

# ALLIANCE OF FLOOR BROKERS

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U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090.

## Advisor

Arthur D. Cashin, Jr.

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*Executive Director & COO*

Re: File No. SR-NYSE-2011-56, SR-NYSEAmex-2011-86 Order  
Instituting Proceedings to Determine Whether to Disapprove Proposed Rule  
Changes to Codify Certain Traditional Trading Floor Functions That May Be  
Performed by Designated Market Makers and to Permit Designated Market  
Makers and Floor Brokers Access to Disaggregated Order Information

Dear Ms. Murphy,

The Alliance of Floor Brokers (AFB) represents a broad cross section of the NYSE Trading Floor license holders including Designated Market Makers (DMMs), Independent Floor Brokers, and "House" Floor Brokers. The AFB has commented in the past regarding recent changes in market structure, SEC concept releases, and the activity that surrounded the "flash crash" and welcomes this opportunity to comment on the SEC Order Instituting Proceedings to Determine Whether to Disapprove Proposed Rule Changes to Codify Certain Traditional Trading Floor Functions... (SR-NYSE-2011-56 and SR-NYSEAmex-2011-86)

The AFB has long maintained that floor brokers, who act as pure and non-conflicted agents, are essential to the diverse needs of customers, many of whom are Institutional investors both large and small. In past letters we have emphasized our belief that brokers and DMMs on the floor of the New York Stock Exchange are held to the highest standard in the financial industry. We believe that no group of registered participants within the market place is regulated more stringently or more often. In particular, floor brokers, while acting as agents often are the last to "touch" a customer's order before an execution that is not only subject to both SEC and FINRA requirements, but also subject to the needs and standards of brokers' diverse customers, all while following the tenets of best execution which of course is paramount.

Both the SEC as well as all market participants are well aware of the significant changes that have occurred in U.S. equity markets since the implementation of Regulation NMS. Since then, the NYSE has continued to develop and maintain a market place that blends the very best that automation, technology and human interaction can offer to all investors. The AFB applauds the NYSE's ongoing effort and commitment to providing all customers a true and free range of execution and information choices which includes among other things, a physical trading floor environment. It is against this backdrop that the Alliance of Floor Brokers is concerned that the SEC has begun proceedings to determine whether to disapprove SR-NYSE-2011-56 and SR-NYSE Amex-2011-86.

It is especially troubling in light of the fact that *not a single comment in opposition to the NYSE and NYSE Amex rule filing proposals was received by the Commission during the public comment period.*

The AFB would like to take this opportunity to address specific areas and topics highlighted in the SEC's comments and contained in its decision to implement proceedings to determine whether to disapprove SR–NYSE–2011–56 and SR–NYSEAmex–2011–86 and grounds for disapproval under consideration.

The SEC has expressed concern regarding *"DMMs and Floor brokers' access to potentially valuable information about individual orders on the SROs that is not available to other exchange members or market participants." This information would include the price and size of individual orders on the SROs, as well as the entering and clearing firm for such orders..."*

AFB response:

- ☐ It is the AFB's belief that the objective of this proposal was simply to codify and clarify longstanding and basic functionalities and features that have always been integral to the value differentiation that a physical trading floor can offer.
- ☐ Until recently, when the NYSE voluntarily suspended this capability in order to formally file the rule in question, DMMs were able to access individual order information to provide support on the Trading Floor and to assist in the efficient operation of the Exchange market and maintain fair and orderly markets.
- ☐ Furthermore, these Trading Floor functions were performed by DMMs *before* the New Market Model pilot was approved by the Commission, and the functions were described in the Exchange Floor Official Manual.

Simply put, the administrative functions described in the rule proposal are not new to the NYSE marketplace and have been in place for as long as trading floors have existed. We would submit that the ability, among other functions, to provide disaggregated order information is an indigenous quality that only physical trading floors can offer and failure to codify this long standing practice deprives all market participants the unique value, choice and market quality to which they are entitled.

The SEC comment continues:

*"it also would include information about trading interest that is not available to other exchange members or market participants even in aggregated form, such as Floor broker Reserve e-Quotes (unless there has been an affirmative election to withhold this information)."*

AFB response:

- ☐ The rule proposal under consideration would allow access to the information referenced above *only* on those orders which either off-floor customers or Floor Brokers acting on their behalf, *permitted to be visible*. All participants have the ability to send zero display or "dark interest" to the exchange and in those cases, order information would not be available to either the DMM or Floor Brokers.

SEC comments on special benefits:

*"In this case, the SROs have not proposed to require of DMMs or Floor brokers any additional obligations to the market that might correspond to the proposed informational benefits."*

AFB response:

- ☐ There is no direct benefit to Floor Brokers and in fact there is an *obligation* on their part to provide this information equally to all customers who request it.
- ☐ The rule would require DMMs to perform a variety of administrative functions while at the same time prohibiting them from using the information for trading purposes. It is clearly an *obligation* for DMMs and not a direct benefit.
- ☐ The AFB believes however, that there would be benefits from the proposed rule change and that those benefits would accrue to all market participants and specifically to all customers directly or indirectly in the form of additional liquidity opportunities and the potential for associated market quality.

SEC comment on market improvement:

*"Nor have the SROs clearly explained how the proposals might materially improve the quality of the SROs' markets, particularly given the increasing amount of automated transactions on the SROs and the reduced role of the Exchange floors."*

AFB response:

- ☐ The AFB, through the insight of its members and their customers, maintains that the U.S. equity market has become increasingly opaque and highly fragmented post Regulation NMS and there is broad dissatisfaction amongst trading desks and Institutional investors associated with the difficulty in sourcing meaningful liquidity.
- ☐ Restoring the ability for Floor Brokers to access disaggregated order information in an effort to source liquidity and provide price discovery for block transactions could only result in improving the current environment where so many seek aggregated liquidity solutions.
- ☐ Reduced *overall* market share does not equal a "reduced role". The NYSE continues to achieve a market share in its listed securities that far exceeds even its nearest competitor and when excluding TRF volume, has the highest market share in over 95% of the securities listed there versus other Exchanges.
- ☐ NYSE Trading Floor participants contribute greatly to the value proposition and broad choices that benefit all customers; this is made possible by the unique NYSE floor based market model and is especially true in times of market stress.
- ☐ The AFB believes that the NYSE Trading Floor continues to play a vital role for all investors and that its role in the present state of U.S. equity market structure is more crucial than ever. Its role is anything but reduced.

SEC comment on discrimination and investor protection:

*"As a result, the Commission is concerned that the SROs' proposals, among other things, may unfairly discriminate in favor of DMMs and Floor brokers, may not be designed to protect the broad group of investors that trade on the SROs, and otherwise may be inequitable."*

AFB response:

- ☐ Floor brokers act solely as agents for investors large and small. They are strictly prohibited from trading on a proprietary basis for their own account or for the account of any entity with which they may be affiliated.
- ☐ DMMs operate under very rigorous regulatory requirements and are subject to numerous restrictions and obligations unique to their role in the marketplace.
- ☐ Brokers and DMMs are monitored and surveilled in every aspect of their business activities and are held to regulatory standards that are considerably more onerous than those of off-floor participants.

The AFB cannot articulate strongly enough that this proposed rule is neither discriminatory nor does it represent a threat to investors from which they need protection.

In fact, the AFB believes that all investors will benefit from the proposed rule by virtue of the ability of Floor Brokers to access disaggregated order information in an effort to source desperately needed block liquidity. Further, all investors will derive *greater protection* from the codifying of DMM administrative functions contained in the rule proposal and listed as follows:

- (1) Maintaining order among Floor brokers manually trading at the DMM's assigned panel
- (2) Bringing Floor brokers together to facilitate trading
- (3) Assisting Floor brokers with respect to their orders
- (4) Researching the status of orders or questioned trades

The Alliance of Floor Brokers respectfully requests that the Commission approve the rule proposal to "Codify Certain Traditional Trading Floor Functions" in accordance with their introduction to Reg. NMS in which the Commission states that one of the strengths of U.S. equity markets is the vigorous competition among *different types of markets, including exchanges with active trading Floors*.

Sincerely,

Patrick Armstrong  
Co-President

Daniel Tandy  
Co-President