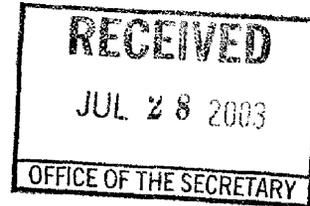


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VIA: FEDERAL EXPRESS

July 25, 2003



Mr. Jonathan Katz, Secretary
Securities and Exchange Commission
450 5th Street, NW
Washington, DC 20549

Re: SR-NASD-2003-85 – SuperMontage Anonymity

Dear Mr. Katz:

Citigroup Global Capital Markets, Inc. (“CGMI” or the “Firm”) is pleased to submit this comment letter on SR-NASD-2003-85, in which the **Nasdaq Stock Market, Inc.** (“Nasdaq”) **proposes** to introduce **post-trade** anonymity in the Nasdaq National Market Execution System (commonly known as “SuperMontage”).¹ CGMI fully **support’s** **Nasdaq’s** proposal to provide anonymity through settlement, and urges the Securities and Exchange Commission (“SEC” or “Commission”) to **approve** SR-NASD-2003-85 expeditiously.

Background

Nasdaq proposes to add a post-trade anonymity feature to its core trading platform – SuperMontage. **Today**, market **makers** and alternative trading systems/ electronic communications **networks** (“ECN’s”) have ability to represent trading interest in Nasdaq either on **an** attributed basis under their own unique market **participant identifier** (“MPID”), or on **an** anonymous **basis** under the neutral MPID called “SIZE.” All anonymous orders from market makers, ECNs and order-entry firms priced **at the best** bid/best offer are aggregated **and** displayed **under the** single **SIZE** identifier on both the bid and offer sides of the market. Upon execution against **an** order in **SIZE**, however, **SuperMontage** reveals the identity of the party

¹ **CGMI**, which is formerly known as **Salomon Smith Barney Inc.**, is an **indirect** wholly-owned **subsidiary** of **Citigroup, Inc.** **CGMI** is a registered **Nasdaq** market maker in **approximately 800** **Nasdaq-listed securities**. **CGMI** is a member in good standing with the **NASD**, the **New York Stock Exchange**, and a number of other **self-regulatory organizations/national securities exchanges**. In addition, **CGMI** and its affiliate firms **transact securities business in more than 34** countries.

representing the “anonymous” trading interest in SIZE. Therefore, unlike ECNs which provide anonymity through the settlement cycle, SuperMontage provide only pre-trade anonymity.

Nasdaq is proposing to introduce post-trade anonymity in SuperMontage. Under the proposal, the identity of the broker/dealer representing an order in SIZE would be kept anonymous through settlement. According to Nasdaq, when a member uses the non-attributable order for display under SIZE, SuperMontage will substitute **and** give up the SIZE MPID as the contra party, instead of the member’s unique MPID. The Automated Confirmation Transaction Service (“**ACT**”) reports that Nasdaq forwards to the National Securities Clearing Corporation (“NSCC”) will contain the MPIDs of the parties to the trade but will have an indicator noting that the trades are anonymous. On the contract sheets that NSCC sends to member firms, the NSCC will substitute SIZE for the MPID of the contra party, thereby preserving anonymity through settlement. As is today, SuperMontage will automatically report the trade to the tape (price and quantity).

There are two **exceptions** to when orders entered into SIZE will not remain anonymous through settlement. First, SuperMontage will cease providing anonymity if the NSCC has ceased to act for the member involved in the trade or ~~for~~ the clearing **firm**, and the NSCC has decided not to guarantee the trades by the failed **firm**. Second, if the member whose quote is executed against is an ECN that charges an access fee, Nasdaq will reveal contra party identities upon delivery to the ECN to give the ECN the opportunity to decline to trade with the incoming order for credit-risk purposes (consistent with SEC guidance on ECN firm-quote obligations). To maintain anonymity, the proposal states that ECNs will be prohibited from disclosing the identity of the party sending the order through SuperMontage to the ECN.

Nasdaq is proposing to offer four new risk management tools to **assist** firms in monitoring contra-party risk. First, Nasdaq will provide members with **an** intra-day concentration **report** that will disclose a member’s aggregate dollar value of purchases **and** sales with other members with whom it has traded anonymously. Second, after 4 p.m. Eastern Time Nasdaq will reveal the identities of the members listed on the intra-day concentration report. Third, Nasdaq will begin providing trade information to the NSCC in real time as trades are executed in SuperMontage (instead of a time-interval hatch basis **as** it does today). Fourth, once the NSCC has ceased to act for a participant and determined not to guarantee the settlement of a participant’s trades, Nasdaq and the NSCC will work to promptly disclose to members each trade executed anonymously against the failing **firm**.

Discussion

CGMI fully supports Nasdaq’s anonymity proposal.

As noted above, SuperMontage today only provides anonymity until the point of execution. Once **an** order under SIZE is matched, the **system** reveals the identity of both sides of the trade. In CGMI’s **experience**, SuperMontage’s pre-trade **anonymity** function, while useful, does not adequately minimize market impact. This is because the system gives up the identities of the parties to the trade at time when such information is still ripe and relevant, which can have an impact on the price of the security. **Specifically**, if market participants see a pattern in which

CGMI or another broker/dealer that normally handles orders for institutional accounts (pension fund and mutual funds) is actively buying the stock, market participants will adjust their trading strategy for that security in anticipation of the strong buy demand. This will cause the price of the security to increase, thus making it more expensive for the **firm** to fill the customer order. In contrast, full anonymity (which **many** ECNs and exchanges offer today) minimizes market impact, as it prevents market-sensitive information from being disseminated real time.

First, we believe that Nasdaq's proposal will assist CGMI and other broker/dealers in obtaining better executions for their customers. The fact that SuperMontage offers only pre-trade anonymity can increase market impact **and** limit a **firm's** ability to execute institutional orders on the most favorable terms for customers. That is, if a **firm** believes that executing **an** order or series of orders in SuperMontage will cause the price in Nasdaq to move significantly, the broker/dealer will often route the order to **an** ECN or other venue that provides total anonymity. Thus, adding anonymity through settlement to SuperMontage will aid firms in better executing their customer orders **and** in meeting their best execution obligations. Additionally, it is much more efficient for broker/dealers to execute orders directly in the central marketplace – Nasdaq -- without having to impose **an** intermediary **and** incur the attendant added costs. In this way, Nasdaq's proposal should promote efficiency, reduce trading costs, and increase competition in the market, as broker/dealers will now be able to represent and execute their customer orders on an anonymous basis directly through a Nasdaq facility.

Second, the Commission should not delay in approving **Nasdaq's** proposal, as the concept of post-trade anonymity is not novel or new. Other exchange systems **and** ECNs that currently compete with Nasdaq for execution services already offer anonymity through execution. Nasdaq, as a primary market, should be able to effectively compete with those other market centers. The Commission should be wary of those who seek to stymie **Nasdaq's** effort for the purpose of protecting their economic interests and stifling competition. In this connection, the proposal fosters competition among venues that trade Nasdaq securities **as** it will provide greater choices as to where order entry **firms**, market makers, **and** their customers may route their orders.

Third, we believe that Nasdaq's proposal seeks to balance carefully the need for anonymity against the risks associated with anonymous trading. Specifically, the intra-day concentration report that Nasdaq will make available will assist members with **measuring** their exposure if one or all of their contra parties failed to settle all trades executed anonymously. With this information, members can determine whether any risk-limiting actions should be taken. Additionally, by revealing the identities of those listed on the intra-day concentration report, members will know the exact dollar value of their aggregate purchases and sales with individual contra parties. As Nasdaq notes, this added level of information about risk concentration and exposure should give members and their clearing firms better tools to limit their risk.

As Nasdaq notes, risk to clearing member firms should be reduced substantially because SuperMontage will provide trade information to the NSCC on a real-time basis. **This** should permit NSCC to incorporate trade execution information contemporaneously into their risk analysis, as well as assist the NSCC in identifying **and** suspending sooner firms that have unacceptable levels of credit exposure. Additionally, the process where by Nasdaq and the

NSCC will promptly disclose to members each trade executed anonymously with the **firm** the NSCC ceased to act for will allow members to determine quickly their potential exposure from anonymous trades with failed firms and to take any necessary risk-reducing actions. In **many** ways, it appears that Nasdaq is providing greater safeguards than its competitors who in some cases account for more volume and represent equal or greater dollar risk to the street than SuperMontage.²

While we favor **this** proposal and **urge** the Commission to approve **it** quickly, we are concerned that Nasdaq and market participants in general must make special accommodations for fee-charging ECNs. We find it disturbing that Nasdaq, yet again, is compelled to provide special accommodations to one class of market participants. Specifically, unlike market makers and order entry firms that provide liquidity in Nasdaq, SuperMontage will reveal the identity of the market participant accessing liquidity in residing ECN (even if the order is marked for anonymity) and permit ECNs to decline to trade with market participants. As we noted in our comment letter on Nasdaq's petition for rule making, the Commission must address the issue of ECN access fees and the special status that these market participants **enjoy**.³ The rules for participation in **the** market should be the **same**. ECNs should no longer have the privilege of **charging** public investors (i.e., those who are not the ECN's customer/subscriber) a fee for accessing **the** public quote. This is particularly troublesome given that most market makers **and** order entry firms handle a majority of their customer orders on an agency or riskless basis, the same as ECNs do. Either all broker/dealers that represent orders as agent or riskless principal in the public market should be permitted to charge an access fee, or none should. We believe the later approach is logical, fair, and best for investors, and that Commission's action on this matter would resolve a number of related market-structure issues.

To be clear, CGMI understands why Nasdaq has structured its proposal as such and CGMI does **not** believe that this issue should delay Commission action on Nasdaq's current proposal. However, this proposal illustrates the inequities **and** somewhat irrational results that continue to flow from a policy decision that arguably is outmoded.

* * * *

² For example, Instinet claims that it accounts for 27% of Nasdaq volume while Archipelago Exchange claims that it accounts for 27% of all Nasdaq orders; in contrast, Nasdaq's SuperMontage system, accounts for substantially less than each of those market. See http://www.instinet.com/trade_data/trade_data_month.shtml; and <http://www.tradearca.com> (June 26, 2003 Press Release). Compare: http://www.nasdaqtrader.com/trader/hottopics/supermontage_hottopics.stm (SuperMontage Results).

The **Commission should** undertake a review of these two trading market centers to ensure that they have in place risk management controls to adequately limit systemic risk.

³ See Release No. 34-47849; File No. S7-11-03 (May 14, 2003); Letter dated July 8, 2003, from Richard G. Ketchum, General Counsel, Citigroup Global Markets, Inc., to Jonathan Katz, Secretary, Securities and Exchange Commission, regarding File No. S7-11-03.

Once again, CGMI appreciates this opportunity to provide the Commission with our views on SR-NASD-2003-85. Please contact me or John Malitzis, Senior Vice President, at 212-723-5875, if you have any questions.

Very truly yours,

A handwritten signature in black ink, consisting of the initials 'CTR' followed by a long, sweeping horizontal line that extends to the right.

C. Thomas Richardson