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Elizabeth M. Murphy
Secretary, Securities and Exchange Commission
100 F Street NE Washington, DC 20549
United States

Dear Ms. Murphy,

We would like to comment on the Commission's release No. 34-70047 (File Number SR-NYSE-2013-21 and SR-NYSEMKT-2013-25), specifically as it relates to the Commission's stated concerns about the potential dangers of disaggregated information dissemination by Floor brokers to off-Floor market participants.

Background

This letter refers to an ongoing solicitation of comments regarding the changes to Rule 104 previously proposed by the New York Stock Exchange. The NYSE proposed allowing its Designated Market Makers to share disaggregated information about the order book with its Floor brokers. We submitted a Comment Letter dated May 20th, 2013 in support of this proposal.

In a subsequent release, No. 34-70047, the Commission evaluated the comments it received and expressed fresh concerns about the NYSE proposal, referring in part to our own Comment Letter (quoted as the "LSE letter" in the release) as giving "qualified support" (p. 10) for the NYSE's proposal, and as the basis for the Commission's concerns.

We are writing to state our unqualified support for Rule 104 as proposed by the NYSE.

Our argument

In this letter, as in our original Comment Letter, we argue that unlike direct electronic dissemination, information dissemination through Floor brokers provides a substantial measure of control over the use that brokers and off-Floor members make of the information.

In making our argument, we rely on a structural analysis of the information dissemination networks generated by the two configurations mentioned by the Commission. In the case of direct disaggregated order information to off-Floor market participants, the information network would have a radial configuration, with information reaching numerous off-Floor participants instantaneously and systematically. By contrast, in the case of manual information dissemination through Floor brokers, information would reach a selected number of off-Floor participants, would do so through Floor brokers rather than directly, and it would arrive to them through a manual process.

There are important differences between these two configurations. One difference is the number of off-Floor recipients. While electronic dissemination would reach a sizeable portion of participants, broker dissemination would be more limited. There is thus a difference in information reach. Second, while a direct electronic dissemination of disaggregated order information would be fast, a broker-mediated configuration would be manual and therefore slower. There is thus a difference in speed. By themselves, these differences imply that a Floor broker-based configuration would produce a more limited dissemination than a direct one, and it would also release information that is less timely and thus less sensitive, though still vital to those seeking to find natural counterparties in the pursuit of block size liquidity.

The most significant difference between the two configurations, however, lies in the social mechanisms spawned by the structures of these networks. In this regard, our argument is based on a well-established concept within the sociological literature on social networks, developed over the past four decades. This concept is known as embeddedness.

Embeddedness

Embeddedness refers to the effect of the structure of a social network on the behavior of market actors within it. Consider first the role of the Floor broker. Floor brokers make it possible for Designated Market Makers to manually convey disaggregated order information to only those who seek it, without resorting to broadcasting the information to the entire market. Brokers thus allow for information to attain reasonable reach while retaining their judgment and discretion in order to provide context to the information.

More importantly, the presence of Floor brokers fundamentally alters the quality of the relationships between the various actors. The nature of the social tie between the Designated Market Maker (DMM) and the Floor broker is different from that between an electronic broad-based feed and the off-Floor participants that would receive it. In sociological terms, the tie between the DMM and the Floor broker is an embedded tie, whereas the tie between a systemic feed and the off-Floor participant is an arms-length tie.

A similar argument applies to the social tie between the Floor broker and his off-Floor client. This tie is also embedded, as the relationship is repeated and it takes place over the phone as well as electronically.

The distinction between embedded and arms-length ties has important consequences, for whereas an embedded tie leads to the development of mutual norms of appropriate behavior, an arms-length tie does not give rise

to these norms. A network of embedded ties gives the market actors who originated orders a greater level of comfort, as the information about the order is being communicated within an environment of trust.

As cited in our previous comment letter, the effects of embeddedness are supported by a vast academic literature in the sociology of markets. This has established that embeddedness affects economic transactions, placing actors in a context of shared norms and trust where sensitive information can more easily disseminate. For a summary of this literature and a discussion of its applicability to stock exchanges (including the NYSE) in a context of automation, please see our recent article, "Folding: Integrating Algorithms on the Floor of the NYSE" accessible through the link below.[1]

In sum, we believe that the NYSE's proposal to modify Rule 104 to allow Designated Market Makers to share disaggregated information with Floor brokers would be fundamentally superior to systematic electronic dissemination. It would be more targeted in nature, more limited in reach, and it would disseminate less timely and therefore convey less sensitive information while still retaining the primary benefits of allowing counterparties to access liquidity. More importantly, mediated dissemination through Floor brokers would take place through embedded ties rather than arms-length ties. Given the message that emerges from the sociological literate on the subject, we fully support the changes to Rule 104 proposed by the NYSE.

If you have any questions, feel free to contact us at the addresses below.

Sincerely,

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Yuval Millo, Professor of Social Studies of Finance. School of Management Ken Edwards Building. University of Leicester. University Road, Leicester United Kingdom, LE1 7RH.

[1] Beunza, Daniel and Millo, Yuval, Folding: Integrating Algorithms on the Floor of the New York Stock Exchange (May 16, 2013). Available at SSRN: http://ssrn.com/abstract=2265849