

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56107; File No. SR-NYSE-2007-56)

July 19, 2007

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Extending the Portfolio Margin Pilot Program under NYSE Rules 431 (Margin Requirements) and 726 (Delivery of Options Disclosure Document and Prospectus)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Exchange Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 28, 2007, the New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. The Exchange has designated the proposed rule change as constituting a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposal effective upon filing with 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 NYSE is filing with the Commission rules previously approved in order to secure a one year extension of the pilot program (from August 1, 2007 until July 31, 2008) reflected in the changes embodied in SR-NYSE-2006-13, which was approved by

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4.

the Commission on December 12, 2006 on a pilot basis, to expire on July 31, 2007.⁵ The previously approved changes to NYSE Rule 431 (“Margin Requirements”) expanded the scope of products that are eligible for treatment as part of the original Commission-approved portfolio margin pilot program⁶ and expanded pilot;⁷ eliminated the \$5 million equity requirement, except for accounts that carry unlisted derivatives; and eliminated the use of a cross-margin account for margining eligible securities products with eligible commodity products. The approved pilot rules also deleted the “Sample Portfolio Margining and Cross Margining Risk Disclosure Statement to Satisfy Requirements of Exchange Rule 431(g),” previously found in NYSE Rule 726 (“Delivery of Options Disclosure Document and Prospectus”).⁸

There is no change to the rule text with this proposed rule change. The text of the proposed rule change is available at the NYSE’s Web site (<http://www.nyse.com>), at the principal office of the NYSE, and at the Commission’s Public Reference Room.

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

⁵ See Exchange Act Release No. 54918 (December 12, 2006), 71 FR 75790 (December 18, 2006) [SR-NYSE-2006-13].

⁶ See Exchange Act Release No. 52031 (July 14, 2005), 70 FR 42130 (July 21, 2005) [SR-NYSE-2002-19]; see also NYSE Information Memo 05-56, dated August 18, 2005, for additional information.

⁷ See Exchange Act Release No. 54125 (July 11, 2006), 71 FR 40766 (July 18, 2006) (SR-NYSE-2005-93); see also NYSE Information Memo 06-57, dated August 2, 2006, for additional information.

⁸ See supra note 5.

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 is proposing to extend for one year the portfolio margin pilot program,⁹ which has been expanded to make the following products eligible for treatment under portfolio margin requirements: all margin equity securities,¹⁰ listed options, unlisted derivatives, and security futures products, provided certain requirements are met. The Exchange believes that the benefits which these regulations deliver, together with the widespread industry acceptance of the changes, supports a one year extension of the pilot program. Such an extension will give the Exchange an opportunity to better gauge the impact of the changes to the credit profile of its member organizations and to determine whether changes to the pilot are needed. The Exchange will also seek to determine whether fixed income securities should be added to the list of eligible products.

The proposed rule change will facilitate the continuing evaluation of the portfolio margin pilot. The Exchange believes that the proposed rule change is non-controversial, given the extensive prior publication of the portfolio margining rules, their previous

⁹ See supra note 5.

¹⁰ The term “margin equity security” utilizes the definition at Section 220.2 of Regulation T of the Board of Governors of the Federal Reserve System, excluding a non-equity security.

approval in pilot status, the lack of problematic public comment on prior filings, and the lack of comment on the December 2006 approval of the pilot program.¹¹

a. The Original Pilot

On July 14, 2005, the Commission approved the original portfolio margin rules that amended Exchange Rules 431 and 726 to permit, on a two year pilot basis, the use of a prescribed risk-based methodology¹² for listed, broad-based U.S. index options and index warrants, along with any underlying instruments, as an alternative to the strategy or position based margin requirements,¹³ currently required in Rule 431(a) through (f).

b. Portfolio Margin Requirements

Portfolio margining is a margin methodology that sets margin requirements for an account based on the greatest projected net loss of all positions in a product class or group. The pilot utilizes a Commission-approved theoretical options pricing model.¹⁴

¹¹ See supra note 5.

¹² See supra note 6.

¹³ Prior to the portfolio margin pilot, member organizations were solely subject, pursuant to NYSE Rule 431, to strategy or positioned-based margin requirements. This methodology applied specific margin percentage requirements as prescribed in Rule 431 to each security position and/or strategy, either long or short, held in a customer's account, irrespective of the fact that all security (e.g., options) prices do not change equally (in percentage terms) with a change in the price of the underlying security. When utilizing a portfolio margin methodology, offsets are fully realized, whereas under strategy or position-based methodology, positions and or groups of positions comprising a single strategy are margined independently of each other and offsets between them do not efficiently impact the total margin requirement.

¹⁴ The theoretical options pricing model is used to derive position values at each valuation point for the purpose of determining the gain or loss. For purposes of the portfolio margin pilot, the amount of initial and maintenance margin required with respect to a portfolio is the larger of: (1) the greatest loss amount among the valuation calculations; or (2) the sum of \$.375 for each option and security future

These scenarios are designed to measure the theoretical loss of the positions given changes in both the underlying price and implied volatility inputs to the model. Accordingly, the margin required is based on the greatest loss that would be incurred in a portfolio if the value of its components move up or down by a predetermined amount. Member organizations are no longer required to compute a margin requirement for each individual position or strategy for eligible positions in a customer's portfolio margin account.¹⁵

Utilizing portfolio margin enables the portfolio to be subjected to certain preset market volatility parameters that reflect historical moves in the underlying security thereby assessing potential loss in the portfolio in the aggregate. Accordingly, such a methodology provides a more risk based calculation of margin requirements.

As a pre-condition to permitting portfolio margining, member organizations are required to establish comprehensive procedures and controls to monitor credit risk to the member organization's capital, including intra-day credit risk and stress testing of portfolio margin accounts. Further, member organizations must establish procedures for regular review and testing of these required risk analysis procedures and controls.¹⁶

c. Expanded Pilot

On December 29, 2005, the Exchange filed with the Commission a proposed rule change to Rule 431 to expand the approved products for certain customers eligible for treatment under portfolio margin requirements to include security futures and single stock

in the portfolio multiplied by the contract's (e.g. 100 shares per contract) or instrument's multiplier.

¹⁵ See NYSE Rule 431.

¹⁶ See NYSE Rule 431(g).

options.¹⁷ Collectively, these approved pilot rules are referred to as the “Expanded Pilot.”¹⁸ The Expanded Pilot was noticed for comment in the Federal Register on January 23, 2006.¹⁹ The comment period that ended February 13, 2006, resulted in three comment letters received, dated February 13, 2006, from the Securities Industry Association, Citigroup Global Markets Inc. and the Futures Industry Association.

On June 2, 2006 the Exchange filed with the Commission a response to the comment letters. In its response to comments, the Exchange noted that many of the comments included in these three letters were addressed in a subsequent rule filing, SR-NYSE-2006-13²⁰ that was made by the Exchange with the Commission on March 1, 2006. Specifically, in SR-NYSE-2006-13, the Exchange proposed the elimination of the cross-margin account and the expansion of the types of eligible products that could be included in a portfolio margining account.²¹

¹⁷ The Exchange and CBOE received letters in late September 2005 from SEC Chairman Cox asking the SROs to consider expanding portfolio margining to a broader universe of products. The SEC encouraged the Exchanges to file a rule proposal before year-end 2005.

¹⁸ The discussion under the “Expanded Pilot” section includes the portfolio margin rules, as expanded to include security futures and single stock options only. This discussion does not include the portfolio margin rules as approved by the Commission in December 2006. See Sections I and II.A.1. for a discussion of the portfolio margin rules as approved in December 2006; see also supra note 5.

¹⁹ See Exchange Act Release No. 53126 (January 13, 2006) 71 FR 3586 (January 23, 2006) [SR-NYSE-2005-93].

²⁰ See Exchange Act Release No. 53577 (March 30, 2006) 71 FR 17539 (April 6, 2006) [SR-NYSE-2006-13].

²¹ See supra note 5.

On July 11, 2006, the Commission approved the Expanded Pilot²² to include listed security futures and listed single stock options as eligible products for customer portfolio margining.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the Section 6(b) of the Act,²³ in general, and furthers the objectives of Section 6(b)(5)²⁴ of the Act, in particular, because it is designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices, and, in general, to protect investors and the public interest. A one year extension of the portfolio margin pilot program is consistent with this section in that it will enable the Exchange to better judge the operation and benefit of the rules, which in turn are expected to better align margin requirements with the actual risk of hedged products, potentially alleviate excess margin calls and potentially reduce the risk of forced liquidations of positions in customer accounts. In addition, it will allow the Exchange to study the impact of these changes to the credit profile of its member organizations.

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 Exchange Act.

²² See supra notes 7 and 18.

²³ 15 U.S.C. 78f(b).

²⁴ 15 U.S.C. 78(f)(b)(5).

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 foregoing rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days after the date of filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act²⁵ and Rule 19b-4(f)(6) thereunder.²⁶

At any time within 60 days of the filing of such 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.

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

²⁵ 15 U.S.C. 78s(b)(3)(A).

²⁶ 17 CFR 240.19b-4(f)(6).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSE-2007-56 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-NYSE-2007-56. 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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. 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-2007-56 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.²⁷

Florence E. Harmon
Deputy Secretary

²⁷ 17 CFR 200.30-3(a)(12).