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The International Association of Small Broker-Dealers and Advisers www.iasbda.com supports the Commission's proposal to ban flash orders. We are particularly impressed with the speed in which the Commission has addressed this problem.We have not seen the Commission encourage commenters to respond within the comment period as it has on p.33 noting its intent to act quickly. However we are more interested in the statement at page 16 of the release that "its clear responsibility is to uphold the interests of long term investors" when there is a conflict with professional short term traders. We contrast this with the following commentary from a well respected financial news editor:

"Despite a few arcane rules that the SEC may eventually impose, steroidal trading is likely to continue unabated. Hyperkinetic traders will defend their frenzied trading by opining that it adds liquidity, which is good for everyone. (Sure, and if you believe that, let me sell you some auction rate securities.)

The truth is, for average people, Wall Street's trading arenas are like Times Square in the raunchy days before Disneyfication: A glittery, dangerous place that becomes more exciting and iconic the farther you are from the actual tawdry mess.

All this trading benefits no one but traders, the exchanges - which are now for-profit businesses - and computer salespeople. Sure, as a nation, we should invest in more productive (and boring) things like faster railroads and better cell phones. On the other hand, if the financial markets didn't waste capital on faster trading, they'd probably waste it on leveraged buyouts, which do more damage."
http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20091014/FREE/910149991/1094/INDaily01

The Commission must focus on this common perception. We have yet to see the preference for long term investors applied in 10 years of Reg Sho considerations or with respect to trading ahead of research or customer orders or in the selection of participants for roundtables and advisory committees. Indeed we rarely have seen this principle elucidated as it is in this context. Rather we see it as an idealistic goal proffered to the masses while professional traders and mutual funds go the opposite way.The Commission notes on p.20 the strong incentive for markets to maximize their executed volume and that flash orders provide a competitive advantage.We do not think that the fairness of those markets often outweighs this competitive mandate especially since they became for profit businesses.The Commission must ask whether a for profit business can put fsirness ahead of profits?

We agree with Senator Kaufman and others that this fundamental principle of our capital markets needs to be subject to a modern Pecora study See **Financial Times**,**Preventing a horror movie ending in the US markets By Edward E. Kaufman 10/16/02**

"Many on Wall Street assure us there is nothing to worry about. In their view, the dramatic proliferation of competing markets and the extraordinary rise in high velocity trading have had only beneficial results: greater liquidity, narrowed spreads and lower transaction costs for all investors.

Lost in this reflexive defense against meaningful government review, however, is a more overarching concern: the integrity of our capital markets, which are now too fragmented, too opaque and well beyond the effective surveillance of the Securities and Exchange Commission.

That’s why I have urged the SEC to undertake a comprehensive “ground up” review of a broad range of market structure issues before more piecemeal changes occur. We have seen this horror movie before, and only timely regulatory examination can best prevent a sequel: When markets develop rapidly and are not transparent, effectively regulated or fair, the movie’s ending scene can be one of tragedy affecting millions of people.

The facts speak for themselves. We’ve gone from too few stock markets to too many; from an era dominated by a duopoly of the New York Stock Exchange and Nasdaq to a highly fragmented market of more than 60 trading centres.

In competing for market share, those trading centres encourage or permit a variety of questionable practices. Dark pools, for example, which allow confidential trading that takes place away from the public eye, have flourished:

Five years ago, there were 18 dark pools comprising 1.5 per cent of the market's volume; today, over 50 dark pools execute over 12 per cent of market trades. And the total percentage of trades taking place in dark pools or internally at broker dealers, another source of private trading outside public markets, now approaches one quarter. For strictly retail investor orders, it may be twice that amount.

And when the average investor loses confidence in the integrity of our markets, when he or she believes that the price at which they are able to buy 100 shares of IBM is higher than it should be, even if only marginally, because of high frequency gaming strategies, then the reputation of our capital markets for basic fairness is significantly tarnished.

The SEC's review should be all-encompassing, reviving old ideas and examining new ones: should markets be centralised or decentralised; should we separate the markets based on investor types; what should be the role of market makers; what role might there be for real time risk management?

At a minimum, a few simple themes should guide us to a regulatory framework that permits vigorous competition while substantially reducing the possibility of a two-tiered trading network, where long-term investors are vulnerable to powerful trading companies that exist not to value or invest in the underlying companies, but to feed everywhere on small but statistically significant price differentials. "

In addition we believe the issue of long term investing should be addressed in every rule proposal. We also disagree with the notion that liquidity is today's guiding principle for our capital markets. Fairness is the guiding principle but too often many documents and statements issued by regulators emphasize liquidity much more frequently than fairness. How did that come about? It came about because in the last 25 years technology coupled with deregulation has become the answer to all problems on wall street. Is it a pure coincidence that scandals in the last 25 years have been far more prevalent than in the previous 25 year period? See testimony of Mark Cooper of the Consumer Federation of America. http://judiciary.house.gov/hearings/pdf/Cooper090317.pdf where he contrasts market fundamentalism with fairness. See also <http://www.consumerfed.org/pdfs/FinancialMarketReformReport.pdf>discussing specific reforms in financial services. We therefore applaud the Commission's action on flash orders but believe that the priority of long term investing has been the victim of market fundamentalism.As Captain Sullenberger says about the airline industry,"economics is linked to safety"while in financial services profits are linked to fairness.

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