a condition wherein the bid and ask prices are equal; a crossed market is a condition wherein the bid and ask prices are inverted.