

**MEMO# 24960**

February 11, 2011

# **SEC Approves NYSE Rules for Bond Trading License and Bonds Liquidity Providers**

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TO: FIXED-INCOME ADVISORY COMMITTEE No. 20-11 RE: SEC APPROVES NYSE RULES FOR BOND TRADING LICENSE AND BONDS LIQUIDITY PROVIDERS

The Securities and Exchange Commission approved a proposed rule change filed by the New York Stock Exchange (“NYSE” or the “Exchange”) to establish a twelve-month pilot program to create a bond trading license (“BTL”) for member organizations that desire to trade only debt securities on the Exchange and establish a new class of NYSE market participants, Bonds Liquidity Providers (“BLPs”). [\[1\]](#) The relevant aspects of the rule change are summarized below.

## **Bond Trading License**

Currently, an approved NYSE member organization may obtain a trading license that permits trading of all debt and equity securities listed on the Exchange. Under new NYSE Rule 87, the new bonds-only trading license will be available to any approved NYSE member organization that wishes to trade only debt securities on the Exchange.

## **Bonds Liquidity Providers**

The Exchange is also creating a new class of market participant, BLPs, which will function similarly to Supplemental Liquidity Providers. [\[2\]](#) Under new NYSE Rule 88, the Exchange will provide an additional incentive in the form of a rebate to BLPs for quoting and adding liquidity to the bond market by means of the BLP program. Rule 88 specifies qualification requirements for member organizations that wish to serve as BLPs, and imposes specific quoting requirements in order for a BLP to be eligible to receive a liquidity provider rebate. BLPs that fail to meet the quoting requirements would no longer be eligible for the rebate and may, in the Exchange’s discretion, have one or more issues revoked or be disqualified

as a BLP.

The Exchange has established a system to match BLPs with issuers for purposes of the pilot program. The matching process for the largest issuers will be determined on a random basis, while the matching process for smaller issuers will be determined in favor of those BLPs willing to offer the broadest coverage to such issuers. In approving the rule change, the SEC noted the importance of the BLP program initially being on a pilot basis, as it will allow the Exchange and the SEC to review the suitability of the rules in the future should the characteristics of the bond platform, including but not limited to trading activity, change.

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#### **endnotes**

[\[1\]](#) See Securities Exchange Act Release No. 63736 (SR-NYSE-2010-74) (Jan. 19, 2011).

[\[2\]](#) Supplemental Liquidity Providers, or SLPs, were created to trade equity securities in the Exchange's New Market Model. See Securities Exchange Act Release Nos. 58877 (Oct. 29, 2008) (SR-NYSE-2008-108) (establishing SLP Pilot); 58845 (Oct. 24, 2008) (SR-NYSE-2008-46) (establishing New Market Model Pilot); 62813 and 62819 (Sept. 1, 2010) (NYSE-2010-61 and NYSE-2010-62) (extending the Pilots until January 31, 2011); and 63616 and 63618 (Dec. 29, 2010) (NYSE-2010-85 and NYSE-2010-86) (extending the Pilots until the earlier of the SEC's approval to make the Pilots permanent or August 1, 2011).