Securities Industry Association
120 Broadway - 35 Fl. • New York, NY 10271-0080 • (212) 608-1500, Fax (212) 968-0703 • www.sia.com, info@sia.com

July 20, 2005

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: Proposed Amendment No. 5 to a Rule Change by the New York Stock Exchange Relating to Enhancements to the Exchange's Existing Automatic Execution Facility Pilot (NYSE Direct +) Release No. 34-51906; File No. SR-NYSE-2004-05

Dear Mr. Katz:

The Securities Industry Association ("SIA")[1] welcomes the filing of Amendment No. 5 to the New York Stock Exchange's proposed rule change relating to its direct + system and Hybrid market model.

The amendment provides more detailed information on how the proposed Hybrid market is intended to work and describes the implementation plan as consisting of four phases to occur over the period from September 2005 through April 2006.

SIA notes that the NYSE has conducted two briefing meetings for the benefit of SIA member firms on July 6 and July 12, 2005. These meetings provided additional information to that included in the amendment filing and answers (to the extent available) to questions by SIA member firm representatives.

As SIA has indicated in its prior comment letters on the NYSE Hybrid proposal (October 1, 2004 and December 13, 2004), we strongly support the NYSE's efforts to provide more execution opportunities, including access to automated quotations. We also appreciate the complexities of designing and implementing changes of this magnitude to the NYSE market.

SIA would like to highlight the following points with respect to the filing:

(1) The specific functionality of the NYSE Hybrid must be consistent with that of Regulation NMS. As the Hybrid proceeds toward implementation in 2006 in

[1] The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated an estimated $227.5 billion in domestic revenue and $305 billion in global revenues.

parallel with the detailed implementation of Regulation NMS, particularly with respect to the trade-through rule, there may need to be synchronization and adjustment between the two sets of trading rules. There are certain aspects of the Hybrid proposal that overlap with rules and industry practices that have yet to be resolved among market participants.

(2) A number of SIA member firms are concerned with the NYSE's proposal that "specialists would establish electronic connections to the Display Book that 'see' certain limited information before other market participants, and the specialist would be permitted to make a range of specified quoting and trading decisions based on that information designed to permit the specialist to supply greater depth and liquidity to the market." SIA members appreciate the complexity of the goals the Hybrid proposal is attempting to balance and will be most interested in how in practice the specialist's "information time and systems advantage" will operate. Some firms, for example, raise the question that the specialist's time and system advantage with respect to immediate or cancel (IOC) orders is in contradiction with the premise of a "fast market" under Reg NMS, which requires that "a trading center's system provides the fastest response possible without any programmed delay." Other firms feel that the specific decisions of how the NYSE works internally (i.e. automated programming interface (API) access by specialists and floor brokers) is best left to the NYSE. In the view of these firms, Reg NMS should deal with the ability of external market participants to interact with the NYSE marketplace. SIA understands that the NYSE is contemplating the establishment of a new advisory committee to monitor specialist dealer transactions under the Hybrid model. We would view this as a positive step.

(3) Several SIA firms questioned proposed Hybrid rules regarding "Liquidity Refreshment Points" or "LRPs." Specifically, the firms were concerned about the priority of order execution coming out of a LRP. An order that may have caused the price of a security to move to a LRP would be denied priority coming out of the LRP, which some firms believe is unfair to the orders deserving immediate and complete execution.

(4) Some firms also raised questions surrounding the "gapping" of quotes by specialists, the use of discretionary orders by floor brokers, and the fee structure that may apply to the overall Hybrid system. SIA would like to discuss these questions further with the NYSE.

(5) Many SIA member firms believe that trading behavior in the new markets created by Regulation NMS and the Hybrid model may change dramatically. We also appreciate that these changes in behavior cannot be predicted with certainty. SIA has concluded that, as both Regulation NMS and the NYSE Hybrid market are implemented, a process for adapting to changes should be built into the rule-making procedures.

(6) SIA believes that the NYSE is responding effectively to requests for more explicit information. We also believe that more explicit information is still needed and will be forthcoming over the next year. The NYSE was able to answer many of the queries of SIA member firm representatives and volunteered that many answers are still under development. SIA looks forward to a continuing dialogue with the NYSE as specific questions are identified.

SIA appreciates this opportunity to provide comment on the NYSE's proposed Hybrid. If you have any questions or comments, please contact the undersigned at 212-618-0526 or Ann Vlcek at 202-216-2042.

Sincerely,

Donald D. Kittell
Executive Vice President

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