

COMMENT LETTER

November 1, 2000

Comment Letter on Limit Order Transparency, November 2000

October 24, 2000

The Honorable Arthur Levitt
Chairman
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: Limit Order Transparency Working Group

Dear Chairman Levitt:

As you know, at your request, members of the Investment Company Institute's [1](#) Equity Markets Advisory Committee and the Securities Industry Association's Market Structure Committee formed a Working Group to examine issues relating to the transparency of limit orders in the U.S. equity markets. The Market Structure Committee of the SIA recently submitted a letter updating you on the progress of the Working Group and the steps taken by the Group to formulate recommendations to increase transparency. The Institute would like to clarify its members' position on these issues.

The Working Group to date has met two times. Members of the Working Group generally agreed that increased transparency would add liquidity to the market, to the benefit of investors. In this regard, the Group discussed Nasdaq's SuperMontage proposal, which would establish a new order routing and execution facility for Nasdaq traded securities. Initially, members of the Working Group were of the opinion that SuperMontage represented a good first step towards increasing transparency of limit orders in the near term. At the same time, the Group agreed that further enhancements that would increase the number of price levels displayed in the system, particularly after the conversion to decimalization, should be pursued. These enhancements are set forth in the SIA's letter. [2](#)

Since the last meeting of the Working Group, certain commenters – principally ECNs – have brought to our members' attention other potential problems with SuperMontage. Two in particular are especially troubling. Both involve how orders will be prioritized for execution within SuperMontage. The first one relates to the effect of an increase in the size of an order on that order's standing. The second concerns the effect of access fees charged by ECNs on the priority afforded to their quotes. Each of these have potentially deleterious effects on mutual funds.

In response to these concerns, we understand that Nasdaq has filed Amendment No. 8 to SuperMontage with the Commission. In light of this action, our members felt it best to reserve judgment on SuperMontage until we have had a chance to fully examine and consider the revised proposal. We hope that once we are able to do so, the Working Group will be able to reach a consensus position on SuperMontage. In the mean time, we are continuing our participation in the Working Group. As the SIA's letter notes, the Group is planning to schedule a meeting with New York Stock Exchange officials in the near future.

If you have any questions on any of the foregoing, please call me.

Sincerely,

Craig S. Tyle
General Counsel

cc: The Honorable Isaac C. Hunt, Jr., Commissioner
The Honorable Paul R. Carey, Commissioner
The Honorable Laura S. Unger, Commissioner
Annette Nazareth, Director, Division of Market Regulation
Robert L.D. Colby, Deputy Director, Division of Market Regulation
Belinda Blaine, Associate Director, Division of Market Regulation
Paul F. Royce, Director, Division of Investment Management

ENDNOTES

1 The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,242 open-end investment companies ("mutual funds"), 488 closed-end investment companies and 8 sponsors of unit investment trusts. Its mutual fund members have assets of about \$7.453 trillion, accounting for approximately 95% of total industry assets, and over 83.5 million individual shareholders.

8 In the Institute's comment letters on the SuperMontage proposal, we also expressed reservations with other aspects of the proposal, such as the fact that it contains mechanisms that facilitate internalization. See Letters from Craig S. Tyle, General Counsel, Investment Company Institute, to Jonathan G. Katz, Secretary, Securities and Exchange Commission, dated January 11, 2000 and April 20, 2000.