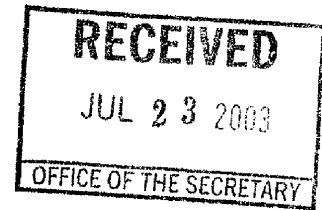


July 16, 2003



William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street
Washington, DC 20549

S7-14-01

Re: Quoting / Trading in Sub-penny increments

Dear Chairman Donaldson:

Recently you commented on the examination of decimal trading and the validity of quoting and trading in sub-penny increments.¹ Ameritrade, Inc.² (“Ameritrade”) **supports** the Securities and Exchange Commission’s (“Commission”) renewed scrutiny toward sub-penny trading and quoting.

It is Ameritrade’s belief that investors are best served by a competitive market landscape within a market structure that facilitates fair and vigorous competition among market participants and issuers alike. Ameritrade is very concerned that the allowance of sub-penny quoting and trading in today’s marketplace undermines the competitive landscape that the commission sought to achieve through the creation of Rule 301 (“Regulation ATS”). Furthermore, Ameritrade believes that sub-penny quoting and trading undermines the validity of the statistics generated under the provisions of Securities Exchange Act Rule 11Ac1-5 by distorting the quotation and improvement statistics and rendering the data useless.

In July 2001, the Commission released a study on **the** effects of decimal trading in sub-pennies.³ Ameritrade believes that the solicitation of commentary was premature, following the introduction of decimal trading in April of 2001. In this study the Commission makes several references to economical analysis conducted by Nasdaq, however, the Nasdaq study seemingly discounts the impact sub-penny quoting and trading has on the marketplace. The Nasdaq study also notes that “*what was measured in the first two weeks following decimalization may be substantially different a year from now.*” In fact, Ameritrade believes that there has been substantial change with which sub-penny trading and quoting are now being conducted.

¹ Commentary on CNBC May 14, 2003.

² Ameritrade **has** a 28-year history of providing investors a self-directed approach to investing. In May 2003, Ameritrade’s approximately 2.9 million clients averaged a total of 157,000 trades **per** day.

³ Release No. 34-44568; File No. S7-14-01.

Ameritrade respectfully requests that the Commission re-open Release No. 34-44568 to further commentary.

Ameritrade believes that the proliferation of low-priced securities allowed to reside on the Nasdaq Stock Market⁴, coupled with the allowance of sub-penny quoting and trading, has allowed for detrimental trading practices to become commonplace. While quoting securities in the market **has** virtually remained within two decimal places, the proliferation of specialized pricing feeds allowed under Regulation **ATS** provides sophisticated professionals the ability to view quotes that are not commonly known to the general investing public. This practice allows such professionals to utilize limit orders to step ahead of displayed orders by a mere 1/100 of a cent. Professional traders, therefore, gain an information edge and interfere with the ability of the investing **public** to obtain their specified **price**? Further, sub-penny quoting **and** trading undermines the Manning Limit Order Protection Interpretation or IM-2110-2 (“Manning”) and significantly deters a market center’s willingness to accept sub-penny orders.

Ameritrade performed an analysis on the manner in which sub-penny quoting and trading was utilized within Ameritrade, indicating that clients were primarily utilizing sub-penny quoting and trading to step ahead of resting limit orders and undermine the Manning provision. **As** a result, in April of 2003⁶ Ameritrade discontinued all clients’ ability to enter orders on Nasdaq securities greater than two decimal places. Ameritrade is enclosing analysis performed on various aspects of sub-penny quoting and trading to support our arguments. **As** the analysis shows, virtually no benefit is derived from the quotation and execution on a sub-penny **basis**.’

Given this data, we believe that the elimination of sub-penny trading and quoting can help to further restore investor confidence, resulting in increased transparency, higher liquidity, and further restoring the integrity of the marketplace. Ameritrade respectfully requests that the Commission abrogate programs allowing for the quotation and trading of sub-pennies and amend Regulation **ATS** to limit decimal quotation to two decimal places.

⁴ Companies listed on **NASDAQ** are required to maintain a minimum **closing** bid price of \$1.00 per share; **however**, those National Market companies qualifying for continued listing based on the **market** value of listed securities or total assets and total revenue under Maintenance Standard 2 are required to maintain a minimum closing bid price of \$3.00. **If** a company trades for **30** consecutive business days below the applicable minimum closing bid price requirement, **NASDAQ** will send a deficiency notice to the company, advising that it has been afforded a “grace period” (90 calendar days **for** National Market companies and 180 calendar days for **SmallCap Market** companies) to regain compliance with the applicable requirements. Nasdaq has eased these policies and allowed companies priced **under** one dollar to remain on Nasdaq for **an** indefinite period.

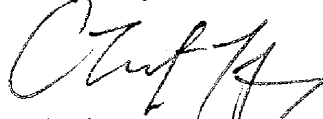
⁵ Penny MPV’s coupled with Sub penny executions have allowed for the ease with which internalization can occur.

⁶ Beginning with decimalization in April 2001 Ameritrade allowed clients to place orders up to 4 decimal places on Nasdaq securities.

⁷ Ameritrade recognizes that Certain Volume Weighted Average Price and Single Weighted Average Price executions are necessary and provide benefit.

If you have **any** questions regarding our comments, please do not hesitate to contact me at 402/597-7816 or John Markle at 443/539-2128.

Sincerely,



Christopher Nagy
Director, Trading

Attachments

cc: Commissioner Cynthia A. Glassman
Commissioner Harvey J. Goldschmid
Commissioner Paul S. Atkins
Commissioner Roel C. Carnpos
Annette **Nazareth**, Director, Division of Market Regulation
Robert Colby, Deputy Director, Division of Market Regulation
Jonathan G. Katz, Secretary

Attachment 1:

As the average traded price per share declines, the incidence of sub-penny quoting and trading tends to increase. As of December 2002, 445 securities priced under \$1.00 traded on Nasdaq compared to 352 at the end of December 2001.

**Statistics of the NASDAQ National Market
Average Security Price**

Month	Price Per Share Traded	Quoted Spread	Percent Spread	Daily Share Volume	Daily Dollar Volume
Jan 2000	\$48.58	\$0.19	0.28%	313,686	\$15,239,217.9
Feb 2000	\$56.10	\$0.26	0.31%	387,955	\$21,765,265.6
Mar 2000	\$61.81	\$0.29	0.31%	401,790	\$24,835,264.1
Apr 2000	\$53.58	\$0.21	0.32%	423,114	\$22,668,436.6
May 2000	\$48.77	\$0.16	0.28%	338,851	\$16,526,853.8
Jun 2000	\$51.45	\$0.15	0.25%	368,893	\$18,980,340.3
Jul 2000	\$53.79	\$0.16	0.23%	377,223	\$20,291,546.0
Aug 2000	\$47.22	\$0.15	0.25%	321,558	\$15,183,094.3
Sep 2000	\$49.83	\$0.14	0.22%	408,451	\$20,353,029.4
Oct 2000	\$45.89	\$0.14	0.24%	488,429	\$22,416,393.7
Nov 2000	\$42.01	\$0.13	0.25%	438,994	\$18,442,723.0
Dec 2000	\$34.25	\$0.12	0.29%	533,609	\$18,278,162.2
Jan 2001	\$34.11	\$0.11	0.27%	593,258	\$20,238,837.2
Feb 2001	\$32.76	\$0.09	0.26%	493,335	\$16,159,913.9
Mar 2001	\$26.21	\$0.09	0.29%	533,704	\$13,989,534.8
Apr 2001	\$25.41	\$0.05	0.17%	575,619	\$14,624,485.1
May 2001	\$27.18	\$0.05	0.14%	498,745	\$13,555,996.1
Jun 2001	\$25.15	\$0.04	0.14%	482,619	\$12,136,610.1
Jul 2001	\$24.79	\$0.04	0.15%	459,192	\$11,382,297.6
Aug 2001	\$21.77	\$0.05	0.19%	424,034	\$9,229,958.5
Sep 2001	\$21.01	\$0.04	0.17%	524,754	\$11,026,669.2
Oct 2001	\$19.41	\$0.04	0.19%	600,352	\$11,650,644.6
Nov 2001	\$21.74	\$0.04	0.16%	572,674	\$12,447,889.7
Dec 2001	\$22.24	\$0.04	0.15%	546,460	\$12,154,398.6
Jan 2002	\$22.29	\$0.04	0.15%	567,786	\$12,654,333.4
Feb 2002	\$20.47	\$0.04	0.16%	557,024	\$11,401,530.2
Mar 2002	\$20.32	\$0.04	0.15%	542,667	\$11,025,520.1
Apr 2002	\$18.60	\$0.04	0.15%	558,939	\$10,394,307.0
May 2002	\$16.88	\$0.03	0.16%	590,628	\$9,971,582.4
Jun 2002	\$16.34	\$0.03	0.16%	604,481	\$9,876,952.6
Jul 2002	\$16.50	\$0.03	0.17%	568,306	\$9,377,034.1
Aug 2002	\$15.22	\$0.03	0.16%	499,278	\$7,598,064.2
Sep 2002	\$14.40	\$0.03	0.15%	523,820	\$7,545,254.3
Oct 2002	\$15.45	\$0.03	0.13%	616,025	\$9,519,793.3

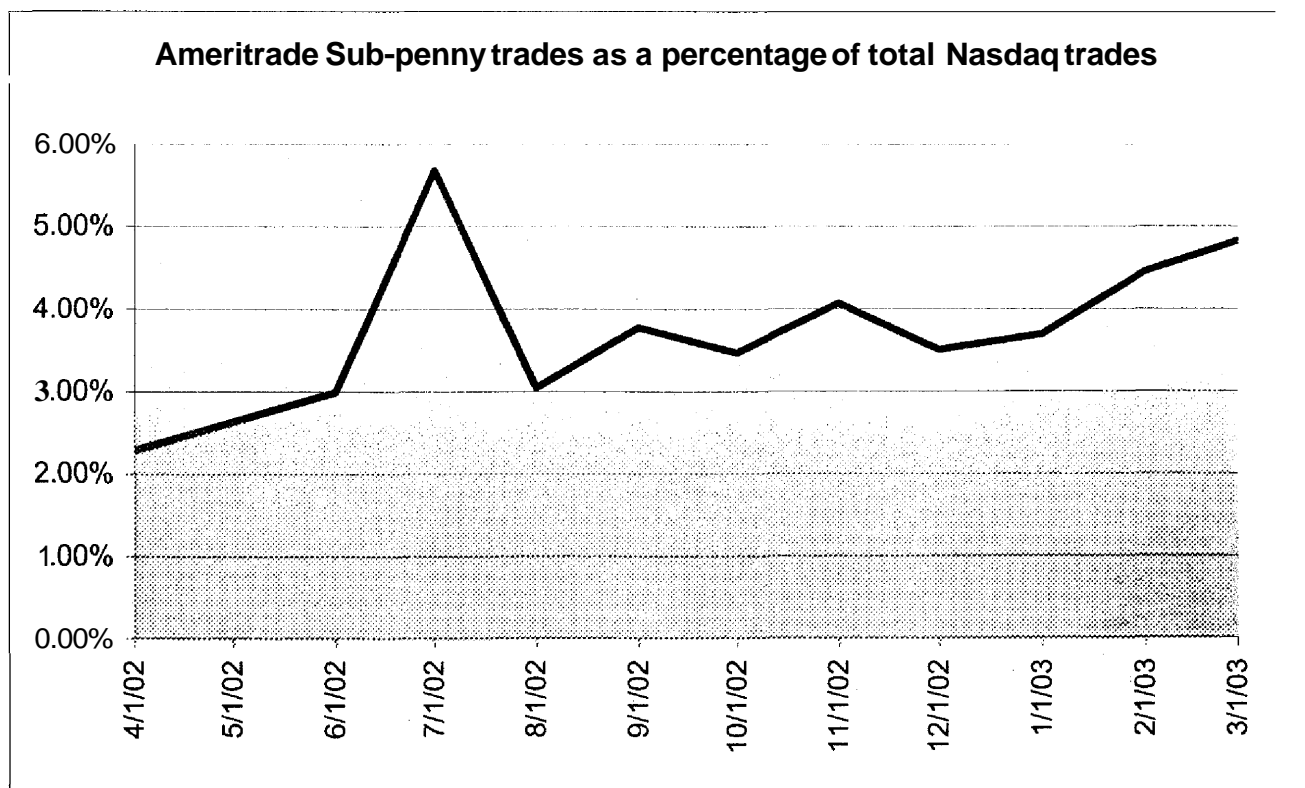
* Source: <http://www.marketdata.nasdaq.com/asp/Sec5TradeNNM.asp>

Attachment 2:

As the average security price decreases, Ameritrade's continued to witness increases in the entry and execution of sub penny orders. The overall incidence of sub-penny trades is illustrated below. A comparison of total Ameritrade Nasdaq trades and total Ameritrade sub-penny trades is illustrated to the right.

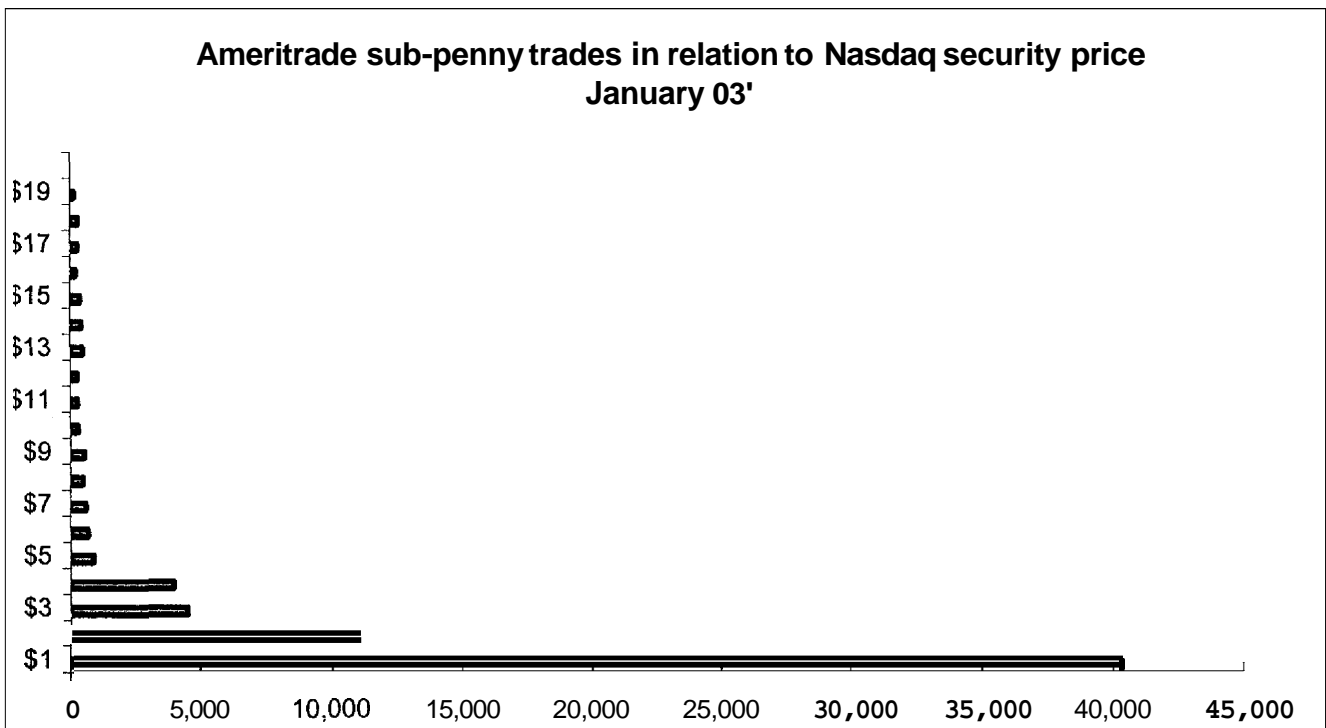
Ameritrade Nasdaq Trades	Ameritrade Sub Penny trades	Ameritrade Nasdaq sub-penny %	Date
1,772,118	40525	2.29%	Apr-02
1,658,293	43598	2.63%	May-02
1,232,386	36824	2.99%	Jun-02
1,348,199	76503	5.67%	Jul-02
1,356,785	41212	3.04%	Aug-02
1,080,430	40744	3.77%	Sep-02
1,247,872	43212	3.46%	Oct-02
1,569,239	63809	4.07%	Nov-02
1,626,157	56973	3.50%	Dec-02
1,820,566	67169	3.69%	Jan-03
1,278,721	56973	4.46%	Feb-03
1,602,237	77248	4.82%	Mar-03
1,948,333	38791	1.99%	Apr-03*
2,629,554	1879	0.07%	May-03*

* Resting limit orders account for the residual sub-penny trades after Ameritrade discontinued the acceptance of sub-penny orders in April of 2003.



Attachment 3:

As the graph below depicts, although the incidence of sub-penny orders has increased, the vast percentage of orders tend to be contained to securities priced under \$1.00. Ameritrade relates the increase of sub-penny trading to the increase of Nasdaq traded securities which remain on Nasdaq yet continue to trade below \$1.00.



Attachment 4:

The enclosed spreadsheet depicts examples of actual Ameritrade orders depicting how sub-penny trading affects the Manning requirement, and allows sophisticated individuals to “sub-penny” jump ahead of resting limit orders. The “Limit Price” highlighted represents the price where the client entered the limit order and the “Exec Price” highlighted represents the actual price the client received.

Order Timestamp	Order Num	Buy/Sell	Order Size	Stock	Order Type	Limit Price	Exec Price	Order Term	Market Center Id	NBBO Bid Price	NBBO Ask Price
2003-01-28 17:17:37	IUX 830	B	1000	FTGX	LMT	0.0859	0.08	GTD	NITE	0.08	0.09
2003-01-29 14:16:39	IVI 6805	B	6919	FTGX	LMT	0.092	0.09	EOW	SCHB	0.09	0.1
2003-01-31 13:46:35	IWN 9943	S	10000	FTGX	LMT	0.0949	0.095	DAY	NITE	0.09	0.1
2003-01-16 09:50:59	IPP 151	S	20000	FTGX	LMT	0.095	0.11	GTD	NITE	0.09	0.11
2003-01-22 10:15:26	IRU 5942	B	5000	FTGX	LMT	0.0975	0.09	GTD	NITE	0.09	0.1
2003-01-30 18:11:28	IWB 7643	S	15000	FTGX	LMT	0.098	0.1	GTD	NITE	0.09	0.1
2003-01-31 10:53:55	IWI 6180	S	45000	FTGX	LMT	0.0987	0.1	GTD	NITE	0.09	0.1
2003-01-28 12:50:18	IUQ 2412	S	7000	FTGX	LMT	0.099	0.1	DAY	NITE	0.09	0.1
2003-01-31 14:04:22	IWO 4502	S	21004	FTGX	LMT	0.099	0.1	GTD	NITE	0.09	0.1
2003-01-31 11:28:54	IWJ 8625	S	22000	FTGX	LMT	0.099	0.1	GTD	NITE	0.09	0.1
2003-01-27 15:18:35	IUE 3775	S	38200	FTGX	LMT	0.0999	0.1	GTD	NITE	0.09	0.1
2003-01-31 15:56:40	IWS 680	S	3000	FTGX	LMT	0.0999	0.1	GTD	NITE	0.09	0.1
2003-01-14 15:55:13	IOS 3435	B	4000	FTGX	LMT	0.1015	0.1015	GTD	NITE	0.1	0.11
2003-01-24 10:30:49	ITC 442	S	3050	FTGX	LMT	0.104	0.1052	DAY	NITE	0.1	0.11
2003-01-31 10:09:39	IWG 7147	S	27400	FTGX	LMT	0.104	0.11	GTD	SCHB	0.1	0.11
2003-01-28 15:54:58	IUV 5526	B	3677	FTGX	LMT	0.1045	0.1	GTD	NITE	0.09	0.11
2003-01-06 14:12:23	IKH 7909	S	50050	FTGX	LMT	0.1075	0.12	GTD	NITE	0.1	0.12
2003-01-23 10:56:18	ISM 7861	S	12000	FTGX	LMT	0.108	0.108	GTD	NITE	0.1	0.11
2003-01-22 11:25:07	IRX 1050	S	5000	FTGX	LMT	0.1089	0.109	GTD	NITE	0.1	0.11
2003-01-22 13:52:45	ISA 9853	S	50000	FTGX	LMT	0.1095	0.11	GTD	NITE	0.1	0.11
2003-01-23 10:57:26	ISM 8262	S	8000	FTGX	LMT	0.1095	0.11	GTD	NITE	0.1	0.11
2003-01-14 15:16:07	IOQ 9559	S	177000	FTGX	LMT	0.1098	0.11	GTD	NITE	0.1	0.11
2003-01-15 15:41:28	IPJ 2519	S	28238	FTGX	LMT	0.1098	0.11	GTD	NITE	0.1	0.11
2003-01-22 14:17:39	ISB 5238	S	9100	FTGX	LMT	0.1099	0.11	GTD	NITE	0.1	0.11
2003-01-13 14:34:03	INZ 5880	B	9000	FTGX	LMT	0.1101	0.11	GTD	NITE	0.11	0.12
2003-01-21 15:52:39	IRO 5261	B	50000	FTGX	LMT	0.1106	0.11	GTD	NITE	0.11	0.12
2003-01-22 15:59:19	ISE 6960	B	39329	FTGX	LMT	0.111	0.11	DAY	NITE	0.11	0.12
2003-01-21 18:36:02	IRP 9546	B	3001	FTGX	LMT	0.111	0.11	GTD	NITE	0.11	0.12
2003-01-22 12:11:15	IRY 3995	B	56511	FTGX	LMT	0.111	0.11	DAY	SCHB	0.11	0.12
2003-01-22 10:09:18	IRU 3124	B	10000	FTGX	LMT	0.1149	0.1145	DAY	NITE	0.11	0.12
2003-01-19 15:21:17	IQU 773	S	14879	FTGX	LMT	0.1149	0.12	GTD	NITE	0.11	0.12
2003-01-21 12:45:28	IRI 1978	B	4000	FTGX	LMT	0.115	0.11	GTD	NITE	0.11	0.12
2003-01-17 11:51:05	IQL 6176	S	24000	FTGX	LMT	0.118	0.12	GTD	NITE	0.11	0.12
2003-01-17 10:41:14	IQI 9829	S	10000	FTGX	LMT	0.119	0.12	GTD	NITE	0.11	0.12
2003-01-17 09:36:35	IQF 4938	S	10000	FTGX	LMT	0.119	0.12	GTD	NITE	0.11	0.12
2003-01-17 11:43:10	IQL 3219	S	4000	FTGX	LMT	0.119	0.12	GTD	NITE	0.11	0.12
2003-01-13 10:12:18	INQ 2707	S	36000	FTGX	LMT	0.119	0.12	GTD	NITE	0.11	0.12
2003-01-15 13:37:19	IPF 6569	S	8000	FTGX	LMT	0.1195	0.12	GTD	NITE	0.11	0.12
2003-01-10 10:23:54	IMV 898	S	46500	FTGX	LMT	0.1195	0.12	GTD	NITE	0.11	0.12
2003-01-13 12:07:50	INV 1189	S	100000	FTGX	LMT	0.1198	0.12	GTD	NITE	0.11	0.12
2003-01-08 15:45:53	ILV 8373	B	9000	FTGX	LMT	0.121	0.12	GTD	NITE	0.12	0.13
2003-01-13 09:47:32	INN 8814	B	23000	FTGX	LMT	0.121	0.12	GTD	NITE	0.12	0.13
2003-01-13 10:14:21	INR 6356	B	18000	FTGX	LMT	0.121	0.12	DAY	NITE	0.12	0.13