

Mary Yeager
Corporate Secretary



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Via email to rule-comments@sec.gov

Nancy M. Morris, Esq.
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-9303

RE: File No. SR-NYSEArca-2006-73

Dear Ms. Morris,

NYSE Arca, Inc. ("NYSE Arca" or "Exchange") appreciates and welcomes the opportunity to address comments received from optionsXpress, Inc. ("Firm") and from the Securities Industry and Financial Markets Association ("SIFMA") on our filing to allow options to trade in penny increments on a pilot basis.

The Exchange agrees with the Firm's hope that a more logical threshold between nickel and penny quoting be permitted. In fact, in our amended filing we specifically ask for an additional class to be designated to trade all series in pennies. The Exchange also notes it is exploring increased use of private linkages and already avails itself of a private routing broker.

Both SIFMA and the Firm express concern about the possible effects of the Exchange's quote mitigation proposal. Our data mitigation effort is intended to allow robust and competitive quoting in active products, while not inundating Options Price Reporting Authority ("OPRA") subscribers with excessive quotes in inactive or moribund issues.

SIFMA misstates that NYSE Arca would "go dark" in "less active" issues. The criterion for going dark is that a series be inactive. While the Exchange agrees with SIFMA that inactive series should be delisted, many of these series have a small amount of open interest, and must be maintained until expiration. It is our opinion that continuous frequent quoting in inactive series which cannot be delisted does not provide meaningful information to the investing public or to the industry.

The Firm has stated that by removing quotes from the marketplace, NYSE Arca is essentially reducing investor opportunity. To the contrary the Exchange believes that quotes in these series have proven to have little or no investor interest, and the Exchange will have the ability to supply additional quoting activity where most needed, thereby creating added liquidity and a more competitive marketplace, which in turn should provide increased opportunities for all investors.

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Since the Exchange will continue to collect and process quotes from Exchange Market Makers in these series, the Exchange will publish a quote immediately upon a trade at another market or upon receipt of an order. Indeed, by entering an order in a “dark” series on NYSE Arca, the firm will be able to ensure a best execution for the order, since the Exchange will execute it immediately if marketable on our system, or, if executable against the NBBO, will immediately route the order to the best price.

We agree with SIFMA’s recommendation that the various exchanges adopt uniform quote mitigation plans. NYSE Arca, and its predecessor, the Pacific Exchange, has been actively involved and in favor of the various quote mitigation proposals that have been discussed at meetings of OPRA over the years. We urge the SIFMA membership to encourage the various exchanges on which they participate to agree to adopt vigorous and meaningful quote mitigation policies.

We do not agree with SIFMA that the “hold back timer” (or “quote pulsing” as described in the Letter) being instituted by various exchanges is either appropriate for the industry, or vigorous enough to significantly reduce quote traffic. NYSE Arca has reservations regarding accessibility of true prices in the market place, as exchanges are waiting to update quotes. Additionally, various studies conducted on behalf of OPRA¹ and surveys of a diverse group of industry participants² show that quote pulsing is not significantly effective, and that it introduces skepticism over the quality of the data.

We note that the Commenters request the Commission to closely monitor the effects of the Exchange’s quote mitigation proposal. In our filing, the Exchange has committed to submit a report to the Commission that includes, among other things, “any capacity problems or other problems that arose related to the operation of the Pilot Program and how the NYSE Arca addressed them”. The Exchange intends to provide a thorough study on the data mitigation efforts as part of this report.

Sincerely,



cc: E. King
D. Flynn
J. Colihan
J. Angstadt
P. Armstrong

¹ SIAC study, August 2004

² Tellefesen Study May 2005