Organization of Independent Floor Brokers

11 Wall Street
New York, NY 10005

Statement for the Record
"Reviewing U.S. Capital Market Structure:
Promoting Competition in a Changing Trading Environment"

Subcommittee on Capital Markets, Insurance and
Government-Sponsored Enterprises

Committee on Financial Services
U.S. House of Representatives

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The Organization of Independent Floor Brokers represents the interests of 450 independent brokers working on the New York Stock Exchange trading floor. This statement presents our views on the subject of U.S. capital market structure.

As member broker-dealers of the New York Stock Exchange, we are compelled to answer critics and competitors who question the viability of the auction market model and promote changes that disadvantage the investing public. Respectfully, we seek to add balance and clarity to the debate and offer our views on several important issues.

Obviously, the NYSE is facing many challenges. Interim chairman and CEO John Reed is effectively addressing governance, market oversight and board reform—key issues at the center of the storm. Still, our market is strong and performing exceptionally well. Continuous change and evolution has enabled the Exchange to become the world's most competitively priced, efficient and reliable equities market.

We are confident in the value and capability of the auction market, and in the expertise and professionalism of our colleagues on the trading floor. The NYSE auction market brings investor interests together on a fair and level playing field not found in any other trading venue. It is where investors discover the best price and value when buying and selling stocks of the world's best companies—a distinct competitive advantage and the leading reason for the Exchange's success. Moreover, we realize that our success rests squarely on our commitment and ability to fulfill the needs of our customers, but not at the expense of any single constituent—especially the small investor.

With the investor in mind, we are deeply concerned by proposals to modify the "trade-through rule," a rule that protects investors and—despite the claims of critics and competitors—does not inhibit market competition. This rule promotes competition on the basis of the best-published price posted in all markets and ensures investors of best price when buying and selling stock. Assuredly, the trade-through rule does not inhibit an investor or broker from sending an order to any market or ECN, nor does it preclude any market from executing an order at any price that is agreeable to the customer. It simply requires that investors displaying better-priced quotes in other markets have the right to be satisfied…. nothing more.

Significant alterations to this rule would weaken the National Market System and produce a host of unintended consequences that would disadvantage investors and further diminish their trust and confidence in our capital marketplace.

The absence of the trade-through rule as it exists today would produce inferior prices and increased costs, market fragmentation and market volatility, and reduced accountability and transparency— all byproducts of a market without adequate investor price protection. It would give rise to professional quote arbitrage at the expense of retail investors. Undermining quote competition by trading away from the best bid and offer, in effect, trades away assurances of the best price for investors. Unfortunately, the competition seeks an environment that permits cash inducements to brokers, less sunlight on orders, and speedy executions at inferior prices—practices that have no place at the NYSE and practices that should have no place in our capital market system.

Therefore, we cannot support eliminating or changing the trade-through rule. Are we not working to restore investor trust and confidence in our markets? Disadvantaging investors and diminishing market quality by fostering inferior prices, dislocated and choppy markets, and reduced transparency by no means achieves that end; it sets it back.

Investors would be better served by thoughtful and responsible market structure evolution and market competition that does not advantage a select class of competitors and professional special interests. We must advance the fair and level playing field for investors by ensuring rapid access to the best price in their trading venue of choice. In that spirit, what should be reviewed are the adequacy of the Intermarket Trading System and the elimination of inequitable practices such as preferencing, order rebates, payment for order flow and other "pay-to-play" schemes.

At the NYSE, the benefit of superior pricing is not lost on investors. The Exchange establishes and posts the best price 94% of the time. In the 100 most-actively traded stocks, our prices are on average 12 cents better than the competition. We improve the posted price on 44% of orders by an average of 3 cents per share. In this business, investors naturally gravitate to the best price and to the Exchange, which maintains a dominant—by no means monopolistic—market share of 80% in the trading of listed stocks because we give investors what they most want and value: the best posted price, the lowest all-in cost, narrowest spreads, price stability and least volatility, and highest fill rates. Even in the most difficult market conditions, Exchange market professionals are there, buying and selling, making markets for investors.

In the auction market, all buyers and sellers have equal representation at the point of sale—not so in distributed dealer markets. Specialists and floor brokers play a vital and visible role in the price discovery process and help ensure the most fair, orderly and liquid market. Together, we produce multi-million dollar cost savings annually for large and small investors. We are a single point of accountability and a valuable source of information for our customers. Most importantly, we apply proven trading strategies and employ the most sophisticated technology tools to secure the best price. Our role in the market is assured as long as we remain cost-effective and provide value to customers.

There are 450 independent agents working diligently to employ their strategic expertise and judgment in representing orders both large and small for both retail and large institutional customers. The larger orders—25,000 shares or more—account for more than 30% of the NYSE's average daily volume of 1.4 billion shares. Most small to mid-size orders are delivered directly to the point of sale for execution via the Exchange's electronic order routing systems, which provide rapid execution speeds of a low as 1.3 seconds depending the order execution route customers choose.

Through the years the NYSE has been viewed as the "gold standard" in markets. This is in great part due to the role of the floor broker. The interaction between the floor broker and upstairs trader provides the flow of information necessary to keep professional traders informed about changing market conditions. That information flow is more often than not the catalyst that provides incentives for traders to trade. The combination of best price and intelligent information flow is the backbone of the NYSE. We will continue to adapt and innovate to retain that standard, to best serve our customers, and to fulfill our commitments to the highest levels of market quality. We will also continue to compete on the basis of discovering the best price. Simply put, we encourage competition on a level playing field—supply the best price to the investor and you will get the order flow. We urge others to follow suit.