

FINANCIAL INFORMATION FORUM

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Summary Statement to Securities and Exchange Commission Regarding Proposed Regulation NMS

The effective use of computer and communications technologies is a major factor in the success of the U.S. financial markets. Since the enactment of the National Market System Act adopted under Section 11A of the Securities Exchange Act of 1934, the equities markets in our country have developed and evolved highly coordinated systems for information dissemination and transaction processing. These systems are characterized by high degrees of efficiency, timeliness, redundancy and resiliency. By necessity, systems in the brokerage industry are highly interdependent and interactive. When changes are made in financial industry systems, the changes must be implemented on an industry-wide basis in a highly coordinated manner that is well planned and carefully executive. Examples of such changes include Y2K testing, the conversion to decimal pricing and the transition to straight through processing.

The Proposed Regulation NMS opens the door to improvements in the U.S. equities markets. In this competitive environment, it is likely that most markets will introduce changes to enhance their efficiency and quality. While the market changes themselves are important, it is equally important that the changes be implemented in the industry's information and transaction systems in an effective and efficient manner. It is important that the markets work interactively with brokerage industry firms and service providers when changes are planned. It is also the responsibility of the Securities and Exchange Commission to assure that the impact of changes on the brokerage information system infrastructure are considered when drafting filings for changes.

The Financial Information Forum is an industry organization dedicated to the improvement of brokerage industry information and transaction systems. Participants in FIF include broker-dealers, exchanges, service bureaus, market data vendors and other industry technology service providers. FIF participants are currently studying proposed Regulation NMS to identify potential market changes and their impact on industry systems. FIF has previously issued documents detailing the industry's market data dissemination infrastructure and the industry's front office order flow processes. Representatives of our participating organizations will meet in New York City on Tuesday morning, April 13 to share their findings. FIF will document areas where there is a consensus of concern. Preliminary discussions have focused on the following areas:

1. Trade-Throughs

- How will markets indicate on execution reports that an order was routed to another market? Will such routing indications be done in a uniform manner and will it comply with the principles being adopted for straight through processing?
- When an investor decides to "opt out" of the trade-through rule, how will this be indicated on orders? What changes might be needed in order processing systems?

2. Intermarket Access

- How will markets conform to the requirement for quote standardization?
- How will this impact market data vendor systems in regard to consolidated quotation and trade displays? Will such changes significantly increase market data traffic rates?

3. Sub-Penny Pricing

Participants generally support the ban on sub-penny quoting. It has the potential for greatly increasing system capacity requirements without improving market quality.

4. Market Data

This is the area that is of greatest concern to our participants. Market data dissemination systems have developed over the past 25 years to deliver real-time quotation and trade data without delay or discrimination in an environment of ever-increasing peak message rates. To achieve communications efficiency data formats are tightly defined. When changes are made, these changes must be addressed in central “ticker plant” systems, communications systems, user site systems and applications that use market data. Concerns focus on new market data display requirements and increased message traffic rates.

Concern has also been expressed in the area of market data fee administration and changes that may be required to entitlement and reporting systems.

Overall, there is a concern for implementation schedules. The brokerage industry information infrastructure is a multi-layered configuration. Broadcast and transaction messages flow among markets, brokers, service bureaus and market data vendors in a complex and interdependent manner. When changes are made, careful coordination and planning is required among all affected parties. This includes system development, specification changes, internal and external testing and user education. All of these areas are critical to an effective transition and sufficient lead time must be allotted to assure seamless execution.

Based on analysis already underway and concerns expressed at our April 13 roundtable discussion, FIF plans to present the Commission a summary of matters related to the impact on information systems that should be anticipated in considering its approval of Regulation NMS.

Thank you for the opportunity to provide testimony on these important proposed regulations.

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