

**Testimony of Jeffrey T. Brown,  
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Thank you, Annette, and good afternoon. My name is Jeffrey T. Brown and I'm General Counsel of Schwab Soundview Capital Markets, the institutional research, trading and execution arm of the Charles Schwab Corporation. I thank you, Chairman Donaldson, and all the Commissioners for inviting me to participate in these important hearings. It has been a long day and you've heard many views on the proposals you've put forward. So let me get immediately to what we see as the heart of the matter:

- Schwab believes that the market data reform you have proposed simply misses the real problem. Schwab has been an advocate for market data reform for many years. We've heard all the stories and rationale for why the cost is so high. Frankly, we don't believe them. Market data is too expensive for investors and for the brokers that serve them. Rather than worrying about how pieces of the pie are distributed, we need to worry about the size of the pie. Last year the Plan Networks made \$424 million in revenue and incurred only \$38 million in expenses. That's a monopoly mark-up of 1,000 percent. Clearly, there is excess money in the system, which manifests itself in everything from Tape shredding, to market data rebates, to exorbitant pay packages for executives. Before requiring use of a Cray computer to divide the market data spoils, the Commission should first come to terms with this basic issue – Market Data is too expensive.
- The market data cartels make no justification for the cost. Without transparency in cost and governance, we will never be able to focus on the more critical market data problem – the use of market data revenue. Therefore, Schwab believes that markets should fund their regulatory and operational functions directly and openly through fees on members that trade on the markets, rather than indirectly and discretely through market data charges paid by investors.
- The administrative burdens imposed by the various market data cartels have become unbearably onerous, resulting in enormous cost and tens of thousands of man-hours. Each cartel has its own fee categories and calculations, methods for counting and reporting quote usage, and arcane policies on quote distribution restrictions and limitations. The inconsistent approaches force broker-dealers to implement redundant, time-consuming systems to facilitate the relatively simple task of providing basic bids and offers to our customers.
- Given these issues, Schwab has three primary recommendations:
  - First, implement a “cost-plus” approach to market data pricing. If markets are going to be free to distribute depth of book information on their own, the required consolidated data at the NBBO should not be the

object of monopoly profit-taking. Price the NBBO to facilitate widespread availability by basing it on the actual cost plus a modest return.

- Second, simplify and standardize network accounting so that the expenses relating to NBBO market data consolidation are transparent, available to individual investors, independently confirmed, and form the basis for new fee proposals.
- Third, require public representation on network operating committees. A toothless advisory committee is a status quo proposal. Today, everyone acknowledges the need for independent members on the boards of public companies, mutual funds, and even SROs. Governance of market data should be no different.
- Finally, although the focus on NBBO cost and fees is appropriate, the Commission should undertake a broader study of the imbalanced playing field that has resulted. Individual investors get access at a huge price to only the barest minimum of information, the NBBO, which says little about what is actually happening in the market. Institutional investors, on the other hand, have access to significantly more valuable depth-of-book information, which may indicate in which direction the market is moving.

In closing, I urge the SEC to re-examine its market data proposal to better reflect the technological developments that have made superior market information more readily available, and to ensure that all investors have access, at a reasonable price, to that information. Thank you very much for the opportunity to testify today.