

**Securities Industry Association**

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October 3, 1997

Jonathan G. Katz, Secretary
United States Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: File No. S7-16-97
Release No. 34-38672

Dear Mr. Katz:

The Securities Industry Association ("SIA")¹ appreciates the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or "Commission") regarding the Commission's Concept Release on the oversight of alternative trading systems ("ATSs"), national securities exchanges, foreign market activities in the United States, and related matters. Public trust and confidence in the securities markets is central to SIA's mission. The issues about transparency and access that the Commission poses in this Concept Release are key elements of maintaining that confidence. How the Commission decides to address those issues will play a large role in determining whether investors will continue to have confidence in the fairness, competitiveness and adaptability of U.S. capital markets.

Summary

We wish to commend the Commission for its thoughtful, innovative, and far-reaching effort to provide possible directions for market regulation at the gateway of the 21st century. The Commission's Concept Release raises significant questions of great concern to the securities industry as well as securities regulators. Following the passage of new legislation that provided the Commission with important new regulatory tools to more easily modernize many aspects of the regulatory framework, a careful assessment by the Commission of the overall direction of its regulation of U.S. secondary markets, and an attempt to anticipate future regulatory issues, is timely.

The Commission's Release solicits views regarding the need to update the Commission's regulatory framework to address future changes in the U.S. securities markets, particularly those resulting from technological developments. While the scope of this request is potentially enormous, the Release identifies three specific areas of concern: (i) the growth of trading on ATSs; (ii) the possible need to redefine the role of self-regulatory organizations in the event that the regulatory approach to ATSs changes; and (iii) the regulatory status of certain non-broker-dealers that provide U.S. investors with electronic access to foreign markets.

The following are SIA's key conclusions about the issues raised by the Concept Release:

The Commission has created a regulatory framework in which many innovative trading systems have flourished. "Alternative trading systems", however one might define that term, provide important market services to investors and provide important competition to more traditional market centers. The Commission should proceed with great caution in revamping or reversing a regulatory policy that has provided these benefits.

In order to avoid impeding the expansion and development of existing or future alternative ATSS, any change in the regulatory structure governing these systems should be narrowly crafted to address demonstrated regulatory concerns. The regulatory structure should not be changed in a way that disadvantages investors, or that creates unjustified new regulatory burdens on broker-dealer proprietary systems generally.

To the extent that changes in the regulatory approach to ATSS are necessary, such changes would best be adopted under a system of enhanced broker-dealer regulation. Attempting to restructure exchange regulation to encompass some broker-dealer trading systems raises a number of troubling legal and policy issues. SIA believes that reclassifying ATSS as exchanges is not likely to be in the best interests of investors, or of the competitiveness of U.S. capital markets.