

published: 8.26.98

VIA ELECTRONIC MAIL & FEDERAL EXPRESS

August 26, 1998

Mr. Jonathan Katz
Secretary
Securities & Exchange Commission
Mail Stop 6-9
450 Fifth Street, N.W.
Washington, DC 20549

RE: File No. SR-NYSE-98-14/Notice of Filing of Proposed Rule Change by New York Stock Exchange, Inc. Relating to Margin Requirements

Dear Mr. Katz:

The Bond Market Association (the "Association")¹ appreciates the opportunity to comment on the proposed rule change filed by the New York Stock Exchange, Inc. ("NYSE") relating to margin requirements for debt securities. The Association applauds the efforts of the NYSE over the last two years to comprehensively re-visit and update their margin rule, NYSE Rule 431, in a cooperative effort with the securities industry. With respect to the current rule change proposal regarding margin requirements for non-equity securities, the Association appreciates the work done by the NYSE's "Good Faith" Committee, much of which is embodied in the current rule change proposal.

The Association strongly supports the proposal, which reduces margin requirements that burden the funding markets, consistent with the policies embodied in the National Securities Market Improvement Act of 1996 and as reflected by recent Federal Reserve Board margin regulation changes granting "good faith" margin value to all non-equity securities, while still retaining adequate safeguards for the safety and soundness of the markets and NYSE member firms. We believe that the lower margin percentages proposed by the rule change more closely reflect market participants' credit and risk management practices and the creditworthiness of the types of securities and counterparties involved.

While supporting the proposed rule change from a policy perspective, we believe a few technical aspects of the rule change should be clarified in the final rule proposal.

1) Revision of the Definition of "Exempt Account"

The proposed rule change would revise the definition of "exempt account", currently in paragraph (e)(2)(C) of the Rule, to increase the financial threshold from \$16 million to

\$40 million of net worth. The Association understands that the intention of the proposal is to raise the dollar threshold for accounts qualifying for more favorable treatment under proposed paragraphs (e)(2)(F) and (e)(2)(G) of the Rule. We believe that the new increased threshold was not intended to, and should not, supersede the definition of "exempt account" contained in subsection (f)(2)(D)(iv), which specifically defines "exempt account" to include persons having net tangible assets of at least \$16 million, as well as (in the case of transactions in mortgage-related securities) certain mortgage bankers, for purposes of margin requirements for options on US government securities. We believe it would be helpful for this to be clarified in the final rule.

2) "Grandfathering" of Credit for Accounts Meeting Current Thresholds

Market participants have raised questions concerning the practical application of the new increased dollar thresholds to determine exempt account status when the rule change becomes effective, and how extensions of credit to such accounts that qualified under the \$16 million threshold but will not qualify under the increased \$40 million threshold should be treated for purposes of the rule. The Association understands that the NYSE's current interpretation of Rule 431 is that a customer's status as a "designated" or "exempt" account should be determined as of the date of the initial extension of credit to the customer. Therefore, extensions of credit to exempt accounts meeting the \$16 million threshold should be "grandfathered" and permitted to be maintained based on exempt account status even after the new increased threshold becomes effective. However, any new credit, or extensions or "roll-overs" of existing credit extensions, would be treated as new credits at that point in time. Exempt accounts which do not meet the new increased threshold would no longer qualify for preferable margin treatment. We believe this approach is consistent with the NYSE's current treatment of exempt accounts which meet the \$16 million threshold at inception of the credit but then fall below the threshold at some future point. It would be helpful to member firms if this interpretation were clarified in the final rule.

In summary, the Association firmly believes that the NYSE's proposed changes to Rule 431 are consistent with just and equitable principles of trade and investor protection. We also believe they are consistent with the Securities Exchange Act of 1934 and the margin rules and regulations of the Federal Reserve Board. For those reasons, the Association urges the Securities and Exchange Commission to promptly approve the NYSE's proposed rule changes.

The Association looks forward to continue working with the NYSE and the Commission to achieve further reforms to NYSE Rule 431.

If you have any questions concerning this letter, please feel free to contact the undersigned at 212.440.9400.

Very truly yours,

s/s PAUL SALTZMAN
Senior Vice President and General Counsel

s/s PATRICIA BRIGANTIC
Vice President and Senior Associate General Counsel

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Members of the Capital Committee
Members of the Reg. T Working Group
Members of the Funding Division Executive Committee
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FOOTNOTES

- 1 The Bond Market Association represents securities firms and banks that underwrite, distribute and trade in fixed income securities, both domestically and internationally. Our members are actively involved in the funding markets for such securities, including the repurchase agreement and securities lending markets. Further information regarding the Association, its members and activities, can be obtained from our website (www.bondmarkets.com).