



Brokerage

A BNY Securities Group Co.

1633 Broadway, New York, NY 10019

June 9, 2006

The Honorable Christopher Cox, Chairman
The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner
The Honorable Cynthia A. Glassman, Commissioner
The Honorable Annette L. Nazareth, Commissioner
United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-0609

Re: Securities and Exchange Commission Release No. 34-53742, File No. SR-NSCC-2006-04: Notice of Filing of Proposed Rule Change Relating to Trade Submission Requirements and Fees and Pre-Netting

Dear Chairman and Commissioners:

BNY Brokerage Inc.¹ respectfully submits this letter in response to the above-referenced proposed rule filing by the National Securities Clearing Corporation ("NSCC") to the Securities and Exchange Commission (the "Commission").

BNYB opposes the proposed rule changes – particularly, the provision to eliminate all forms of "pre-netting" on trades submitted to the NSCC – for the reasons articulated by UBS Securities LLC ("UBS") and Knight Capital Group, Inc. ("Knight") in their recently filed comment letters.² In addition to the points raised in those letters, BNYB sets forth below other important reasons why BNYB respectfully requests that the Commission reject the NSCC's proposal.

Fees Under the Proposal Will Not Be Cost Neutral For Individual Firms

Although the NSCC has indicated that the proposed rule changes will be "revenue-neutral" to the NSCC,³ expenditures for certain market participants will increase significantly, which may ultimately result in higher costs to the individual investor.

Specifically, the proposed changes do not take into account the additional costs associated with processing trades in real-time for firms that utilize third party vendors. Under the proposed rule, these firms would incur vendor charges for each trade instead of paying their vendors to report a single compressed trade to the NSCC.

¹ BNY Brokerage Inc. ("BNYB") is a registered broker-dealer affiliate of The Bank of New York.

² UBS and Knight submitted response letters on May 30, 2006.

³ That said, according to the DTCC, BNYB would experience a 37% increase in such clearing costs.

T 212.468.7500
800.822.5454
www.bnybrokerage.com



Brokerage

A BNY Securities Group, Co.

1633 Broadway, New York, NY 10019

Moreover, the NSCC exempts the New York Stock Exchange, the American Stock Exchange, and other exchanges from its fees. Non-exchanges currently attempt to reduce their clearing fee expenses through pre-netting practices. The proposed rule places non-exchanges at an unfair disadvantage vis á vis the exchanges by thrusting significantly higher costs upon them as a result of the increased number of trades that would need to be cleared. This inequality becomes more glaring in light of the fact that firms deposit clearing funds to guarantee settlement, a pre-existing operational cost that will be substantially augmented by the proposed fees.

There Are Less Disruptive and Costly Solutions than the NSCC's Proposed Rule Changes

Less disruptive and more cost effective solutions exist to address the "systemic risk" that the NSCC's proposal seeks to mitigate. In addition to those alternatives set forth by UBS and Knight, another solution is to store real-time feeds from the NASDAQ tape intraday as clearing backup for use in emergency situations. This solution would be comparatively inexpensive for all market participants, and should be considered before eliminating pre-netting practices such as trade compression.

* * *

While we appreciate the NSCC's intentions and efforts to improve the marketplace, BNYB believes that the approach submitted by the NSCC will result in palpable inequities among market participants due to substantial increases in clearing costs. In light of numerous, less costly alternatives to address the systemic risk sought to be curbed by the NSCC, we urge the Commission to reject the proposed rule changes of the NSCC for the reasons set forth herein and by UBS and Knight.

Thank you for providing us with the opportunity to comment on these proposed rule changes. BNYB would welcome further discussion with the Commission.

Sincerely,

Barclay M. Frey
Managing Director
BNY Brokerage Inc.

T 212 468.7500
800.828.5454
www.bnybrokerage.com