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Securities and Exchange Commission
100 F St. NW
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Rule-comments@sec.gov

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Dear Securities and Exchange Commission:

As a former member of the NASD OTC Bulletin Board Advisory Committee I have some comments about FINRA's proposal to establish a Quotation Consolidation Facility (QCF).

Background:

Following pressure from Congress and the SEC, the NASD created the OTC Bulletin Board for unlisted securities. In the late 1990s, the SEC required OTCBB-traded companies to become SEC registrants, which forced a large number of companies off the OTCBB and onto the Pink Sheets.

For many years the NASD operated the OTCBB with old Nasdaq technology. They devoted very little in the way of resources to the market and let the infrastructure become obsolete. The NASD did not put in order routing or execution systems. In the meantime, private entities such as private brokerage firms, the Pink Sheets, and the NYSE/Arca ECN did put modern facilities into this marketplace.

FINRA is now proposing to scrap the old OTCBB, which is long overdue, and replace it with a new OTCBB that would effectively cover all equities not listed on an exchange. This reverses the previous

actions of the SEC to ensure better disclosure for investors by requiring firms to be SEC registrants in order to be traded on the OTCBB. FINRA proposes to add suffixes to the ticker symbols in order to distinguish between SEC registrants with current information and other firms.

I have some concerns about this proposal.

The OTCBB/ Pink Sheets world is a very different from the exchange listed world and provides a good laboratory for experimentation with market data.

The OTCBB and Pink Sheets world differs substantially from the exchange-listed world. There are thousands of small penny stock companies, including hundreds of shell companies. Information about companies is often much harder to obtain, both due to differences in reporting standards and in the existence of independent research coverage of these smaller companies along with other data. Trading systems and trading rules are also very different.

It is not at all clear that the netherworld of the OTCBB and Pink Sheets should be the same as the larger markets. Smaller companies have different needs than larger companies. In particular, these markets can serve as a laboratory to experiment with different rules to see what happens.

In particular, the Commission is well aware of the many complex issues regarding market data and has struggled for many years over the issue of how market data should be collected, priced, and disseminated. It is not clear at all that the current government mandated monopoly disclosure regime is the best market data regime. By leaving the market data for the OTC equities relatively unregulated, the Commission can observe what happens in a relatively unregulated world. So far, it appears that private entities have developed systems to provide modern data feeds and execution facilities.

The proposal would duplicate facilities already provided by the private sector.

The Pink Sheets already provide excellent quote consolidation in the OTCBB and Pink Sheets space. The proposing release from FINRA does not provide any indication that the new QCF would be any better than the facilities currently in place.

The proposal is unclear as to the pricing of the data feed and the sharing of the tape revenue.

In the proposal, the NBBO would be pumped out over the existing Nasdaq Level 1 data feed, just as OTC trades currently are. It is not clear how this would affect the pricing of this data feed. It is also not clear how this would affect the division of the tape revenue from that data feed. Would the proposed charge for each security quoted be thrown into the revenue pool that is split among all the exchanges, or would FINRA pocket it all? The proposal should contain detailed cost and revenue estimates so that we can see the impact on investors, exchanges, and other data providers.

The proposed symbology should be consistent with exchange-listed symbology.

The proposing release promises that the different classes of stocks will be differentiated with suffixes applied to the symbols. It is not clear how this will be done, or whether the proposed suffixes will be consistent with the symbology used by the listing exchanges. The Commission has recently dealt with the battle between NASDAQ and the NYSE over symbols, and part of the outcome of that fight was to come up with more consistent symbology. We should not move backward by having different symbology for OTC securities.

There are better ways to get the OTC NBBO onto more desks.

As an individual investor, the only advantage that I can see is that the Pink Sheets real time NBBO would be available at no extra cost as part of what I already pay for my real time exchange data feeds, so that I will not have to pay \$3 per month for the feed. Similarly, brokerage firms would not have to pay extra for the Pink Sheets NBBO, assuming that the existing data feed prices are unchanged. However, there are better ways to get the Pink Sheets NBBO into the Nasdaq Level 1 data feed, if that is really the goal of this proposal. Rather than attempt to duplicate the Pink Sheets system, a deal could be worked out in which the Pink Sheets data feed is purchased and disseminated via the Nasdaq Level I data feed. This would probably cost FINRA less than trying to build a whole new quote consolidation facility. (Indeed, it is not clear at all that we need separate Tapes A, B, and C anymore. Serious consideration should be given to consolidating the “consolidated” tapes.)

This proposal should go back to the drawing board.

In short, the brief 12 page FINRA proposal does not make a compelling case for the proposal. The proposal as written does not document what problems it is trying to solve. It does not indicate cost and revenue estimates. It does not indicate that the symbology will be consistent with other markets. The track record of FINRA in maintaining the OTCBB does not bode well for how well it would operate and maintain the new system after it pushes out the private sector.