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Ms. Florence E. Harmon
Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Dear Ms. Harmon

Re: File No. S7-16-08, Exemption of Certain Foreign Brokers or Dealers

The London Stock Exchange Group plc (the "Exchange") appreciates the opportunity to comment on the Commission's proposed amendments to Rule 15a-6.

We are pleased that the Commission recognises that the time has come to update and expand the SEC's existing exemptions for foreign entities, given the ever increasing globalisation of securities markets and advancements in technology and communication services. We have a deep interest in these issues and we were happy to have been invited to provide our perspective on how US investors typically access our market at the SEC's roundtable discussion on mutual recognition last year.

We are broadly supportive of the changes proposed to Rule 15a-6. Expanding the category of US investors that foreign brokers may contact and reducing the chaperoning role played by US broker-dealers will go a long way towards increasing the efficiency of cross-border business globally, and will bring substantial benefits to US investors. We also support the new exemption in Rule 15a-6 for foreign options exchanges and their foreign broker-dealer members regarding familiarization activities. We have set out below under a separate heading our detailed comments on particular aspects of the proposed amendments.

While we support these changes, we believe strongly that another step must be taken. The SEC should also offer an exemption from US Exchange Act registration requirements to eligible, well-regulated foreign exchanges under a mutual recognition arrangement so that wider trading opportunities are available to US-registered broker-dealers. While Rule 15a-6 amendments are a step in the right direction, they do nothing to address the fact that US-registered broker-dealers will remain unable to directly access our trading system. Technological advancements mean that direct access, from a

US-based office, is a straight-forward matter. Demand from US investors for investment opportunities in the UK is very strong. The biggest impediment to our provision of trading services to US firms is the fact that there is no exemption to the onerous registration requirement of the Exchange Act.

We are very encouraged to see that the SEC and the Australian authorities have entered into a bilateral arrangement to further a mutual recognition program. We understand that this will enable the Australian Securities Exchange ("ASX") to apply to the SEC for an exemption which will effectively enable direct trading arrangements between ASX and US-registered broker-dealers, who will for the first time directly participate in the trading of ASX-listed securities. US investors dealing with their US-registered broker-dealers will be protected by the underpinnings of a mutual recognition arrangement between the SEC and the Australian authorities on such matters as securities enforcement and market and broker-dealer supervision.

It is now well-known that over the years US individuals have changed their approach to investment and are now significant investors in foreign securities. The high demand for investment opportunities in the UK in particular is evidenced in the most recent "Preliminary Annual Report on US Holding of Foreign Securities"[1] from the US Department of the Treasury. It found that US portfolio holdings of foreign securities by country were "by far the largest for the United Kingdom" at $1,142 billion out of a total value of foreign securities investment of $7,212 billion. Australia is ranked tenth at $223 billion.

This significant investment in, and demand for, UK securities shows that the industry has adjusted to the demands of SEC rules with respect to how US investors access the products on foreign markets, but this adjustment results in an inefficient model and is detrimental to the interests of US broker-dealers and US investors. Since US-based firms cannot directly access our market without the Exchange triggering Exchange Act registration requirements, a US broker has no option but to engage the services of a foreign broker (either an affiliated firm or otherwise), who is a London Stock Exchange member in order to conduct any trading in UK securities for its US client.

It is generally the large global investment banks facilitating this trading business for US investors. They have the capital and infrastructure needed to set off from the US and establish trading offices in foreign jurisdictions, such as the UK. A recent study conducted by Greenwich Associates[2] found that the top firms used by US institutional investors for trading on European

[1] Issued August 29, 2008 reporting on figures at the end of 2007

[2] "In International Equity Trading, US Institutions Pick up the Pace", Greenwich Associates, July 2, 2008. Greenwich carried out interviews with 172 US-based international equity fund managers who were asked to name the brokers with which they did the highest volume of business for European equity trading

markets are (in order of survey ranking): Merrill Lynch, Credit Suisse, Citi, UBS, Morgan Stanley, Goldman Sachs, Lehman Brothers, Deutsche Bank and JP Morgan.

The Greenwich study, along with trading statistics from the Exchange and other European exchanges, shows the degree to which US investors' trading business is concentrated in these nine large investment banks. Seven of these nine firms have set up an ATS consortium called Turquoise (known as an 'MTF' under European legislation) to compete directly as a trading venue with the established regulated markets in Europe, including the Exchange. In addition, most of the nine firms operate (or plan to operate) their own internal crossing networks (also called "dark pools") to match trading interests for their clients without exposing these orders to the regulated markets[3].

Should the SEC fail to establish a mutual recognition arrangement with the UK, not only will US firms continue to be disadvantaged in being prevented from directly accessing trading opportunities on the Exchange, but a competitive distortion will be created in the UK (and across all of Europe), as the largest global investment banks expand their control over the trading business of US investors. Access to trading on the Exchange should be 'democratised' to counter the degree of this distortion by providing all US-based firms with the option of becoming a member of the Exchange, thereby increasing competition between US broker dealers to the direct advantage of US investors.

Another likely effect of the 15a-6 changes - without the counter-balance of the provision of trading access to US firms - is that US investors' orders received by the big firms which run MTFs and crossing networks are more likely to be executed outside of a Regulated Market. Regulated Markets operate under a regulatory regime that assumes a broader level of access by investors than for MTFs and internal crossing networks and provide a higher level of investor protection than provided by these other platforms.

In summary, we remain very supportive of the SEC's mutual recognition work as a necessary part of improving the efficiency of cross-border transactions. While the amendments to Rule 15a-6 are positive, we respectfully ask that they be accompanied by enabling direct access to the Exchange by US-registered broker-dealers under a mutual recognition arrangement. Not only will direct US-firm access benefit US investors and US broker-dealers, and their growing investment interest in the UK, but it will minimise the likelihood

[3] Merrill Lynch operates "MLXN", Credit Suisse operates "Cross Finder", Citi operates "Liquifi", UBS operates "PIN", Morgan Stanley operates "MS Pool", Goldman Sachs operates "Sigma X", Lehman Brothers operates "LX", and JP Morgan operates "JP Morgan Lighthouse".

that a significant competitive imbalance will be created between regulated exchanges and other platforms and MTFs organised as broker-dealers.

Comments specific to Rule 15a-6 amendments

Regulation ATS

The Commission has solicited comment on whether it should consider amending Regulation ATS to allow a foreign broker-dealer relying on an exemption in proposed Rule 15a-6 to operate an alternative trading system in the United States so long as it otherwise complies with the terms of Regulation ATS. On one hand, we are pleased to see a subtle reminder to foreign brokers that they cannot use direct access to US investors under rule 15a6 (amended or in its current form) to operate a system which automatically matches buy and sell orders from US clients unless they comply with SEC's rules for operating an ATS. However, we do not believe that the SEC should deal with issues involving the operation of an ATS by foreign entities through amendments to Rule 15a6. It would run counter to the SEC's policy goals to afford more favourable regulatory treatment to broker-dealers than exchanges, so the SEC should not provide this exemption to foreign broker-dealers until similar exemptive relief is available to exchanges through the mutual recognition initiative.

Foreign Securities

We support the proposed changes to the exemption for foreign broker-dealers soliciting trades from US Qualified Investors. However, the definition of "foreign securities" (by reference to Rule 405 under the Securities Act), is not workable, in our view. This definition includes subjective elements and there is no definitive list of such securities that can be relied upon for compliance purposes.

We suggest that securities be considered to fall under this definition based on whether the securities are listed on a non-US exchange which is a member of the World Federation of Exchanges. This is a simpler, objective standard that will work from a compliance perspective. It would be very cumbersome and inefficient to assess, for each security, the four factors set forth in the definition of "foreign private issuer" in Rule 405. Automated systems cannot make these judgments easily. In addition, the process of manually collecting the information in order to make these judgments would be overly burdensome.

Familiarisation with options traded on foreign exchanges

We support the codification of the options familiarisation regime. However, we are not clear on the rationale for limiting this exemption to options markets. Given US investors' clear interest in foreign securities and foreign markets, there is a need to acquaint qualified investors with the characteristics of foreign securities and the differences between the US and foreign regulatory structures. We believe there is a role for foreign exchanges to help inform qualified investors concerning these matters, as well as the range of securities traded on our markets.

The London Stock Exchange would be pleased to prepare disclosure documents explaining the range of securities and differences in market structure and regulation, similar to those that have been provided by foreign options markets. Thus, we suggest that the exemption for options markets be generalised and apply to all securities that could be traded under the definition of "foreign securities" that we have proposed above.

On behalf of the London Stock Exchange Group, we would like to offer our further assistance to the Commission as it considers these issues. If you have any questions or if we can assist you in any way please do not hesitate to contact Mr. Adam Kinsley, Director of Regulatory Operations and Strategy (+44 207 797 1241) or Ms. Kathleen Traynor, Head of Regulatory Strategy (+44 207 797 3222).

Yours Sincerely

Clara Furse DBE

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