

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-52648; File No. SR-NYSE-2005-63)

October 21, 2005

Self-Regulatory Organizations; New York Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Exchange's Proposal to Place an Immediate Moratorium on the Qualification and Registration of New Competitive Traders and Registered Competitive Market Makers

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> notice is hereby given that on September 22, 2005, the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as constituting a "non-controversial" rule change under Section 19(b)(3)(A)(iii) of the Act,<sup>3</sup> and paragraph (f)(6) of Rule 19b-4 under the Act,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. 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

The proposed rule change is an Information Memo announcing a moratorium on the qualification and registration of new Competitive Traders ("CTs") and Registered Competitive Market Makers ("RCMMs") covered in Rules 110 and 107A, respectively. The text of the proposed rule change is available on the NYSE's Web site (<http://www.nyse.com>), at the NYSE's Office of the Secretary, and at the Commission's Public Reference Room.

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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> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

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 Exchange 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. 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

The Exchange has decided to study the future viability of CTs and RCMMs in light of the new Hybrid Market environment. While the Exchange conducts this study, it considers it appropriate to place a moratorium on the qualification and registration of new CTs and RCMMs.

CTs and RCMMs were first authorized by the Commission in 1964<sup>5</sup> and 1978,<sup>6</sup> respectively, to generate competition to specialists, add depth and liquidity to the market and create supplemental market making traders on the Exchange. NYSE Rules 110 and 111 govern CTs, and NYSE Rule 107A governs RCMMs. CTs and RCMMs can both conduct proprietary trading under the market maker exemption found in paragraph (1)(A) of Section 11(a) of the Act.<sup>7</sup> CTs' trading must be at least 75% stabilizing, and RCMMs must be ready to enter the market with one round lot if called upon by a floor official or broker to narrow the quotation spread or add liquidity to the market.

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<sup>5</sup> NYSE Rule 110 (amended May 21, 1964 and July 16, 1964, effective August 3, 1964).

<sup>6</sup> Securities and Exchange Act Release No. 14718 (May 1, 1978), 43 FR 19738 (May 8, 1978) (SR-NYSE-78-24).

<sup>7</sup> 15 U.S.C. 78k(a)(1)(A).

The Exchange's rules require that members must be registered by the Exchange before they are able to conduct business as a CT or RCMM, and in order to be registered must, besides meeting other requirements, pass an examination prescribed by the Exchange.

The volume and speed of the market has increased dramatically since CTs and RCMMs were first created, and significant changes have occurred with respect to market dynamics. The Exchange believes that these changes coupled with the Exchange's move to a Hybrid Market makes this review timely and appropriate. Currently there are only 11 active RCMMs, and the sole CT has not been active for several years. As part of this review, the Exchange will consider the diminished impact and usage of RCMMs and the effective non-usage of the CT status, the resources required to surveil their trading, and the significant market timing and informational advantage that they enjoy. The Exchange will also examine any regulatory requirements needed to increase market maker liquidity obligations.

The Exchange will issue an Information Memo announcing the moratorium. The Exchange notes that the proposed moratorium will not impact those members currently registered as CTs and RCMMs. Accordingly, during the period that the moratorium is in place, NYSE Rules 110 and 111 and NYSE Rule 107A will continue to govern the actions of current CTs and RCMMs, respectively.<sup>8</sup> The Exchange will promptly file for approval with the Commission any changes to the existing rules that the Exchange determines are warranted upon completion of its review.

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<sup>8</sup> Telephone conversation between Donald Siemer, Director, Market Surveillance, NYSE and Ronsha Butler, Special Counsel, and Sara Gillis, Attorney, Division of Market Regulation, Commission on October 6, 2005.

## 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)<sup>9</sup> 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 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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

Because the proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>10</sup> and Rule 19b-4(f)(6) thereunder.<sup>11</sup> At any time within 60 days of the filing of such proposed

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<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(6).

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.

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2005-63 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-NYSE-2005-63. 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 the

filing also will be available for inspection and copying at the principal office of the Exchange. 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 No. SR-NYSE-2005-63 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

Jonathan G. Katz  
Secretary

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