

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54086; File No. SR-NYSE-2006-24)

June 30, 2006

Self-Regulatory Organizations; New York Stock Exchange LLC; Order Approving Proposed Rule Change to Lower the Minimum Display Size Requirement for Specialists to Maintain Undisplayed Reserve Interest at the Exchange Best Bid or Offer in the NYSE Hybrid Market

On April 7, 2006, the New York Stock Exchange LLC (“NYSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend Exchange Rule 104(d)(i) to provide that specialists shall have the ability to maintain undisplayed reserve interest on behalf of the dealer account at the Exchange best bid or offer (“BBO), provided at least 1,000 shares of dealer interest is displayed at that price, on the same side of the market as the reserve interest. This proposed rule change would lower the specialist’s minimum display size requirement from at least 2,000 shares to at least 1,000 shares at the Exchange BBO and would conform the minimum display requirements for reserve interest for specialists and floor brokers.<sup>3</sup> In addition, the Exchange proposes to make a conforming change to Exchange Rule 104(d)(ii) to require that after an execution at the Exchange BBO that does not exhaust the specialist’s interest, the specialist’s displayed interest would be automatically replenished from its reserve interest, if any, so that at least a minimum of 1,000 shares is displayed (or whatever amount remains if the reserve interest is less than 1,000 shares).

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> NYSE permits floor brokers to maintain undisplayed reserve interest at the Exchange BBO, provided floor brokers display at least 1,000 shares. See NYSE Rule 70.20(c)(ii).

The proposed rule change was published for comment in the Federal Register on May 16, 2006.<sup>4</sup> The Commission received no comments regarding the proposal.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>5</sup> Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>6</sup> in that it is designed, among other things, to promote just and equitable principle of trade, 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.

The Commission previously approved NYSE's proposal to permit specialists and floor brokers to maintain undisplayed reserve interest at the Exchange BBO, provided that they display a minimum number of shares and yield priority to all displayed interest.<sup>7</sup> In the Hybrid Market Order, the Commission found it to be consistent with the requirements of the Act to allow specialists to place reserve interest in the Display Book system because it could increase the liquidity available for execution at the Exchange BBO. The Commission specifically noted that the minimum size requirement and the priority of displayed interest over undisplayed reserve interest should help ensure that market participants continue to have an incentive to display quotes or orders on NYSE. The Commission stated that, taken together, these requirements could promote additional depth at the Exchange BBO, while preserving incentives

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<sup>4</sup> See Securities Exchange Act Release No. 53780 (May 10, 2006), 71 FR 28398.

<sup>5</sup> 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> See Securities Exchange Act Release No. 53539 (March 22, 2006), 71 FR 16353 (March 31, 2006) ("Hybrid Market Order").

for investors to display limit orders. Since NYSE's proposal would retain the requirements that specialists display a minimum amount of size at the BBO in order to maintain undisplayed reserve interest and that undisplayed reserve interest yield priority to displayed interest at that price, the Commission finds that the proposed rule change remains consistent with the requirements of the Act.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>8</sup> that the proposed rule change (SR-NYSE-2006-24) is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Nancy M. Morris  
Secretary

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<sup>8</sup> 15 U.S.C. 78s(b)(2).

<sup>9</sup> 17 CFR 200.30-3(a)(12).