MEMO# 13687

June 28, 2001

INSTITUTE LETTER TO NYSE ON RECOMMENDED CHANGES TO INSTITUTIONAL XPRESS SYSTEM

[13687] June 28, 2001 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 21-01 SEC RULES COMMITTEE No. 49-01 RE: INSTITUTE LETTER TO NYSE ON RECOMMENDED CHANGES TO INSTITUTIONAL XPRESS SYSTEM As we previously informed you,1 on May 7, the New York Stock Exchange sent a letter to the Institute responding to the Institute's recommendations on the NYSE's Institutional XPress system intended to address problems that mutual funds and other institutional investors have had trading large blocks of securities on the Exchange since the implementation of decimalization. The Institute has sent a letter to the NYSE (a copy of which is attached) addressing some of the points made by the NYSE in its response. In particular, the letter states that the Institute strongly supports the goals of the NYSE's recent initiatives directed at the needs of institutional investors that are outlined in the NYSE letter, particularly providing greater transparency of market information, solving the "go-along" problem, providing greater systems execution capability for large orders and reducing market impact and other execution costs. However, the letter reiterates that the Institute does not believe these initiatives will effectively address the most pressing concerns of our members, in particular, the inadequate protection of limit orders placed on the Exchange's limit order book and the ability of investors to effectively interact with those orders. The letter also reiterates that the Institute does not believe that decimalization has caused the problems that institutional investors are facing when trading on the Exchange, but that decimalization simply has made them more apparent. Finally, the letter addresses the NYSE's argument that "what is 'trading ahead' to one institutional investor is 'price improvement' for another" by reiterating that Institute members have consistently reported that they would gladly forego price improvement in order to receive protection for their displayed orders and the ability to freely interact with orders on the Exchange's limit order book. Ari Burstein Associate Counsel Attachment 1 See Memorandum to Equity Markets Advisory Committee No. 13-01 and SEC Rules Committee No. 36-01 dated May 9, 2001. 2Attachment (in .pdf format)