

MEMO# 12667

September 22, 2000

INSTITUTE COMMENT LETTER ON PROPOSED DISCLOSURE RULES RELATING TO ORDER ROUTING AND EXECUTION PRACTICES

[12667] September 22, 2000 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 50-00 SEC RULES COMMITTEE No. 116-00 RE: INSTITUTE COMMENT LETTER ON PROPOSED DISCLOSURE RULES RELATING TO EXECUTION AND ORDER ROUTING PRACTICES The ICI filed the attached comment letter on proposed Rules 11Ac1-5 and 11Ac1-6 under the Securities Exchange Act of 1934, which would require disclosure of execution and order routing practices.¹ The ICI's letter expresses general support for the proposals, but urges the SEC to make other changes necessary to strengthen price competition within existing market structures. The ICI's letter recommends several modifications to proposed Rule 11Ac1-5 to require market center reports regarding execution quality. Among other things, the ICI recommends that the rule be revised to require disclosure of information regarding market opening orders and orders executed prior to the open, to calculate "average realized spread" using a five- minute timeframe for comparing the execution price to the midpoint of the consolidated BBO rather than the proposed thirty minutes, and to require disclosure regarding market center system outages. With respect to the proposed broker-dealer order routing disclosure rule, proposed Rule 11Ac1-6, the ICI recommends that the rule include large customer orders (i.e., orders for a quantity of a security having a market value of at least \$200,000), orders for securities not covered by the proposal (such as those quoted on the OTC Bulletin Board), and all broker- dealers, including those that route a relatively small number of orders. Finally, the letter recommends that the SEC adopt a rule requiring trade-through disclosure for the equity markets, similar to the rule proposed for the options markets. The letter states that such a requirement would promote price priority by encouraging market participants to develop methods of access to avoid trade-throughs and to participate in a linkage plan. Amy B.R. Lancellotta Senior Counsel Attachment 1 See Memorandum to Equity Markets Advisory Committee No. 43-00 and SEC Rules Committee No. 105-00, dated August 10, 2000. ²Attachment (in .pdf format)