MULTIPLE-MARKETS

Nancy Morris
Secretary
US Securities and Exchange Commission
100 F Street NE
Washington, DC

Comments on: Notice of an Application of the New York Stock Exchange, Inc. for an Exemption Pursuant to Section 36 of the Securities Exchange Act of 1934 and Request for Comment

[RELEASE NO. 34-51998; File No. S7-06-05]

Dear Ms. Morris:

We welcome the opportunity to comment on the Exemption Request of the New York Stock Exchange to expand the number of bonds eligible for trading on the NYSE's Automated Bond System.

The work of our firm is the development of tools and systems for the visualization of credit risk and return for retail investors, registered representatives and financial advisors. These tools and systems transform the complex and varied data of the fixed income markets into simple charts and graphs.

We have followed the recent discussions concerning regulatory initiatives related to retail investors and fixed income markets closely. Because fixed income securities are not widely held by retail investors a limited regulatory framework exists. Important issues such as suitability, excessive markups, and point-of-sale disclosure have not yet been fully defined.

SEC Commissioner Annette L. Nazareth in a recent speech before the Bond Market Association's Legal and Compliance group on February 7, 2006 detailed new regulatory initiatives that have been undertaken in the fixed income markets.

Commissioner Nazareth said, "Surveillance for various abusive practices, such as insider trading, manipulation, and compliance with best execution and suitability obligations have been greatly enhanced by TRACE and RTRS. Computer programs can screen for evidence of daisy chains, wash trades, and even patterns of violating fair pricing obligations."

All of these issues are vital to the development of a transparent and fair fixed income market for retail investors. We encourage the Commission to continue its excellent work in opening this asset class to retail investors through enhanced transparency and disclosure and ensuring that these markets are well regulated. Individual investors will participate in transparent and open markets.

We submit the following in response to the questions posed by the Commission relative to the Exemption Request:

- ◊ *Is the scope of the requested exemption appropriate?*

We believe that the scope of the request is appropriate for retail investors.

- ◊ *Would the requested exemption increase competition in the public debt markets?*

The Exemption Request, if granted, will increase competition within the debt markets by allowing the expanded exchange trading of bonds. This should particularly benefit retail investors.

The current OTC structure of the fixed income markets has developed into a useful market for institutional size trades (1,000+ bonds) but has created an impenetrable and expensive market for retail size trades (100 bonds or less). As seen in numerous academic studies of bond trading the transaction cost for retail size trades, as measured by the effective half spread, is exceptionally large relative to institutional size bond trades.

Retail investors currently pay high transaction costs for retail size fixed income trades. Estimates of weighted mean cost generated from an analysis of 2003 TRACE data by Edwards, Harris and Piwowar[*] show effective half spreads for 5 bond transactions to be approximately 83 basis points. This compares to effective half spreads of 11 basis points for 1,000 bond transactions.

An examination of TRACE data shows large variations in the price paid for retail size lots in a specific security within short periods of time. These wide variations, with minimal disclosure about the side of the market represented by the trades, are very difficult for individual investors to develop an aggregate picture of the current market for a security.

Also the ability of broker/dealers to markup securities, acting as principals, and not disclosing the specific markup to the client further reduces transparency for retail investors.

When broker/dealers offer exchange traded bonds to their clients on an agency basis and charge a disclosed commission we will see increased competition. By removing the principal markup retail investors will have the ability to compare the yield of comparable bonds on a near real time basis.

Investors will migrate from purchasing fixed income securities with opaque markups from the OTC markets to purchasing securities from an exchange and paying a commission for the transaction.

Corporate Bond Market Transparency and Transaction Costs, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=593823

For the benefit of retail investors the Commission should consider the removal of all impediments to the exchange trading of bonds. All exchanges should be encouraged to support bond trading.

The ABS and other exchanges should submit trade reports to the NASD TRACE system for two reasons.

1. TRACE should indicate which exchange a trade occurred on. This would give important information to investors about the trading venue with the best prices available for a security.

2. The ABS and other exchanges should submit trade information to the NASD TRACE system so that “best execution” oversight can occur. It is imperative that broker/dealers seek out the best price when executing a transaction for a retail investor.

The TRACE trade reporting fee is expensive for small retail size lots. The minimum trade reporting fee is $ 0.475 per trade. We request that the Commission encourage the NASD to determine a lower cost method for bulk trades to be reported into the TRACE system from exchanges.

◊ *Would the requested exemption increase the transparency of the public debt markets?*

If the Exemption Request is granted we believe this would represent one of the largest steps forward in increasing transparency within the public debt markets for retail investors. We anticipate a large increase in information availability related to securities listed or traded on the ABS.

There will be real time market data feeds from the NYSE ABS system for offerings and trade data. The dissemination of actionable data from an exchange will represent a large step forward for a market that has often relied on telephone calls and in-house broker dealer inventories of securities. Most retail investors do not have knowledge or access into this closed market.

For example a very large online broker dealer asks its retail customers to call the “Bond Desk” to be assisted by a team of experts in their transactions. What basis of comparison would a retail investor have in making a transaction based on the recommendation of supposed impartial advisors? Although the investor is informed that the broker is acting as a principal in the transaction the investor does not have access to current pricing data that is useful enough to understand how fair the price is that they are paying for a security.

◊ *Would an issuer’s Exchange Act reports for its equity securities and all other public information related to the issuers class of debt adequately inform investors about the debt securities covered by the requested exemption?*

Generally the financial filings of a company with publicly held equity securities will be adequate for retail investors to understand the financial condition of a company with exchange traded debt. With the move of the SEC EDGAR system to an XBRL structure, vendors will develop tools that will be useful for retail investors. We anticipate increased information flow to individual investors.

Of primary importance to retail investors will be if the debt securities are rated by Nationally Recognized Statistical Rating Organizations (NRSROs). We look forward to the new rule writing the Commission will be undertaking after the recent passage of the Credit Rating Agency Reform Act. We anticipate more competitive and abundant rating information available to retail investors and registered representatives. This will be useful in making investment decisions about specific debt securities.

The only area in which retail investors will have minimal information relates to the concentration of ownership of specific debt securities. For equities investors can review the institutional ownership of securities. This could be of especial importance for securities which have small principal amounts outstanding and are not rated by NRSROs. This is an area we encourage the Commission to review.

- ◊ *Should the requested exemption relieve issuers of debt securities and other applicable parties from the antifraud provisions of Exchange Act Rules…?*

No comment.

- ◊ *Should the requested exemption apply to a wholly-owned subsidiary of a company with at least one class of equity securities registered under Section 12(B) and listed on the NYSE, if the wholly owned subsidiary independently does not satisfy the conditions for relief? Should the wholly owned subsidiary's parent have to guarantee the subsidiary's debt securities for the requested exemption to apply?*

No comment.

- ◊ *Are there any other differences between exchange-traded debt and debt traded in the OTC market that warrant a more restrictive regulatory treatment for exchange-traded debt?*

No. We assume that registered reps will be responsible to follow the same suitability guidelines for exchange-traded debt as OTC debt. Additionally we assume that broker/dealers will have to be aware of the prices of exchange-traded debt securities compared to OTC pricing when undertaking their "best execution" responsibilities.

- ◊ *Are there any implications or concerns that may arise because NYSE members would be able to trade a debt security without the NYSE entering into a formal listing arrangement with the issuer of the debt security?*

The NYSE, or any exchange, would engage in reputational risk if they allow their members to trade the debt of firms who do not have adequate disclosure. Since this Exemption Request occurs in a time of increasing information availability for retail investors we anticipate that adequate information will be available to investors to judge the creditworthiness of securities offered for sale. The Commission could encourage the regulatory arm of the SROs to evaluate this issue on an ongoing basis.

- ◊ *Should we condition the proposed exemption on any additional NYSE listing standards?*

Yes. To protect individual investors, debt securities should be rated by at least two Nationally Recognized Statistical Rating Organizations to be traded on an exchange. This would insure that retail investors, in the absence of complete public filings on the securities, have an informed view of the relative creditworthiness of the securities offered for sale.

- ◊ *Are the basis triggering suspension of trading (e.g. bankruptcy, substantial reduction in assets, or the NYSE determination that the issuer engaged in operations contrary to the public interest) appropriate?*

The listed trading suspension triggers are generally appropriate.

We would encourage the Commission to add the withdrawal of ratings of the NRSROs to the conditions for suspension of trading. The withdrawal of ratings by NRSROs typically happens when a firm discontinues providing information on its current status to the rating agencies. This withdrawal of ratings generally indicates significant corporate changes.

Additionally we believe that the $ 1 million principal amount outstanding triggering trading suspension is too low. NRSROs generally do not rate firms with such low principal amount outstanding. Reduced information accompanies the reduction of outstanding principal.

- ◊ *Is the use of a third party data vendor adequate to provide the NYSE and its members with sufficient information regarding corporate actions relevant to debt securities traded on the ABS? If not, what additional information or measures would be appropriate? Should any information or measures be required as an additional condition of exemption?*

It is appropriate for the NYSE to use a third party data vendor to supply information regarding corporate actions. We hesitate, though, to endorse a potentially monopolistic relationship between the NYSE and Xcitek. The need for a “golden copy” of corporate actions is necessary but endorsing only one vendor for this function could easily lead to distorted pricing for this information stream.

We encourage the Commission to consider the anti-competitive advantage that a sole designated vendor of corporate actions for exchange traded debt would have and the potential effect on pricing for users of this service.

- ◊ *Is the information to be provided by Xcitek, LLC to the NYSE and its members significant enough to justify its inclusion in the proposed exemptive order as a formal condition of relief?*

No, numerous firms provide high quality corporate action information.

We thank the Commission for this opportunity to forward our comments on the NYSE ABS Exemption Request.

Very truly yours,

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