

Mary Yeager
Assistant Secretary

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June 2, 2006

Michael Macchioroli
Division of Market Regulation
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Mr. Macchioroli:

On December 29, 2005, the New York Stock Exchange (the "Exchange" or "NYSE") pursuant to Rule 19b-4¹ under the Securities Exchange Act of 1934², submitted to the Securities and Exchange Commission (the SEC" or "Commission") File No. SR-NYSE-2005-93 (the "Filing"), which proposed amendments to NYSE Rules 431 ("Margin Requirements") that would expand the scope of products that are eligible for treatment as part of the SEC approved Portfolio Margin Pilot Program.³ Specifically, the proposed amendments expand the current portfolio margining pilot program to include additional types of securities allowed in a portfolio margin account, specifically listed security futures contracts and listed single stock options.⁴ Amendments to

¹ See CFR 240.19b-4

² 15 U.S.C.78a *et seq.*

³ See SEC Release No. 34-52031 (July 14, 2005) 70 FR 42130 (July 21, 2005) (SR-NYSE-2002-19). On July 14, 2005, the SEC approved on a Pilot Basis expiring July 31, 2007, amendments to Exchange Rule 431 to permit the use of a prescribed risk-based margin requirement ("portfolio margin") for certain specified products as an alternative to the strategy based margin requirements currently required in section (a) through (f) of the Rule. Amendments to Rule 726 were also approved to require disclosure to, and written acknowledgment from, customers in connection with the use of portfolio margin. See NYSE Information Memo 05-56, dated August 18, 2005 for additional information

⁴ Chairman of the SEC, Christopher Cox, in a letter dated September 27, 2005 to William J. Brodsky and John A. Thain, the Chief Executive Officers of CBOE and New York Stock Exchange, respectively, encouraged each SRO to file a rule proposal to make portfolio margin available to equity options and security futures with the SEC by year-end 2005.

Rule 726 (“Delivery of Options Disclosure Document and Prospectus”) were also proposed to include the SEC approved products on the disclosure document required to be furnished to customers pursuant to this rule.

The Filing was noticed for comments in the Federal Register on January 23, 2006.⁵ The comment period that ended February 13, 2006, resulted in three comment letters received dated February 13, 2006 from the Securities Industry Association, CitigroupGlobal Markets Inc and the Futures Industry Association.

The Exchange welcomes the comments received and the opportunity to respond to them. All of the comments were generally in favor of the proposal. Many of the comments included in these three letters have been addressed in a subsequent filing (see SR-NYSE-2006-13)⁶ that was made by the Exchange with the Commission on March 1, 2006. Specifically, in that expanded filing the Exchange proposed the elimination of the cross-margin account and the expansion of the types of eligible products that can be included in a portfolio margining account, which we encourage the Commission to adopt.

One commenter requested that firms be permitted to utilize proprietary risk models to calculate the customer margin requirements. The Exchange would like to gain additional experience with the use of such risk models before it can permit member organizations to utilize these models for margining purposes. After obtaining such experience the Exchange, in consultation with the industry, will consider the use of such models.

One commenter suggested that the \$.375 per contract minimum requirement be reduced to be consistent with the \$.25 minimum requirement promulgated in Appendix A of Rule 15c3-1. The Exchange is concerned about the amount of potential leverage that can be created at each broker-dealer and the higher minimum requirement will serve as an added cushion in the event of a severe market movement. Even though positions in the account are hedged, we are concerned about potential illiquidity in the market that could create sizeable gap risk in the event that both sides of a hedge cannot be closed out at the same time.

⁵ See Release No. 34-53126 (January 13, 2006) 71 FR 3586 (January 23, 2006) (SR-NYSE-2005-93).

⁶ See Release No. 34-53577 (March 30, 2006) 71 FR 17539 (April 6, 2006) (SR-NYSE-2006-13).

The Exchange will continue to work with the Commission staff and respective industry committees to address future enhancements to portfolio margining.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Yeager". The signature is fluid and cursive, with a long horizontal stroke extending to the right from the end of the name.

Mary Yeager
Assistant Secretary