

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53782; File No. SR-NYSE-2006-07)

May 10, 2006

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto To Amend Exchange Rule 104 Regarding the Requirement that Specialists Obtain Floor Official Approval for Destabilizing Dealer Account Transactions that Match the National Best Bid or Offer

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 16, 2006, the New York Stock Exchange LLC (“NYSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the NYSE. On April 27, 2006, NYSE filed Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is proposing to amend NYSE Rule 104 (Dealings by Specialists) to permit specialists to effect destabilizing dealer account transactions when matching the national best bid or offer without requiring that they obtain Floor Official approval.

The text of the proposed rule change is below. Proposed new language is in italics; proposed deletions are underlined.

* * * * *

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange made technical corrections to the rule text of the proposed rule change.

Dealings by Specialists

Rule 104

No change in (a) through .10 (4)

(5)(i) Transactions on the Exchange for his own account of a member acting as specialist are to be effected in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular stock and the adequacy of the specialist's position to the immediate and reasonably anticipated needs of the round-lot and the odd-lot market. The following types of transactions to establish or increase a position are not to be effected except when they are reasonably necessary to render the specialist's position adequate to such needs:

(A) a purchase at a price above the last sale in the same session:

(B) the purchase of more than 50% of the stock offered in the market at a price equal to the last sale where such transaction would be on a "zero plus tic" (i.e., the last sale price was above the previous different regular way sale price); and

(C) failing to reoffer or rebid where necessary after effecting transactions described in (A) and (B) above.

Transactions of these types may, nevertheless, be effected with the approval of a Floor Official or in less active markets where they are an essential part of a proper course of dealings and where the amount of stock involved and the price change, if any, are normal in relation to the market.

(ii) Notwithstanding the provisions of subparagraphs (5)(i)(A) and (B) above, whenever a specialist effects a principal purchase of a [speciality] specialty stock, in another participating market center through ITS, at or above the price at which he holds orders to sell that stock, such orders which remain unexecuted on the Floor must be filled by the specialist buying the stock for

his own account, at the same price at which he effected his principal transaction through ITS unless, effecting such a principal transaction on the Floor, at that price, would (a) be inconsistent with the maintenance of fair and orderly markets; or (b) result in the election of stop orders.

(iii) Whenever a specialist effects a principal sale of a specialty stock, in another participating market center through ITS, at or below the price at which he holds orders to buy that stock, such orders which remain unexecuted on the Floor must be filled by the specialist by selling the stock for his own account, at the same price at which he effected his principal transaction through ITS subject to the same conditions as set forth in (ii)(a) and (b) above and provided further that effecting such a principal transaction on the Floor, at that price, would not be precluded by the short selling rules, or would not result in a sale to a stabilizing bid.

(iv) Notwithstanding the provisions of (5)(i)(A) and (B) above, a specialist may effect a principal purchase of a specialty security to establish or increase a position at a price above the last sale in the same session at a price that matches the then current national best bid or, in the case of a sale, that matches the then current national best offer.

(6)(i) Transactions on the Exchange by a specialist for his own account in liquidating or decreasing his position in a specialty stock are to be effected in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular stock and the adequacy of the specialist's positions to the immediate and reasonably anticipated needs of the round-lot and the odd-lot market and in this connection:

(A) the specialist may liquidate a position by selling stock on a direct minus tick or by purchasing stock on a direct plus tick only if such transactions are reasonably necessary in relation to the specialist's overall position in the stocks in which he is registered[;] , and the specialist has obtained the prior approval of a Floor Official;

(B) the specialist may liquidate a position by selling a security on a direct or zero minus tick or by purchasing a security on a direct or zero plus tick without the need to obtain Floor Official approval if such transaction is effected at a price that matches the then current national best bid or offer;

[(B)] (C) the specialist should maintain a fair and orderly market during liquidation and, after reliquifying, should re-enter the market to offset imbalances between supply and demand. The selling of stock on a direct minus tick or a zero minus tick, or the purchasing of stock on a direct plus tick or a zero plus tick should be effected in conjunction with the specialist's re-entry in the market on the opposite side of the market from the liquidating transaction where the imbalance of supply and demand indicates that immediately succeeding transactions may result in a lower price (following the specialist's sale of stock on a direct minus tick or a zero minus tick) or a higher price (following the specialist's purchase of stock on a direct plus tick or a zero plus tick). During any period of volatile or unusual market conditions resulting in a significant price movement in the subject security, the specialist's transactions in re-entering the market following a liquidating transaction effected by selling stock on a direct minus tick or zero minus tick, or purchasing stock on a direct plus tick or zero plus tick, should, at a minimum, reflect the specialist's usual level of dealer participation in the subject security. During such periods of unusual price movement in a security, any series of such transactions which may be effected in a brief period of time should be accompanied by the specialist's re-entry in the market and effecting transactions which reflect a significant degree of dealer participation;

[(C)] (D) transactions by a specialist for his or her dealer account in liquidating or decreasing a position in a specialty security must yield parity to and may not claim precedence based on size over a customer order in the crowd upon the request of the member representing such order, where such request has been documented as a term of the order, to the extent of the volume of such order that has been included in the quote prior to the transaction. However, this provision shall not apply to automatic executions involving the specialist dealer account.

(ii) Notwithstanding the provisions of subparagraph (6)(i)(A) above, whenever a specialist effects a principal purchase (sale) of a specialty stock, in another participating market center through ITS, at or above (at or below) the price at which he holds orders to sell (buy) that stock, such orders which remain unexecuted on the Floor must be filled by the specialist by buying (selling) the stock for his own account, at the same price at which he effected his principal transaction through ITS subject to the same conditions as set forth in subparagraphs (5)(ii) and (iii) above.

[No change to remainder of Rule]

* * * * *

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the NYSE included statements concerning the purpose of and basis for the proposed rule change, as amended. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

NYSE Rule 104 governs specialists' dealings in their specialty stocks. In particular, NYSE Rules 104.10(5) and (6) describe certain types of transactions that are not to be effected unless they are reasonably necessary to render the specialist's position adequate to the needs of the market. In effect, these restrictions generally require specialists' transactions for their own accounts to be "stabilizing" (i.e., against the trend of the market) and prohibit specialists from making transactions that are "destabilizing" (i.e., with the market trend by buying on plus ticks and selling on minus ticks), except with the approval of a Floor Official.

The Exchange is proposing to allow specialists to effect proprietary transactions on a destabilizing basis for their own account when such trades are effected at a price that matches the current national best bid or offer ("NBBO"). In certain circumstances today, such as trading in exchange traded funds ("ETFs"), specialists are not currently restricted under NYSE Rule 104 from effecting proprietary destabilizing transactions that bring an ETF into parity with the value of the index on which the ETF is based. The Exchange believes that this recognizes that specialists are not leading the market through proprietary transactions in these instances, but rather following the market as set by the independent judgment of other market participants.⁴

Similarly, the Exchange believes that amending NYSE Rules 104.10(5) and (6) to permit specialists to effect a destabilizing proprietary trade in an equity security at a price established independent of the specialist should not be viewed as leading the market. The Exchange states

⁴ See Securities Exchange Act Release No. 49087 (January 15, 2004), 69 FR 3622 (January 26, 2004) (SR-Amex-2002-116) ("[T]he Commission believes that because ETFs are priced derivatively, an Exchange specialist would not be able to manipulate the pricing of an ETF.").

that the standard of each specialist proprietary trade meeting the test of reasonable necessity would continue to apply to any such destabilizing trade.

In addition, the Exchange notes that the time required to obtain Floor Official approval for such transactions can have the effect of delaying trading and could result in inferior execution prices for customer orders.

Finally, the Exchange believes that removing these restrictions should enhance the specialist's ability to make competitive markets since the trades would be done at prices matching the then current national best bid or offer.

2. Statutory Basis

The Exchange believes that the basis under the Act for this proposed rule change is the requirement under Section 6(b)(5)⁵ that an exchange have rules that are designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes that the proposed rule change, as amended, would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments regarding the proposed rule change, as amended. The Exchange has not received any unsolicited written

⁵ 15 U.S.C. 78f(b)(5).

comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall:

- (A) by order approve such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-NYSE-2006-07 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR- SR-NYSE-2006-07. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all

comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the NYSE. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSE-2006-07 and should be submitted on or before [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Nancy M. Morris
Secretary

⁶ 17 CFR 200.30-3(a)(12).