The Transaction Auditing Group, Inc.
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April 19, 2010

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090
Via email to rule-comments@sec.gov

Re: Release No. 34-61354; File Number S7-02-10
Concept Release on Equity Market Structure

Dear Ms. Murphy:

The Transaction Auditing Group (TAG) introduced standardized reports on execution quality in the mid 1990's coincident with the release of the SEC's "Order Handling Rules" which mandated the "regular and rigorous" review of execution quality of customer orders. Since that time, we have expanded our services to include the preparation of Rule 605 and Rule 606 reports, the monitoring of trades against the requirements of Rule 611, various products relating to best execution measurement, the analysis of listed options, and deep analyses of overall market quality. TAG receives and archives every equity and option market data message disseminated as well as detailed daily order and trade feeds from most major trading centers and trading service providers. Our customers include exchanges, broker-dealers, ATS's, clearing firms and market makers in the United States and Europe. Over the last fifteen years TAG has conferred with the SEC and it is in this context that we offer our opinions on some of the issues raised in the Concept Release.

Market Structure Performance

The equities markets have evolved substantially since the introduction of Rule 605. Venues are executing trades more quickly after order receipt than ever before, spreads have become narrower making meaningful price improvement harder to achieve, linkages have created a more interconnected market system and competitive pressure has increased dramatically among trading centers. The dynamics at work in today's marketplace indicates that the metrics mandated under the Rule need to be modernized and the definition of "covered orders" needs to be expanded to allow for more comprehensive comparisons of trading centers. We propose the following as possible changes to the Rule:

- Execution Speed
    - The adjustment of speed categories to breakout executions at the sub-second level. For marketable orders, it is now routine for trades to be executed in less than a second and often in only a few milliseconds. For the month of February

2010 for all marketable orders from 100 to 9,999 shares for all securities, published Rule 605 statistics show 97.4% of shares executed in 9 seconds or less across all reporting venues. We suggest the following five categories for speed for market and marketable limit orders: 0 to 9 milliseconds, 10 to 99 milliseconds, 100 to 499 milliseconds, 500 to 999 milliseconds and 1 to 10 seconds. We suggest the following five categories for speed for non- marketable limit orders which covers about 95% of shares for the February 2010 reporting period: 0 to 999 milliseconds, 1 to 9 second, 10 to 29 seconds, 30 to 59 seconds and 60 to 299 seconds. We also suggest that a single average execution speed statistic be added covering all reported trade activity.

- Liquidity Enhancement
  - The addition of a liquidity enhancement (“size improvement”) measurement to gauge the frequency with which a trading center executes trades at a size exceeding the displayed size of the prevailing best bid or best offer. This allows users of the reports to assess the ability of a trading center to uncover sources of liquidity or their willingness to accept risk when handling customer orders.

- Realized Spread
  - The five minute post-trade period now used for calculation of realized spread should be replaced with a variable post-trade reference time based upon the trading volume or quoting activity in each covered security. A minimum value of 5 seconds would be used for the most active securities and a maximum of 10 minutes for the least active.

- Covered Trades
  - Rule 605 requires the reporting of the number of covered orders and the number of covered shares. We would suggest the addition of a “covered trades” tally to make a more comprehensive analysis of trading center behavior possible. It is important to be able to measure the extent to which orders are executed as a series of small fills.

- Non-marketable Limits
  - Rule 605 excludes effective spread, price improvement and outside the quote statistics for non-marketable limit orders. Given that these orders represent a major portion of customer orders, the Rule should be amended to include all 605 statistics for all covered orders regardless of order type. For the executed portion of these non-marketable limits the price-related metrics should be derived using the NBBO at the time the order became marketable. For execution speed statistics, the time between trade execution and the time the order became marketable would be reported.

- Near-the-quote Limit Orders
  - The near-the-quote limit order definition should be amended to account for the varying price of different securities. The current methodology (limit price within 10 cents of the BBO) should be changed to a relative threshold such as 10 basis points from the prevailing BBO.

- Pre-opening Orders
  - The market opening price is available for all NMS securities and is a viable benchmark for the analysis of pre-opening orders. All existing Rule 605 metrics are applicable as is with the exception of execution speed. The calculation of execution speed should be based upon the actual time of order execution versus

the time the market opens for each security, which is most commonly 9:30 but may be slightly delayed for some listed stocks.

- Transaction Costs and the Execution of Large Orders
  - The measurement of explicit transaction costs is not possible from public data, but the accurate measurement of the execution quality of each individual child order and the associated parent order is possible. We believe it is valuable to measure the execution quality of large orders independent of the cost component. Our own analyses allow many of our institutional customers to compare the effectiveness of various brokers' and trading centers' performance in the execution of large orders broken down into smaller child orders examined using existing methodologies. If not supplied, additional explicit cost data can be factored in afterwards.

- Odd Lots
  - Many orders are executed as a series of odd-lot transactions. For the past fifteen years we have analyzed these transactions using the same metrics as we use for the analysis of round-lot and mixed-lot orders. The results are necessary for a complete analysis of a trading center's performance. We believe odd lots should be covered under Rule 605.

- Rule 605 and Rule 606
  - The utility of the combination of Rules 605 and 606 to the individual investor is limited since the Rule 606 routing percentages coupled with the overall execution quality statistics in Rule 605 only give a general indication as to the results an individual investor can expect. Routing information and the associated material aspects of the relationship concerning the broker's arrangements, if any, with the various trading centers to which they route does not provide sufficient data to assess and compare performance. We feel that Rule 605 should be extended to brokers-dealers and all other firms or systems involved in the handling and execution of orders. Extending the reach of Rule 605 will make it possible for investors and professionals to assess the execution quality provided by all the entities that participate in the execution of securities orders.

We thank you for the opportunity to comment on the Concept Release.

Sincerely,

Alan R. Shapiro
President and Chairman
The Transaction Auditing Group, Inc.