

# THE FINANCIAL SERVICES ROUNDTABLE

85106730



1001 PENNSYLVANIA AVENUE, NW  
SUITE 500 SOUTH  
WASHINGTON, DC 20004  
TEL 202-289-4322  
CELL 202-257-4444  
FAX 202-289-1903

E-Mail: [sbartlett@fsround.org](mailto:sbartlett@fsround.org)  
[www.fsround.org](http://www.fsround.org)

**STEVE BARTLETT**  
PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

123

April 26, 2004

Mr. William H. Donaldson  
Chairman  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549-0609

57-10-04

Re: "Statement in connection to the hearing on Regulation NMS on April 21."

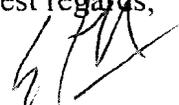
Dear Mr. Chairman:

On behalf of the member companies of The Financial Services Roundtable, thank you for your dedication and hard work on the Securities and Exchange Commission's (SEC) hearing on Regulation NMS. We are pleased to offer a statement on the hearing and this issue which is very important to our companies. The Roundtable supports the introduction of greater competition and flexibility in the U.S. market structure. We will file formal comments on Proposed Regulation NMS by the May 24 deadline.

The Financial Services Roundtable unifies the leadership of large integrated financial services companies. Its membership includes nearly 100 firms from the banking, securities, investment and insurance sectors. In addition to communicating the benefits of integrated financial services to the American public, the Roundtable is a forum in which financial services industry leaders address critical public policy issues.

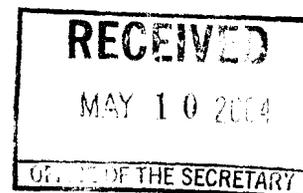
The Roundtable's member companies, the Roundtable staff and I look forward to working with you on Regulation NMS to ensure that the financial services industry's views are taken into consideration. Please let us know if we can be of any assistance to you in the future.

Best regards,

  
Steve Bartlett

Enclosure

cc: Ms. Annette Nazareth  
Mr. Robert Colby



**FINANCIAL SERVICES ROUNDTABLE**  
**Statement on Proposed Regulation NMS and Market Structure Issues**  
**April 21, 2004**

The Financial Services Roundtable appreciates the opportunity to share its views on proposed Regulation NMS and broader market structure issues. The Roundtable unifies the leadership of largest integrated financial services companies. Its membership includes nearly 100 firms from the banking, securities, investment and insurance sectors. This broad membership, including issuers, intermediaries, and institutional investors, makes the Roundtable uniquely qualified to comment on securities market structure issues.

In Regulation NMS, the Commission has proposed to address a number of important and complicated issues. The Roundtable commends the Commission for addressing the need to modernize market structure. While these issues may seem esoteric at times, they have important implications for the efficiency of our markets, the ability of issuers to raise capital, and the long-term returns on investments. Developments in recent years, including decimalization and the rise of electronic trading, make this reexamination imperative.

Following are Roundtable positions on general market structure issues as well as specific aspects of proposed Regulation NMS.

---

- On the issue of access, the Roundtable believes there should be more flexibility and greater scope for the marketplace to determine how linkages work and the technology used. “Soft linkages,” such as the model implemented by the NASD Display Facility, should be considered as an alternative to the current model of mandated “hard linkages.” It allows the marketplace a greater role to determine technology. The Roundtable is therefore pleased that the overall thrust of the SEC’s proposal is to set the standards of access that market participants must meet and to avoid government-imposed linkages. The proposed automatic execution requirements would seem to run counter to this general direction – as the Commission itself notes, it could be drawn into determining performance standards that could quickly become inflexible and antiquated.
- The Roundtable supports the proposal to increase the participation of market participants in the market data plans. These steps could help promote a more cost-effective and user-friendly system of market data consolidation. The Roundtable also sees merit in the Commission’s proposal to allow market participants to make depth of order book data available subject to equal access requirements.
- The Commission may wish to consider whether the governance of the ITS plan should also include a voting or advisory role for market participants other than the exchanges. More consideration should be given to the “veto” each exchange has over ITS changes.
- In general, the Roundtable expects to support the restrictions on quoting in sub-pennies proposed by the Commission. Quoting in sub-pennies allows market participants to gain an execution priority over others’ limit orders without a commensurately significant economic difference. This could discourage investors from placing limit orders, which would reduce liquidity.

The Roundtable believes the Commission is to be commended for grappling with market structure issues and for putting specific proposals on the table. The Roundtable looks forward to commenting in greater detail and in working with the Commission to refine the amendments.

- As a first principle, the Roundtable supports the introduction of greater competition and flexibility in U.S. securities market structure. As identified back in 1975, competition has the potential to advance the other goals of our national market system: efficiency, transparency, innovation and so on. To the greatest extent possible, Roundtable members believe that competition, rather than regulation, should determine the structure of U.S. markets. Consistent with investor protection and fiduciary responsibilities, investors and intermediaries should have the greatest choice possible in implementing their trading strategies.
- With regard to the operation of exchanges, the Roundtable again believes there should be a greater role for competition. It believes consideration should be given to allowing the marketplace greater ability to determine whether actively traded stocks and small orders are better suited to a matching process than to the traditional mode of trading with a specialist or market maker.

Turning specifically to proposed Regulation NMS, the document covers a number of distinct issues and offers a number of specific amendments, some of them quite complicated. The Roundtable expects to file a more detailed written comment letter before the close of the public comment period next month. At this time, the Roundtable can offer some reaction to some of the issues raised in Regulation NMS:

- The Roundtable supports reform of the “trade through” rule in the Intermarket Trading System (ITS). The current “one size fits all” approach may not serve the marketplace well. Many market participants would appreciate a greater ability to prioritize factors such as speed and size over “best price.” At the same time, small retail orders must continue to receive the protection of best execution. The Roundtable believes the overall approach taken by proposed Regulation NMS, to allow customers to “opt out” of the trade-through rule and to distinguish between electronic and manual markets, are intended to strike this very balance. Our members are reviewing carefully the responsibilities that would be placed on brokers, as distinguished from the SEC or self-regulatory organizations, to enforce compliance. They are also focusing on whether retail customers should have the ability to opt out of the protection of the rule, as the Commission proposes, and on whether the order-by-order disclosure and record-keeping is workable in practice. Some members may suggest that institutional customers be able to choose a “blanket” opt-out from the rule.
-