MEMO# 15586

January 24, 2003

INSTITUTE COMMENT LETTER ON NYSE LIQUIDITY QUOTE PROPOSAL

[15586] January 24, 2003 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 3-03 RE: INSTITUTE COMMENT LETTER ON NYSE LIQUIDITY QUOTE PROPOSAL The Institute has filed a comment letter with the Securities and Exchange Commission on the NYSE's proposed rule change relating to the dissemination of liquidity quotations. The comment letter (a copy of which is attached) is substantially similar to the draft letter previously distributed to members.1 The comment letter supports the purposes behind the dissemination of a liquidity quote and commends the NYSE for continuing to move towards an environment in which investors can reach liquidity beyond the best bid and offer on the Exchange. Nevertheless, the comment letter states that the proposal falls far short of establishing a system to facilitate efficient trading by mutual funds and other institutional investors on the Exchange. Accordingly, the comment letter states that in order to create an efficient trading system on the Exchange, the NYSE must address the inadequate protection of limit orders placed on the Exchange's limit order book and the inability of investors to effectively interact with those orders. The letter notes that the Institute's recommendations to the NYSE in connection with the Institutional XPress system would accomplish these goals while preserving the principles of price/time priority and price improvement. As an alternative, the comment letter suggests that the NYSE establish a pilot program under the liquidity quote proposal with a small number of securities where XPress orders attempting to interact with a liquidity quote would be ineligible for price improvement. The letter states that this would allow the NYSE and others to assess whether making XPress orders ineligible for price improvement would impair, or in fact enhance, the efficient execution of orders on the Exchange. Ari Burstein Associate Counsel Attachment (in .pdf format) 1 Memorandum to Equity Markets Advisory Committee No. 2-03, dated January 21, 2003.