INVESTMENT COMPANY INSTITUTE

MEMO# 11319

October 19, 1999

INSTITUTE LETTER TO CHAIRMAN LEVITT ON SECURITIES MARKETS

1 See Memorandum to Board of Governors No. 61-99, Equity Markets Advisory Committee No. 30-99, and SEC Rules Committee No. 72-99, dated September 30, 1999. 1 [11319] October 19, 1999 TO: BOARD OF GOVERNORS No. 62-99 EQUITY MARKETS ADVISORY COMMITTEE No. 33-99 SEC RULES COMMITTEE No. 78-99 RE: INSTITUTE LETTER TO CHAIRMAN LEVITT ON SECURITIES MARKETS ____ As we previously informed you, SEC Chairman Arthur Levitt recently delivered a major speech focusing on the significant changes occurring in today's securities markets.1 The Institute has sent a letter to Chairman Levitt (a copy of which is attached) commending him on his speech. In particular, the letter states that it is important for regulators and market participants to begin discussing ways to address the issues that will arise as the markets continue to rapidly change. The letter offers the Institute's assistance to the SEC as they consider those issues. The letter also offers the Institute's preliminary views on several issues discussed in Chairman Levitt's speech, in particular, demutualization, ECN fees, and centrality. Demutualization With regard to Nasdaq's and the NYSE's plans to become for-profit enterprises, the letter states that while the Institute does not have any definitive view at this time as to the best approach to changes to the current system of self-regulation, we agree that there should be a strict separation of the self- regulatory role from the marketplace it oversees and that the self-regulatory standards in place today should not be weakened. The letter also states that the Institute was particularly pleased that Chairman Levitt stressed the need for continued stringent listing standards. The Institute believes that any dilution of those standards as a result of the demutualization of Nasdaq and the NYSE would be detrimental to investors. The letter therefore urges the SEC to give this issue serious consideration, including whether it might be appropriate for a single SRO or even for the SEC itself to establish those standards. The letter also urges the SEC to monitor vigilantly the fee levels charged by Nasdaq and the NYSE and approve only justified fee increases. ECN Fees 2The letter supports the SEC's two-fold approach to ECNs that was outlined in Chairman Levitt's speech, specifically, providing regulatory space for competition while seeking to ensure market integrity and a level playing field for all markets, and urges that any regulation of ECN fees be consistent with that approach. The letter also states that to ensure a level playing field and to avoid stifling competition, it is important that any regulatory proposals relating to ECN fees do not unfairly discriminate against certain classes of market participants by restricting only certain types of compensation. Centrality The Institute agreed with Chairman Levitt's assessment that fragmented markets are detrimental to liquidity, tighter spreads, and overall efficiency. In this regard, the letter states that the Institute supports efforts, such as Nasdaq's proposed limit order book and enhancements to the Intermarket Trading System, to facilitate the

ability of customer orders to interact with one another as broadly as possible. The letter also notes that the Institute is sensitive to the potential conflict between efforts to reduce market fragmentation through greater centrality of orders and the need to promote competition and innovation. The letter, however, states that the SEC should not allow legitimate concerns over fragmentation to serve as a facade for efforts to monopolize all or part of our markets. Ari Burstein Assistant Counsel Attachment