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Mr. Jonathan G. Katz, Secretary  
Securities and Exchange Commission  
450 Fifth Street NW  
Washington, DC 20549-0609  
May 14, 2004  
File No. S7-18-04

Dear Mr. Katz:

Here are my comments on the proposed changes in SRO rule filings. In brief:

- This is a great proposal. Right On! Getting online access to the filings and the rules is long overdue.
- It does not go far enough. The Commission should make sure that *all* SRO filings, including Form 1, and the periodic supplemental filings required, should be electronic and should be available to the public on Edgar.
- The filings of ATs should also be made electronically, posted on the web, and available on Edgar.
- The Commission should also review the outdated process for reviewing SRO filings and should be more active in using its Section 36 powers to allow faster implementation of changes. The Commission should move from a “guilty until proven innocent” standard to an “innocent until proven guilty” standard for the SROs.
- The Commission needs to seriously consider how to restructure regulation in a world of competing trading platforms. It should separate broker regulation from the operation of trading platforms, and designate an entity other than a trading platform to do the absolutely necessary job of market-wide surveillance.

My detailed comments are attached.

Sincerely,

James J. Angel

Comments on Rule Changes by SROs: File S7-18-04

Comments by

Professor James J. Angel, Ph.D., CFA  
McDonough School of Business  
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My background:

I am currently an Associate Professor of Finance at Georgetown University. I have previously been the Visiting Academic Fellow at the NASD (1999-2000), and a former chair of the Nasdaq Economic Advisory Board. I am also a member of NASDAQ's OTC Bulletin Board Advisory Committee. I have visited over 35 exchanges around the world and sat on numerous trading desks. However, my comments are my own and do not necessarily reflect those of Georgetown University, NASDAQ, or anyone else. I have not received any compensation for these comments.

General comments:

**1. This is a great step forward.**

For all the reasons mentioned in the proposing release, this proposal is a great idea. Right on!

**2. All SRO filings should be included.**

While rule changes are one thing, the SROs and ATs also make numerous other filings to the Commission. These should also be included in the requirements for electronic filing and web accessibility.

**3. All SRO filings should be available on Edgar.**

Although posting the filings on the SRO web site is a good idea, my experience with previously SEC-mandated web postings such as 11ac1-5 and 11ac1-6 reports is that such required reports are frequently hard to find on the web sites. Retaining all of these reports in Edgar in addition to the SRO web sites will make it easier for users of the reports to find them in a central location. Furthermore, this will assure the long-term availability of the information if the SRO ceases operations.

**4. ATS filings should also be made electronically, available on the web, and available on Edgar.**

Entities that are registered under Reg ATS are also required to make various filings with the Commission. If this information is important enough to be required, it should be easily accessible on the web.

**5. The Commission should use its broad exemptive authority under Section 36 to reform the SRO rulemaking process. SRO rule changes should be “innocent until proven guilty.”**

The current approval process for SROs was crafted at a time when the SROs were viewed as regulated monopolies without serious competition. However, the SROs that operate equity trading platforms now operate in an extremely competitive environment in which they compete among themselves, with foreign markets, with alternative products, and with other less-regulated trading systems such as ATSS.

The time lags for approval of even modest changes are an enormous burden on the SROs. Their competitors can make changes instantly, while it often takes years to get even minor rule changes through the Commission. This just isn't right. The playing field is not level.

The Commission should use its broad exemptive authority under Section 36 of the Securities Exchange Act to greatly expand the proportion of rule filings which can go into immediate effect without further Commission action. The Commission should reserve, however, the right to abrogate ex post rule changes that it finds are not appropriate.

**6. The Commission should separate the operation of trading facilities from the necessary regulatory oversight of those facilities.**

One solution, which makes enormous sense, is to separate many regulatory activities from the operation of trading facilities. For example, regulation of the behavior of branch office brokers has nothing to do with the operation of a trading platform. In a world of competing trading platforms, someone has to provide market wide surveillance for trading abuses such as insider trading. Some entity needs to referee disputes between competing market centers over issues such as crossed markets and trade throughs. And that entity needs to be different from one of the competing platforms, or there will be never ending complaints about improper regulation of one competitor by another.

The Commission needs to give serious thought on how to restructure regulation in a world of competing trading platforms.