

MEMO# 13784

July 31, 2001

DRAFT INSTITUTE LETTER ON NYSE PROPOSAL AMENDING XPRESS QUOTE AND ORDER PARAMETERS

[13784] July 31, 2001 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 27-01 RE: DRAFT INSTITUTE LETTER ON NYSE PROPOSAL AMENDING XPRESS QUOTE AND ORDER PARAMETERS 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 Exchange² to decrease the minimum number of shares required for XPress quotes and orders and to decrease the time that a published bid or offer must remain at the same price to become XPress eligible. In particular, the proposed rule change would (1) reduce the minimum size of an XPress quote from 25,000 shares to 15,000 shares; (2) reduce the time period for designation as an XPress quote from 30 seconds to 15 seconds; and (3) reduce the minimum size of an XPress order from 25,000 shares to 15,000 shares. The Institute has prepared a draft comment letter on the proposal, a copy of which is attached. The draft letter reiterates the Institute's strong support for the goals of the NYSE's most recent initiatives, including Institutional XPress, directed at the needs of institutional investors. The draft letter, however, states that we do not believe that the XPress system, as currently structured, and under the reduced parameters proposed in the current proposal, will satisfactorily respond to the problems that mutual funds and other institutional investors are facing when trading on the Exchange. Specifically, the draft letter states that the proposal does not 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 draft letter therefore urges the NYSE to consider the recommendations that we have previously made concerning the XPress system, in particular, eliminating the required displayed time for a quote to qualify as an XPress quote, further reducing the number of shares required for quotes and orders to become XPress eligible to 10,000 shares (Do members agree that we should recommend 10,000 shares as the minimum size for an XPress quote and order? Should this number be lower?), making XPress orders ineligible for price improvement, and allowing XPress orders to reach through to orders on the book below the best bid and offer. 1 See Memorandum to Equity Markets Advisory Committee No. 24-01, dated July 18, 2001. 2 Securities Exchange Act Release No. 44539 (July 11, 2001), 66 FR 37509 (July 18, 2001). 2 Comments on the proposal are due to the SEC no later than August 8, 2001. If you have any comments on the draft Institute letter, please contact the undersigned by phone at 202-371-5408, by fax at 202-326-5839, or by e-mail at aburstein@ici.org no later than August 3. Ari Burstein Associate Counsel Attachment Attachment (in .pdf format)

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