

MEMO# 15574

January 21, 2003

DRAFT INSTITUTE COMMENT LETTER ON NYSE LIQUIDITY QUOTE PROPOSAL

[15574] January 21, 2003 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 2-03 RE: DRAFT INSTITUTE COMMENT LETTER ON NYSE LIQUIDITY QUOTE PROPOSAL As we previously informed you,¹ the Securities and Exchange Commission has published for comment a proposed rule change filed by the New York Stock Exchange relating to the dissemination of “liquidity quotations.” The Institute has prepared a draft comment letter (attached) on the proposal. Comments on the proposed rule change must be received by the SEC no later than January 23, 2003. If you have any comments on the Institute’s draft letter, please contact Ari Burstein by phone at 202-371-5408 or by e-mail at aburstein@ici.org by January 22. The draft 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 draft 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. The draft letter also reiterates positions expressed by the Institute in prior comment letters on the NYSE’s Institutional XPress system, specifically, 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. Finally, the draft 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 draft letter states that this would allow the NYSE and others to assess the effect of making XPress orders ineligible for price improvement on the efficient execution of orders on the Exchange. Ari Burstein Associate Counsel 1 See Memorandum to Equity Markets Advisory Committee No. 1-03, dated January 8, 2003. 2 Attachment (in .pdf format)

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