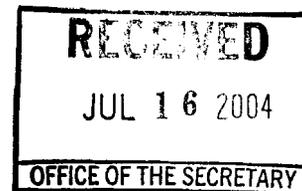


June 30, 2004

Phillip K Lynch Chief Executive Officer

Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

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Re: "Proposed Rule: Regulation NMS,"
SEC Rel. No. 34-49325, File No. S7-10-04

Reuters America LLC ("Reuters") is pleased to offer its views on the above-captioned rule proposal by the Securities and Exchange Commission (the "SEC" or "Commission"). Reuters is a subsidiary of Reuters Group PLC. Although best known as the world's largest news agency, more than 90% of Reuters Group revenue derives from our financial services business. Professionals in the equities, fixed income, foreign exchange, money, commodities and energy markets use Reuters products. Our open technology, based on industry standards, enables our customers to integrate our information with content from other sources. We provide financial institutions with specially designed tools to help them reduce risk and distribute and manage the ever-increasing volumes of market data.

As the world's leading provider of market data, Reuters is uniquely qualified to comment on market data issues. Reuters knows the importance of timely and reliable quote and price information to market participants. Investors rely on this information to make investment decisions and evaluate the quality of the executions they receive. Broad dissemination of information improves the efficiency of markets and increases investor confidence, leading ultimately to greater liquidity. Our comments below respond to the Market Data Proposal¹ and the Sub-Penny Quoting Proposal² of proposed Regulation NMS.

I. Market Data Proposal

Reuters applauds the Commission for addressing market data issues in proposed Regulation NMS. Developments including decimalization, the introduction of new exchanges, and electronic trading venues outside exchanges, have combined to produce dramatic increases in market data traffic. At the same time, some market participants have raised concerns about the reasonableness of equities market data fees and the effect on competition of the current fee structure.

The Commission is to be commended for its increased focus on market data issues in recent years. The Commission has made market data issues a priority, first by

¹ "Proposed Rule: Regulation NMS," SEC Rel. No 34-49325, File No. S7-10-04 (the "Proposing Release"), at Section VI.

² Proposing Release at Section V.

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issuing a concept release on the subject³ and then by establishing an Advisory Committee on Market Information.⁴ Reuters is pleased to have participated in the work of the Advisory Committee. After this careful scrutiny, the time has come for action on market data issues. The continued increase in market data volumes makes the Commission's proposals particularly timely.

A. Support for Introduction of Greater Competition

As a general principle, Reuters supports the introduction of greater competition and flexibility in the consolidation and distribution of U.S. securities market data. As we have previously indicated to the Commission,⁵ we believe that deregulation of market data would be preferable to increased government supervision of the process of setting fees for and licensing subscribers to market data. We believe vendors and investors should have greater freedom to decide which information they need to conduct their business and make investment decisions. It is our view that market forces should play a greater role in determining the value of information and ensuring that it is provided to investors. So long as exchanges retain exclusive control over access to and fees for market data, competitive pressure to provide data more efficiently and affordably is inhibited.

B. Comments on Specific Proposals in Regulation NMS

We are encouraged by the proposal to eliminate the "montage" portion of the consolidated display requirements.⁶ Current SEC Rule 11Ac1-2 (the "Display Rule") in certain circumstances requires the display of a montage of quotes from every market center trading a security. This requires vendors and investors to devote precious system capacity to information that may be of little utility. Proposed Rule 603 would eliminate the montage display requirement. We think the Commission has correctly identified the data that is most important to investors, namely the price, size, and market center of the national best bid and offer ("NBBO"), and last sale information. We agree that market forces and investors' choices, rather than regulatory requirements, should determine what additional data should be displayed. We are confident that investors will demand and receive montage information from every market center that consistently displays economically attractive prices.

We also see merit in the proposal to require a consolidated display only in contexts in which a trading or order-routing decision could be implemented.⁷ In general, the Display Rule currently requires the provision of consolidated information whenever an information vendor or broker-dealer provides any quote or price information on a New

³ "Concept Release: Regulation of Market Information Fees and Revenues," SEC Rel. No. 34-42208 (Dec. 9, 1999), 64 FR 70613.

⁴ See SEC Press Release No. 2000-102, "SEC to Establish Advisory Committee on Market Information," July 25, 2000.

⁵ See Letter to Chairman Pitt and Commissioners Hunt and Unger from Edward Nicholl, Michael Dorsey, Devin Wenig and Carrie Dwyer, October 16, 2001.

⁶ Proposing Release at Section VI.E.3.

⁷ *Id.*

York Stock Exchange-listed, American Stock Exchange-listed, or Nasdaq NMS stock. This requirement inhibits the provision of market information. For example, broker-dealers are discouraged from making their information available because it must be accompanied by consolidated information, which must be paid for. We think this proposal would promote the availability of more information at a lower cost, while ensuring that investment decisions are made on the basis of complete and accurate information.

We support the proposal to allow broker-dealers greater freedom to make information available outside of their self-regulatory organizations. We believe the requirement that they do so on terms that are fair and reasonable and not unreasonably discriminatory is a sensible approach to ensuring availability of information. However, we are concerned about the proposed requirement that SROs ensure that their proprietary data is not delivered more quickly than the same data included in the NBBO. We are not certain that technology currently exists to ensure such time synchronization across the industry.

Reuters supports allowing non-SRO market participants a greater role in the governance of the market data plans.⁸ We think the SEC proposal to form advisory committees to the plans⁹ would help ensure that the U.S. system of equity market data consolidation is cost-effective and better serves the needs of the end-users. However, we have questions about the way participants would be chosen. Allowing each SRO participant to select an advisory committee member, in addition to those representing broker-dealers, vendors, and investors, appears to permit SROs to add so many members as to make the boards unwieldy. We urge the SEC to clarify a maximum number of members of an advisory committee, in order to provide for their smooth and effective operation.

C. Administration of Market Data Dissemination System

In addition to the issues addressed in the Proposing Release, Reuters believes that reduction of the administrative burden on market participants should be a priority in the market data area. We are pleased that the Commission has asked for comment on the reasonableness of market data fees.¹⁰ In addition, however, we believe that the high costs of administration impose hidden costs on all users of market data. Effective market data costs are therefore higher than the fees published by the self-regulatory organizations.

Reducing administrative burdens and simplifying the fee structures would reduce the true costs of market information for system participants. The Commission should encourage the members of the National Market System plans to streamline the market information dissemination process. It should be easier to administer and more flexible, to

⁸ See Letter from Devin Wenig to Jonathan G. Katz, Re: Securities and Exchange Commission File No. S&-28-99, April 5, 2000 ("Reuters Market Information Comment Letter").

⁹ Proposing Release at Section VLD.

¹⁰ SEC Rel. No. 34-49749, "Proposed Rule: Regulation NMS, Extension of Comment Period and Supplemental Request for Comment" (May 20, 2004).

accommodate new technologies and electronic commerce initiatives. This in turn will lower costs of information to investors, who will then enjoy greater access to information.

Reuters has previously provided the Commission with suggestions for reducing the administrative costs of the market data dissemination system.¹¹ First, the SEC should promote uniformity among the different National Market System plans. Currently, each plan has unique administrative requirements and fee structures. The plans covering the listed market charge based on how the data is used, in addition to the number of users, and require users to file exhibits detailing their planned use. These features complicate and increase the costs of administration for end users with no corresponding benefits to investors. Second, prior approval requirements for vendors and end users should be eliminated. Information vendors and sub-vendors should not have to give a potential competitor advance notice of their business plans via the prior approval process. It should be replaced by simple, clear contract language defining unauthorized uses, eliminating the need for subscribers to seek approval for innovative uses. Click-on agreements should be allowed for all users. Finally, fee structures should be simplified and contract terms should be more flexible.

II. Sub-Penny Quoting Proposal

In general, Reuters supports the restrictions on quoting in sub-pennies. We believe the Commission has correctly identified a number of problems associated with quoting in sub-pennies, including reduced liquidity at the NBBO. Sub-penny quotes on those markets displaying them are not readily visible or accessible to many investors today. Sub-penny quotes may be used to “step ahead” of investor orders with little economic improvement in price, leading to rapidly flickering quotes and difficulty in achieving best execution

Because many retail investors lack the capacity to capture the more rapid quote updates that would be associated with sub-penny pricing, wider use of sub-penny pricing would likely reduce transparency while creating an “inside market” for sophisticated investors whose electronic systems can process such information. It also would likely decrease market depth at the NBBO. An industry-wide shift to quoting in sub-pennies would thus require costly additional investments in systems capacity while producing little in the way of more efficient markets.

III. Options Data

As a final issue, Reuters would like to direct the Commission’s attention to options data. The volume of automated options quote data has been growing out of all proportion to its economic value.¹² Options data now represents 75% of all market data and has increased by close to 200% since 2002, continuing a trend that has been

¹¹ See Reuters Market Information Comment Letter.

¹² See Letter from Leo McBlain and Thomas Jordan to Jonathan Katz, “Subject – Concept Release: Competitive Developments in the Options Markets,” May 10, 2004.

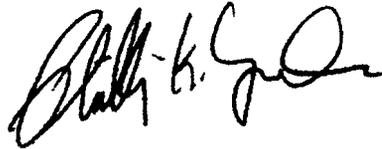
underway for many years. The options exchanges have not taken any significant steps to mitigate the increases in message traffic. The growth in options data, particularly automated quote data, has resulted in increases in hardware and software requirements for vendors and investors, with little or no benefit to the quality of the markets.

We have suggested that the Commission undertake a comprehensive study to determine what options information end users want; what alternatives are available for providing that information; and what the technological constraints are in doing so.¹³ Once a proper analysis is completed, the options exchanges, vendors and market participants could be invited to propose effective data mitigation techniques. The Commission could evaluate those techniques to determine how well they promote regulatory objectives, such as achieving best execution. The ultimate goal should be to provide end users with the options information they need, consistent with technological limitations and financial constraints. Until then, the Commission should not require penny quoting of options, which we believe would put an enormous strain on all participants in the options markets.

* * * * *

Reuters looks forward to working with the Commission, the National Market System plans, and its customers and other market participants to refine the proposals discussed above and improve the U.S. market information dissemination system. Please do not hesitate to contact me at (646) 223-4000 to discuss these issues at greater length.

Sincerely,



Phil Lynch

¹³ See Letter from Devin Wenig to Jonathan Katz, "Concept Release: Competitive Developments in the Options Markets," April 9, 2004.