

**MEMO# 14044**

October 11, 2001

## **ADVISORY COMMITTEE ON MARKET INFORMATION ISSUES REPORT**

[14044] October 11, 2001 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 38-01 SEC RULES COMMITTEE No. 80-01 RE: ADVISORY COMMITTEE ON MARKET INFORMATION ISSUES REPORT As we previously informed you, in July 2000, the Securities and Exchange Commission established a federal advisory committee to examine issues in connection with the public availability of market data in the equities and options markets.<sup>1</sup> The Advisory Committee on Market Information was asked to address, among other things, the benefits of price transparency and consolidated market information; the best model for collecting and distributing market information; and how prices for market data should be determined. The attached Advisory Committee final report was recently submitted to the Commission.<sup>2</sup> The report's significant recommendations are summarized below. The Advisory Committee report supports the continuation of price transparency and consolidated market information as "core elements of the U.S. securities markets." The report recommends a new "competing consolidators" model for consolidating and distributing market information, under which each market center would be allowed to sell its market data separately to any number of competing consolidators, who in turn would consolidate the data and distribute it to vendors and end-users. In addition, the report recommends a "less regulatory approach to this aspect of the National Market System." The report notes that a minority of the Advisory Committee does not believe that the economic benefits of implementing a new competing consolidators model would outweigh the technological and economic risks of doing so, and therefore supports the current "single consolidator" model. Yet another minority of the Advisory Committee "would favor the competing consolidators model if, but only if, the SEC rule requiring the dissemination of best quote and last sale data in a consolidated format were eliminated." In the event the Commission retains the single consolidator model, the report recommends a number of improvements, including subjecting the consolidator function to competitive bidding, <sup>1</sup> See Memorandum to Equity Markets Advisory Committee No. 41-00 and SEC Rules Committee No. 100-00, dated July 26, 2000. <sup>2</sup> Report of the Advisory Committee on Market Information: A Blueprint for Responsible Change, September 14, 2001. <sup>3</sup> broadening participation in plan governance through a non-voting advisory committee, and encouraging industry efforts to streamline plan administration. The Advisory Committee report does not recommend any specific changes to the way the SEC reviews market information fees, and "opposes the SEC relying on a cost-based standard, such as that discussed in the SEC's December 1999 Concept Release,<sup>3</sup> in assessing these fees." The report does suggest that the Commission consider several issues in this area, including those relating to enhancement of the transparency of the fee-setting process, the regulatory requirements for fee filings, market data pilot programs, and for-profit market centers. Regarding the options markets, the report notes that because of systems capacity limitations in these markets, the Advisory Committee had

“serious concerns with the idea of commencing quoting in penny increments at this time.” The report recommends that the options markets should begin producing a consolidated best bid and offer as soon as effective access to, or linkage among, the options markets is established. The report also recommends that “the competing consolidators model should be permitted in the options markets,” although the Advisory Committee recognizes that the technological considerations may be more complex than in the equity markets. Doretha VanSlyke Zornada Assistant Counsel Attachment (in .pdf format) 3 See Memorandum to Equity Markets Advisory Committee No. 1-00 and SEC Rules Committee No. 3-00, dated January 7, 2000 (transmitting 1999 Concept Release).

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