

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-58488; File No. SR-NYSE-2008-81)

September 8, 2008

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Rule Proposed by New York Stock Exchange LLC to Suspend the Operation of NYSE Rule 123D with Respect to Trading in the Securities of Fannie Mae and Freddie Mac

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on September 8, 2008, New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed the original filing with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

New York Stock Exchange LLC (“NYSE” or the “Exchange”) is proposing to suspend the operation of NYSE Rule 123D(3) with respect to trading in all securities of Fannie Mae and Freddie Mac.⁴ The suspension would operate through the close of primary trading on the NYSE

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 C.F.R. 40.19b-4.

⁴ This rule proposal affects the following securities: FRE Voting common stock; FRE 19Z Zero Coupon Subordinated Capital Debentures, due November 29, 2019; FRE PR B Variable Rate, Non-Cumulative Preferred Stock; FRE PR F 5% Non-Cumulative Preferred Stock; FRE PR G Variable Rate, Non-Cumulative Preferred Stock; FRE PR H 5.1% Non-Cumulative Preferred Stock; FRE PR K 5.79% Non-Cumulative Preferred Stock; FRE PR L Variable Rate, Non-Cumulative Preferred Stock; FRE PR M Variable Rate, Non-Cumulative Preferred Stock; FRE PR Q Variable Rate, Non-Cumulative Preferred Stock; FRE PR P 6% Non-Cumulative Preferred Stock; FRE PR N Variable Rate, Non-Cumulative Preferred Stock; FRE PR O 5.81% Non-Cumulative Preferred

on September 15, 2008. If additional time is needed, the Exchange will submit another rule filing to the Commission pursuant to Section 19(b)(1) of the Securities Exchange Act⁵ and Rule 19b-4⁶ thereunder.⁷

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

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

Stock; FRE PR R 5.7% Non-Cumulative Preferred Stock; FRE PR S Variable Rate, Non-Cumulative Perpetual Preferred Stock; FRE PR T 6.42% Non-Cumulative Perpetual Preferred Stock; FRE PR U 5.9% Non-Cumulative Perpetual Preferred Stock; FRE PR V 5.57% Non-Cumulative Perpetual Preferred Stock; FRE PR W 5.66% Non-Cumulative Perpetual Preferred Stock; FRE PR X 6.02% Non-Cumulative Perpetual Preferred Stock; FRE PR Y 6.55% Non-Cumulative Perpetual Preferred Stock; FRE PR Z Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, \$1.00 Par Value; FNM Common stock; FNM 19Z Zero Coupon Subordinated Capital Debentures due October 9, 2019; FNM 14Z Zero Coupon Debentures due July 5, 2014; FNA 8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1; FNM PR H 5.81% Non-Cumulative Preferred Stock, Series H; FNM PR L 5.125% Non-Cumulative Preferred Stock, Series L; FNM PR M 4.75% Non-Cumulative Preferred Stock, Series M; FNM PR N 5.50% Non-Cumulative Preferred Stock, Series N, without par value; FNM PR G Variable Rate, Non-Cumulative Preferred Stock, Series G; FNM PR P Variable Rate, Non-Cumulative Preferred Stock, Series P; FNM PR Q 6.75% Non-Cumulative Preferred Stock, Series Q; FNM PR R 7.625% Non-Cumulative Preferred Stock, Series R; FNM PR S Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S; FNM PR T 8.25% Non-Cumulative Preferred Stock, Series T; FNM PR F Variable Rate, Non-Cumulative Preferred Stock, Series F; FNM PR I 5.375% Non-Cumulative Preferred Stock, Series I. See email from Dan Labovitz, Vice President, Office of the General Counsel, NYSE Euronext, to Nathan Saunders, Special Counsel, Commission, dated September 8, 2008 (“September 8 Email”).

⁵ 17 C.F.R. § 240.19b-4.

⁶ 15 U.S.C.78s(b)(1).

⁷ See September 8 Email, supra note 4.

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

1. Purpose

Regulation NMS, adopted by the Securities and Exchange Commission ("SEC") in April 2005,⁸ provides that each trading center intending to qualify for trade-through protection under Regulation NMS Rule 611⁹ is required to have a Regulation NMS-compliant trading system fully operational by March 5, 2007 (the "Trading Phase Date").¹⁰

For stocks priced below \$1.00 per share, Regulation NMS Rule 612¹¹ permits markets to accept bids, offers, orders and indications of interest in increments smaller than a \$0.01, but not less than \$0.0001, and to quote and trade such stocks in sub-pennies. Markets may choose not to accept such bids, offers, orders or indications of interest and the NYSE has done so, maintaining a minimum trading and quoting variation of \$0.01 for all securities trading below \$100,000. See NYSE Rule 62.

The SEC's interpretation of Rule 612 requires a market that routes an order to another market in compliance with Rule 611 and receives a sub-penny execution, to accept the sub-penny execution, report that execution to the customer, and compare, clear and settle that trade. The SEC, however, provided a limited exemption to Rule 611's proscription against trade-

⁸ See Securities Exchange Act Release No. 51808 (June 9, 2005), 17 CFR Parts 200, 201, 230, 240, 242, 249 and 270.

⁹ See 17 C.F.R. § 242.611.

¹⁰ See Securities Exchange Act Release No. 55160 (January 24, 2007), 72 FR 4202 (January 30, 2007) (S7-10-04).

¹¹ See 17 C.F.R. § 242.612. Rule 612 originally was to become effective on August 29, 2005, but the date was later extended to January 29, 2006. See Securities Exchange Act Release No. 52196 (Aug. 2, 2005), 70 FR 45529 (Aug. 8, 2005).

throughs to protected quotes that include a sub-penny component to such quotes that are better-priced by a minimum of \$0.01.¹²

In March, 2007, the Exchange amended Rule 123D to provide for a “Sub-penny trading” condition because the Exchange’s trading systems did not then accommodate sub-penny executions on orders routed to better-priced protected quotations, nor could it recognize a quote disseminated by another market center if such quote had a sub-penny component and, therefore, could have inadvertently traded through better protected quotations. The amended rule automatically halts trading on the Exchange in a security whose price was about to fall below \$1.00, without delisting the security, so that the security could continue to trade on other markets that deal in bids, offers, orders or indications of interest in sub-penny prices, until the price of the security had recovered sufficiently to permit the Exchange to resume trading in minimum increments of no less than one penny or the issuer is delisted for failing to correct the price condition within the time provided under NYSE rules.¹³ A subsequent amendment established that any orders received by the NYSE in a security subject to a “Sub- penny trading” condition would be routed to NYSE Arca, Inc. and handled in accordance with the rules governing that market.¹⁴

¹² Order Granting National Securities Exchanges a Limited Exemption from Rule 612 of Regulation NMS under the Securities Exchange Act of 1934 to Permit Acceptance by Exchanges of Certain Sub-Penny Orders. See Securities and Exchange Commission Release No. 54714 (November 6, 2006).

¹³ See Securities and Exchange Commission Release No. 34-55398; File No. SR-NYSE-2007-25 (Mar. 5, 2007).

¹⁴ See Securities and Exchange Commission Release No. 34-55537; File No. SR-NYSE-2007-30 (Mar. 27, 2007).

Federal Government Takeover of Fannie Mae and Freddie Mac

On September 7, 2008, Secretary of the Treasury Henry Paulson announced that the federal government would force Fannie Mae and Freddie Mac into a conservatorship that will result in the companies issuing warrants to the federal government representing approximately 80% ownership of the entities. Details of the plan are available at the Department of the Treasury's website, at

http://www.treas.gov/press/releases/reports/pspa_factsheet_090708%20hp1128.pdf.

The NYSE anticipates that the government's action will have a significantly disruptive effect on the trading in the common stock of both Fannie Mae and Freddie Mac, which may cause those shares to trade below \$1.00 per share. Ordinarily, such an action would result in the NYSE invoking its sub-penny trading halt, which would halt trading on the primary listing venue of the securities. But, given the scope of the government's action, the NYSE believes that the market will substantially benefit from having the most available liquidity and the greatest number of venues in which investors can trade the securities of Fannie Mae and Freddie Mac, and would further benefit from the efforts of the NYSE specialists in those securities to stabilize the markets as public investors react to the news. The NYSE further believes that these benefits outweigh the potential harms that NYSE Rule 123D was intended to address, and that therefore, a temporary suspension of that rule for this limited purpose would serve the interests of customers and the investing public, notwithstanding the possibility that some investors may receive an inferior execution due to sub-penny quoting. The NYSE recognizes that the suspension of Rule 123D does not thereby exempt the Exchange from Reg NMS Rules 611 and 612, but notes that the inferior executions that may result would only amount to fractions of a

penny per share, and therefore the potential harm, even in the case of large orders, would be minimal.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b)¹⁵ of the Securities Exchange Act of 1934 (the “Act”), in general, and furthers the objectives of Section 6(b)(5)¹⁶ in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will 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

No written comments were solicited or received with respect to the proposed rule change.

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

The Exchange has designated the proposed rule change as one that: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date of filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Therefore, the foregoing rule change has become effective

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

pursuant to Section 19(b)(3)(A) of the Act¹⁷ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁸

A proposed rule change filed under 19b-4(f)(6) normally does not become operative until 30 days after the date of filing.¹⁹ However, Rule 19b-4(f)(6)(iii)²⁰ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange believes that the proposed relief is limited in nature, and that the benefits of the proposed relief outweigh the potential harms. Moreover, given the rapidity of recent developments with respect to Fannie Mae and Freddie Mac, the Exchange believes that immediate effectiveness is required in order to avoid significant disruption to the market.

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. The Commission therefore grants the Exchange's request and designates the proposal to be operative upon filing.²¹

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f)(6).

¹⁹ Id. In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. NYSE has satisfied this requirement.

²⁰ Id.

²¹ For purposes only of waiving the 30-day operative delay of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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-2008-81 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSE-2008-81. 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, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of 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-2008-81 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 Trading and Markets, pursuant to delegated authority.²²

Florence E. Harmon
Acting Secretary

²² 17 CFR 200.30-3(a)(12).