



Via e-mail to: rule-comments@sec.gov

US Securities and Exchange Commission
100 F Street, N.E.,
Washington, DC 20549-1090

May 26, 2010

RE: File No. 4-602
Release No. 34-62115

Ladies and Gentlemen:

This letter is submitted on behalf of TABB Group, LLC in response to the request made by the Securities and Exchange Commission for comments on its announcement of the June 2, 2010 market structure roundtable.

TABB Group is a premier financial markets research and advisory firm. Our management and analysts have decades of experience on the front lines of the financial services sector, affording us a deep understanding of the markets, their infrastructure and market trends. TABB understands the intricacies of the marketplace, the relationships between sectors, and the interdependencies of the market participants, regulatory bodies and exchanges. Our business model revolves around interviewing professional market participants to better understand their needs and difficulties to help the industry provide better solutions. Our clients represent all aspects of the institutional financial community from ATSS, banks, brokers, depositories, exchanges, hedge funds, investment managers and technology vendors.

During the weeks immediately following May 6th, 2010, TABB Group created a series of questions designed to help the industry gauge the current opinion on market structure and what should be done to improve its resilience to unexpected behavior. TABB Group invited a wide range of institutional equity market participants, including individuals from investment management companies, hedge funds, brokers, exchanges, alternative trading systems, liquidity providers and other industry experts. This list was culled from our own proprietary list of clients and research participants. We received 145 responses to the questions. The participant demographics are included in the results below.

The comments expressed in this letter represent the views of TABB Group only and have not been approved by any market participant and therefore do not represent the official position of any particular firm outside of TABB Group.

A handwritten signature in black ink, appearing to read "Larry Tabb", written in a cursive style.

Larry Tabb
Founder & CEO
TABB Group



Source: CNN Money

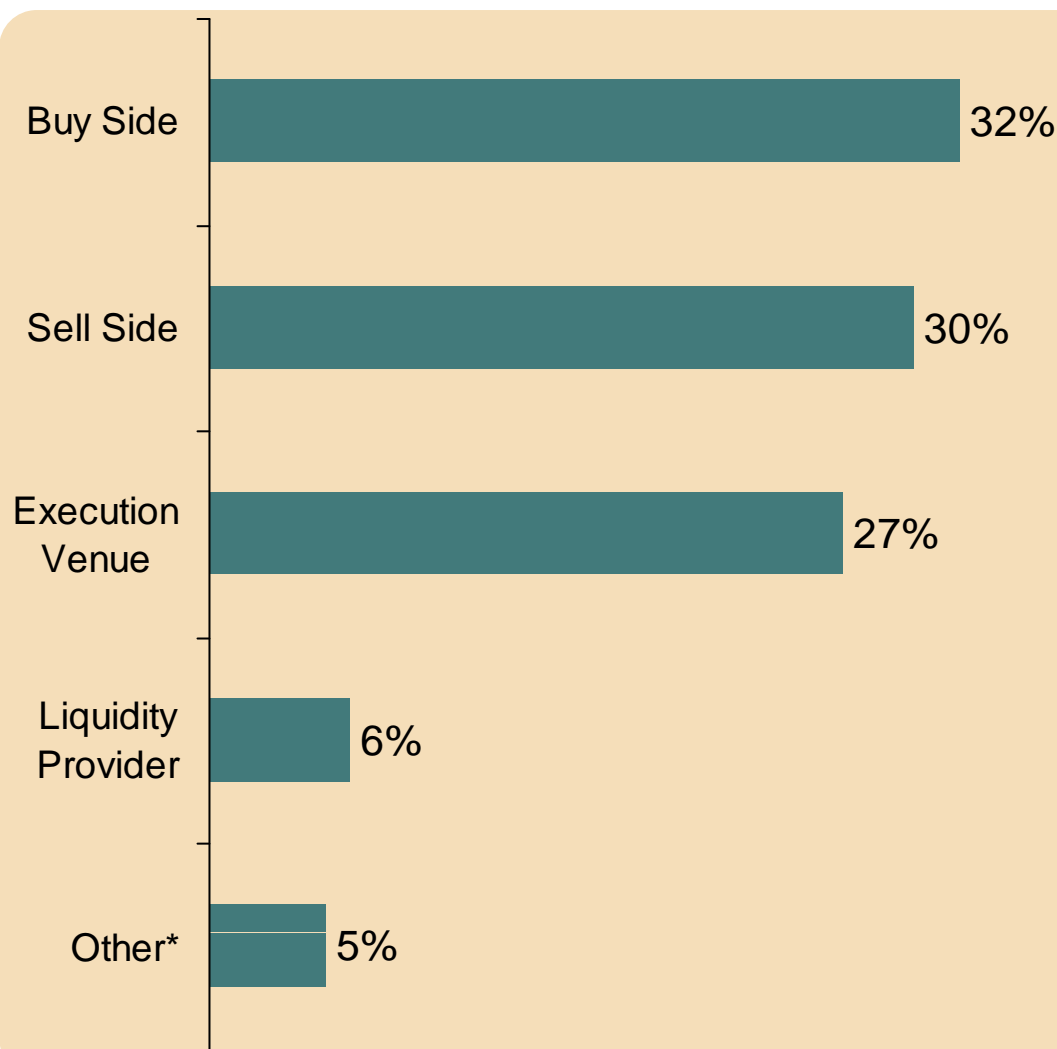


May 6th and Market Structure Reform: Industry Barometer

Adam Sussman

TABB Group conducted its 2nd Industry Barometer to gauge current opinion on market structure and how to improve it

Survey Demographics



▲ 145 individuals responded to the poll, from across a wide spectrum of the trading community.

▲ Participants were emailed invitations to participate during week of May 13th, 2010. Invitations were selected from the TABB Group database and responses were automatically grouped into the categories listed on the left. 110 (78%) of the responses came from these invitations

▲ In addition, links to questions were also available through our industry website, tabbforum.com. 34 (22%) responses came from tabbforum.com.

▲ **TABB Group did not manage participant segmentation and did not validate participant categorization for tabbforum.com responses. Participants selected their segmentation.**

▲ It is likely that more than one individual from the same firm participated in the study, since there are 118 unique IP addresses out of 145 responses.

▲ *Other category includes: Advisory Firms, Consultants, and Financial Technology Providers (eg. trading software, data centers, and OMS/EMS providers). All of Other participants came from tabbforum.com.

Executive Summary

Views of Market Structure

- ▲ Barely half of all participants have at least a high degree of confidence in US equity market structure.
- ▲ The buy side has the least confidence in US equity market structure. This is particularly demoralizing given they are the guardians over much of our nation's equity investments.
- ▲ Participants no longer believe market structure strongly supports an orderly market.
- ▲ Increasingly, market participants believe that the US equity market structure is not a level playing field.

On May 6th

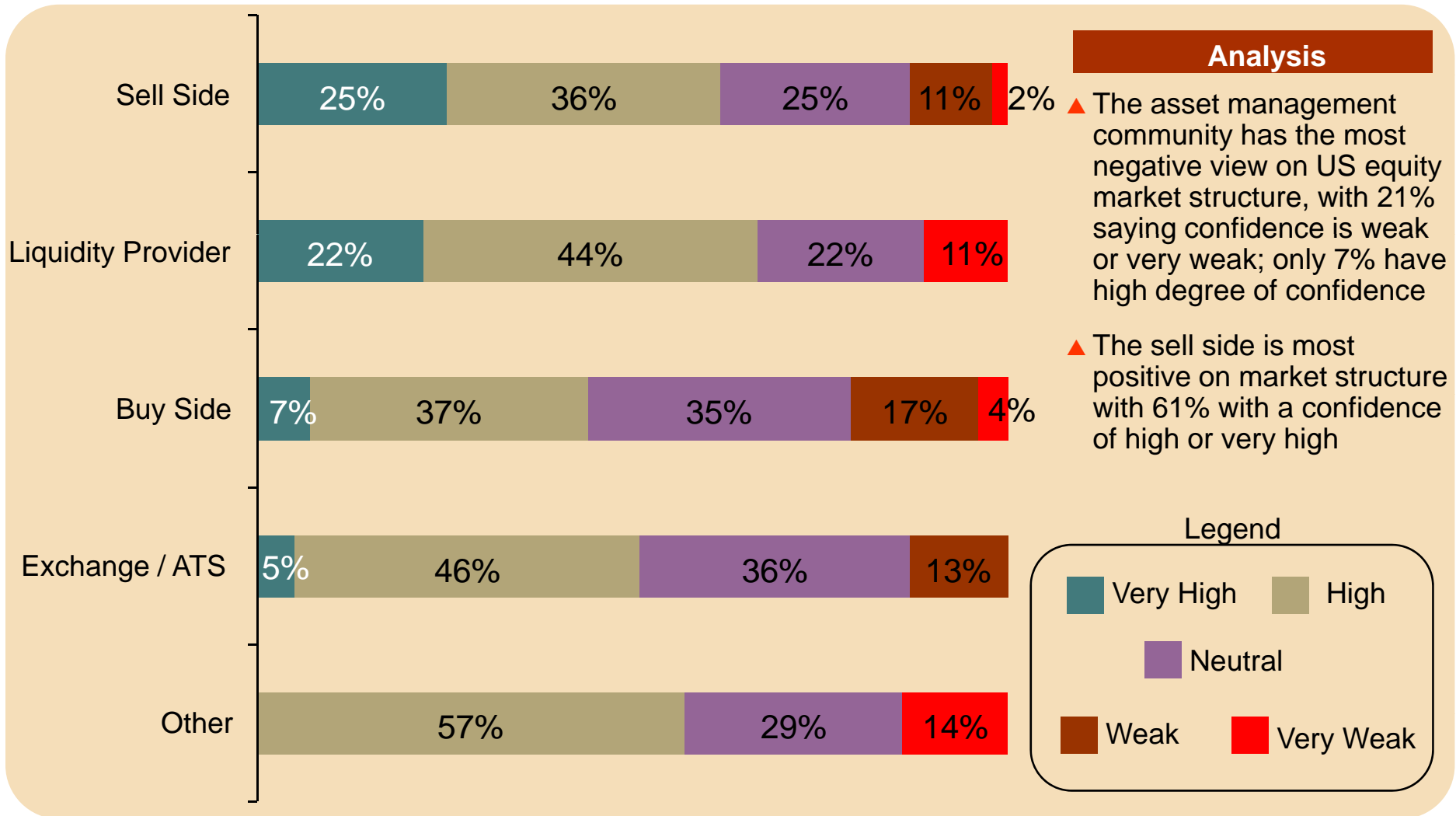
- ▲ The SEC is already addressing non-uniform stock-specific circuit breakers, which is considered the largest failure of May 6th.
- ▲ There is no consensus on the trade cancellation policy. A nearly equal number of responses were in favor of cancelling more, less, the same or no trades.
- ▲ High Frequency Trading (HFT) is increasingly polarizing as 62% of buy side are negative toward HFT. The sell side and execution venues are still positive.
- ▲ Most participants believe HFT, execution algos, & Reg NMS route out rules contributed but weren't primary factors of May 6th.
- ▲ The buy side is also more likely to see HFT as a primary cause while execution venues see execution algorithms as a likely candidate.

Fixing the Market

- ▲ There is consensus that HFTs ought to register as BDs; however only the buy side strongly supports HFT quoting obligations.
- ▲ Thirty percent of the buy side are in favor of banning co-lo while other segments are against it.
- ▲ The trade-at rule is a widely supported incentive to attract more limit orders to lit markets.
- ▲ Depth of book trade-through had support from buy side and venues but not the sell side. Previous TABB Group analysis shows this would wreak havoc on a number of algo and block trading strategies.
- ▲ Most participants have a positive or neutral view on the elimination of stub quotes.
- ▲ Also significant support for large trader reporting rule.

Confidence level in US equity market structure is highly polarized across different segments of the population

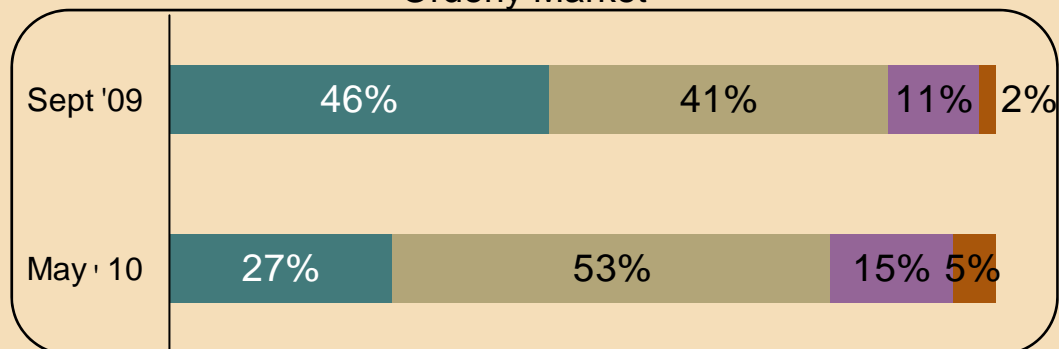
What is the confidence level in US equity market structure today?



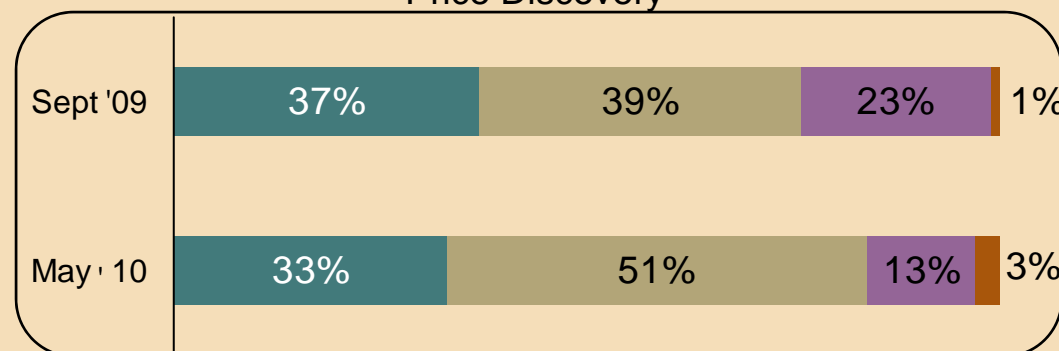
Market participants are not as confident that the current market structure supports an orderly market

How Well Does Current Market Structure Support the Following Quality of Markets Characteristics?

Orderly Market



Price Discovery



■ Highly Supported
 ■ Somewhat Supported
 ■ Not Very Supported
 ■ Not Supported at All

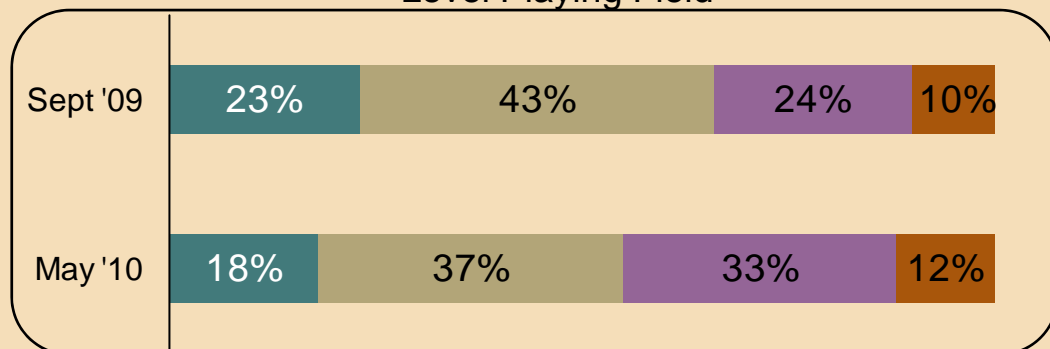
Analysis

- ▲ We repeated questions we asked in September 2009 to see how May 6th impacted views on how well the current market structure supports quality of markets.
- ▲ The perception that the current market structure supports an orderly market dropped significantly post-May 6th. In September 2009, market participants believed that competition among exchanges brought more liquidity to the market and thus a more orderly market. That is no longer the perception
- ▲ Price discovery, the second characteristic seen as being largely supported by current market structure also saw a drop in folks who see it as being “highly supported”. This is likely due to significant swings in stock like Accenture.

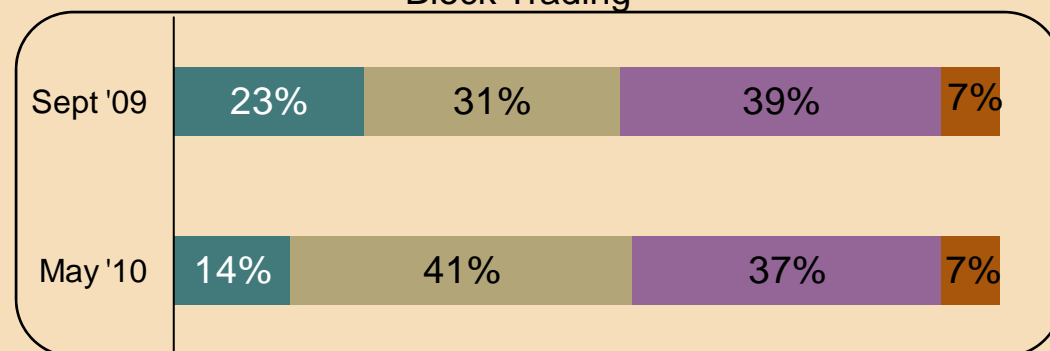
Views on the market's support of a level playing field and block trading saw little change – but it was negative

How Well Does Current Market Structure Support the Following Quality of Markets Characteristics?

Level Playing Field



Block Trading



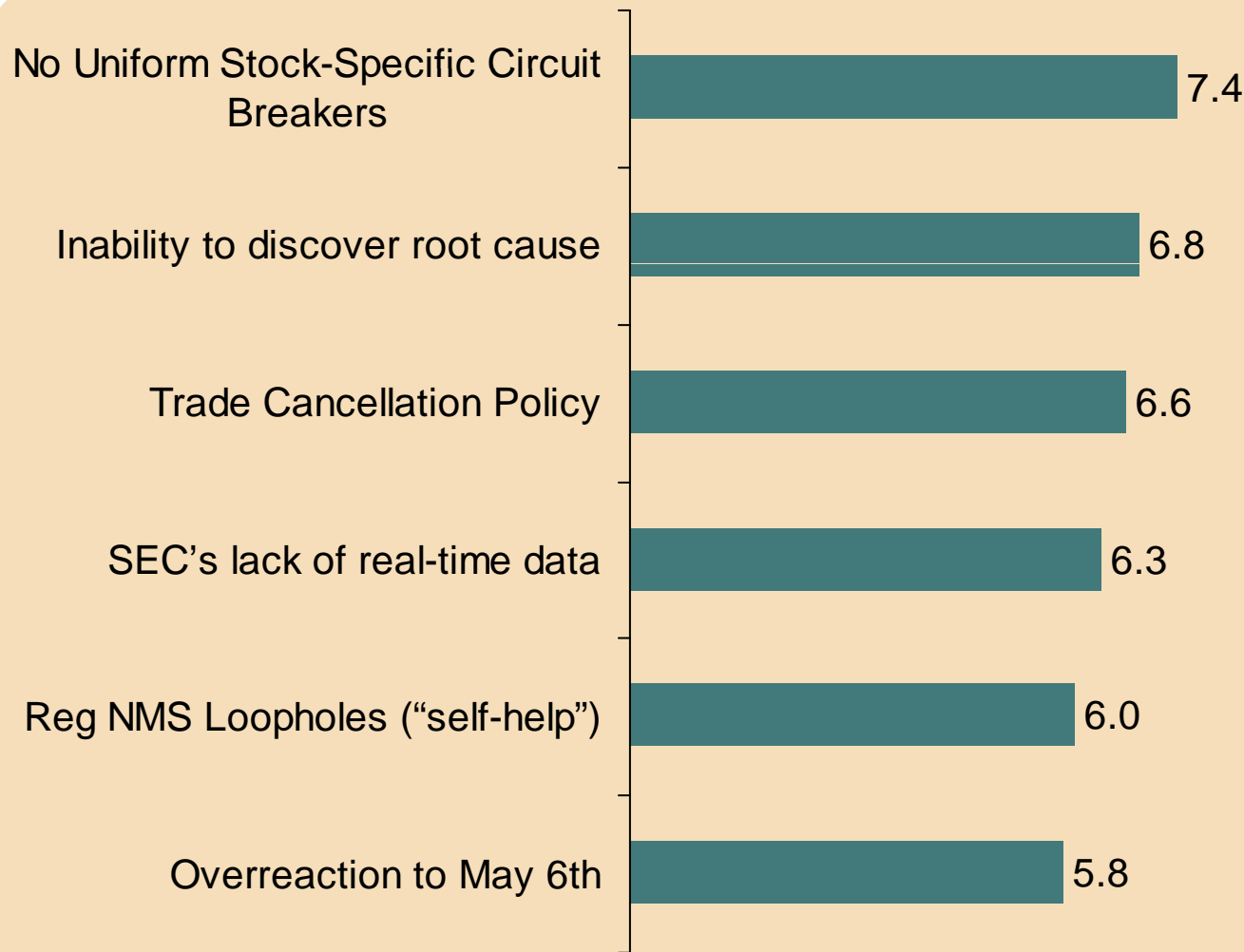
■ Highly Supported
 ■ Somewhat Supported
 ■ Not Very Supported
 ■ Not Supported at All

Analysis

- ▲ Negative perceptions of the market structure's support of a level playing field increased. Now, nearly 44% believe the market does not support a level playing field, up from only 34% in 2009.
- ▲ Block trading saw a significant decrease in those who believe it is highly supported. This decline is likely attributable to a significant increase in volatility which is usually met with lower percentage of block volume.

Market participants believe there were a number of significant failures on May 6th

On a scale of 1 to 10, rank the level of failure to the following:

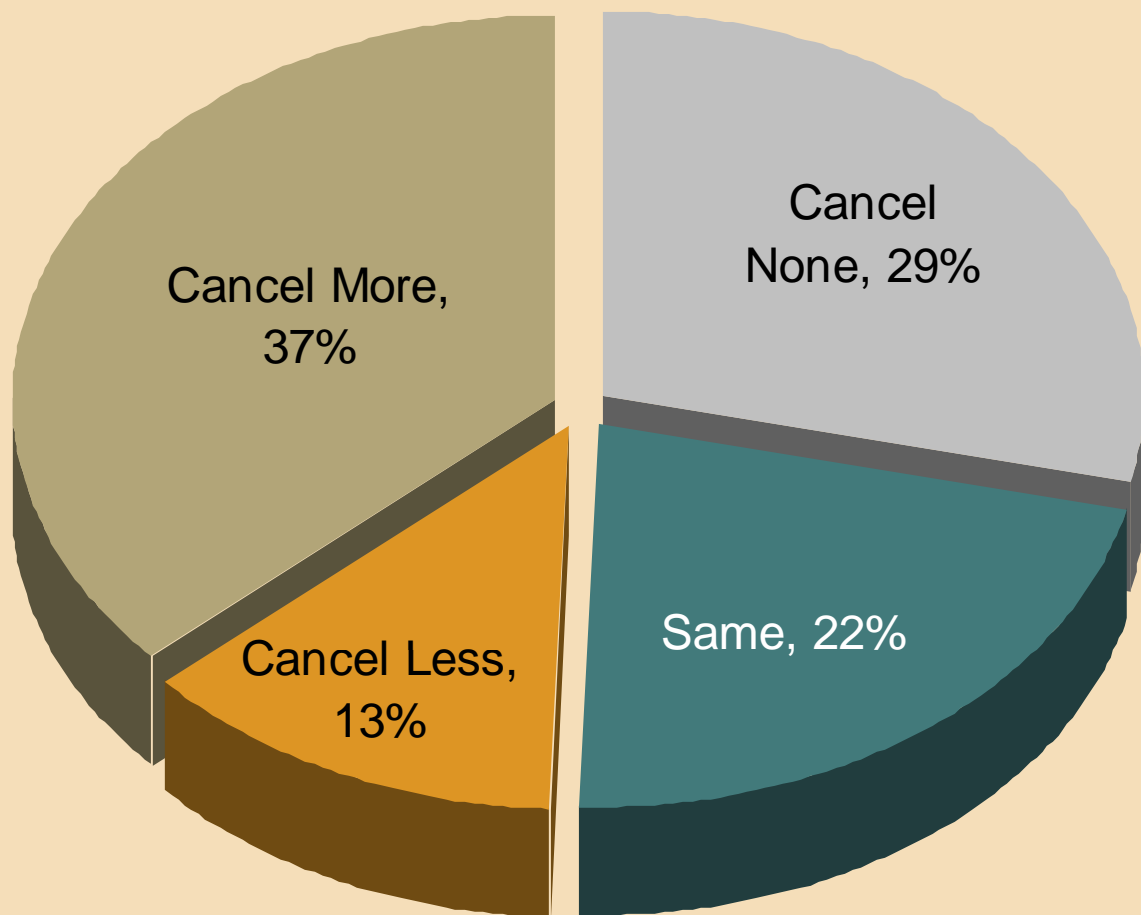


Analysis

- ▲ The SEC is already addressing the highest ranked failure exposed on May 6th with the proposals on stock-specific circuit breakers.
- ▲ However, the next highest ranked failure, the inability to discover the root cause, might never be resolved.
- ▲ A better reporting structure for the SEC could help improve post-trade forensics ; it is unclear how much that will help.
- ▲ The inequity of the trade cancellation policies was also exposed but how it should have been handled is a polarizing question (see next page).

While there is no consensus on the May 6th cancellation policy, clear rules would alleviate most concerns

What is your opinion on the amount of trades that were cancelled?

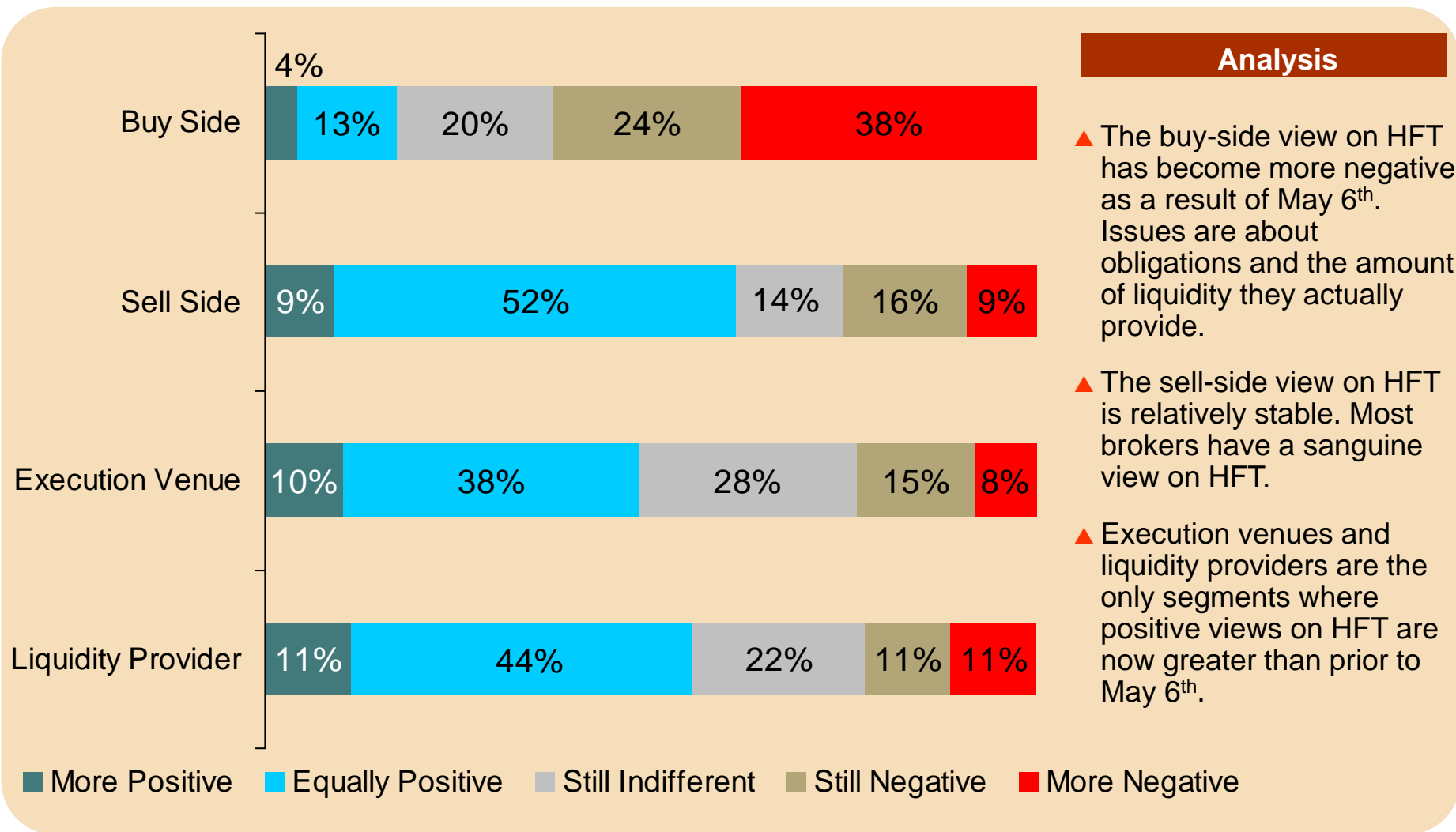


Analysis

- ▲ The lack of consensus cannot be explained by segmenting the data. The results look similar across all segments.
- ▲ In conversations with participants, the arbitrary nature of the cancellation of the policy was the most concerning.
- ▲ So while there is no consensus on how May 6th should have been handled, a clear policy for the future could be easier to reach.

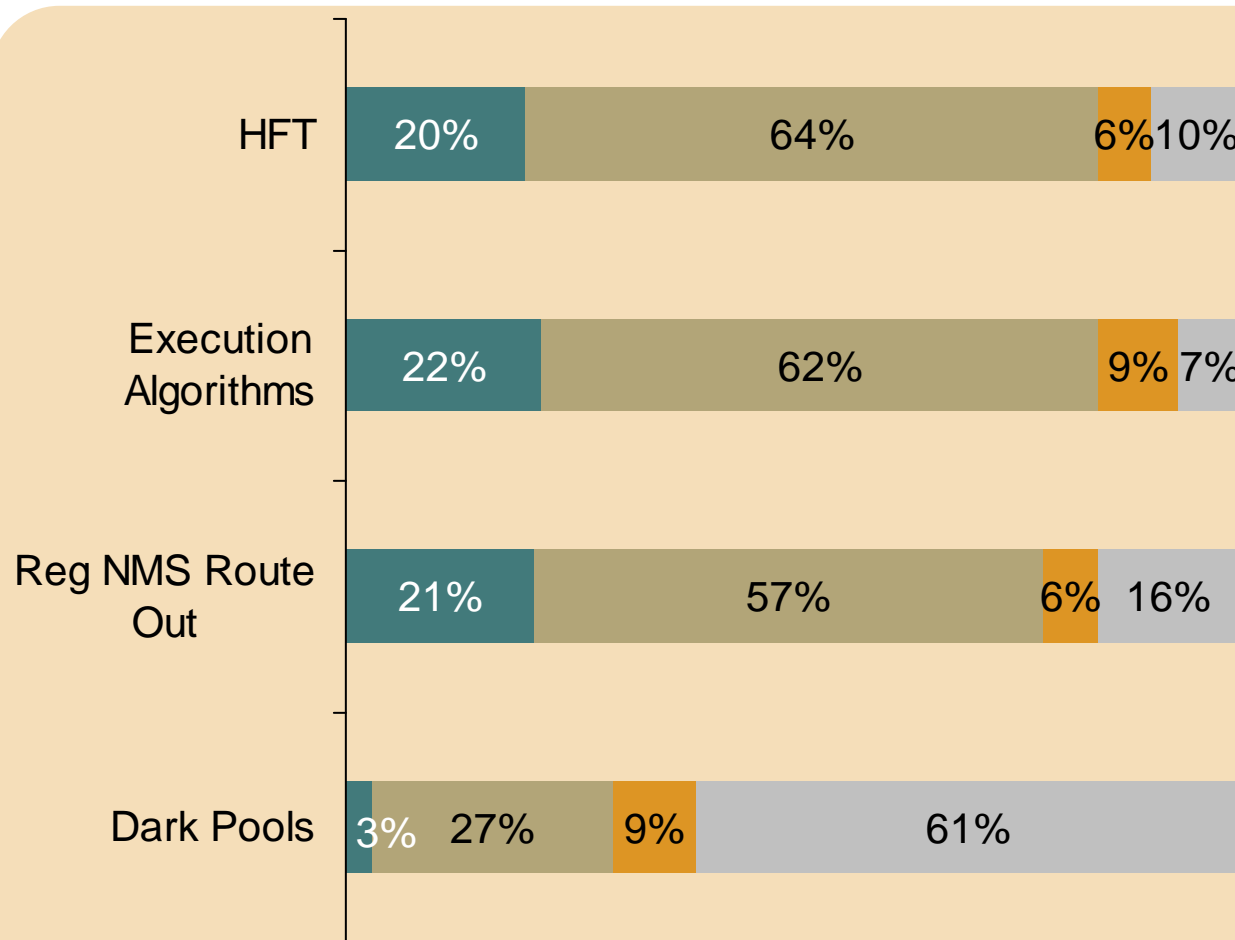
The buy side has mostly negative views toward HFT as a result of May 6th; the sell side view is sanguine

Have the events of May 6 changed the way you look at high speed liquidity providers?



Yet, execution algorithms and Reg NMS route out rules are seen as more likely causes of May 6th than HFT

What role do you believe the following played on May 6th?



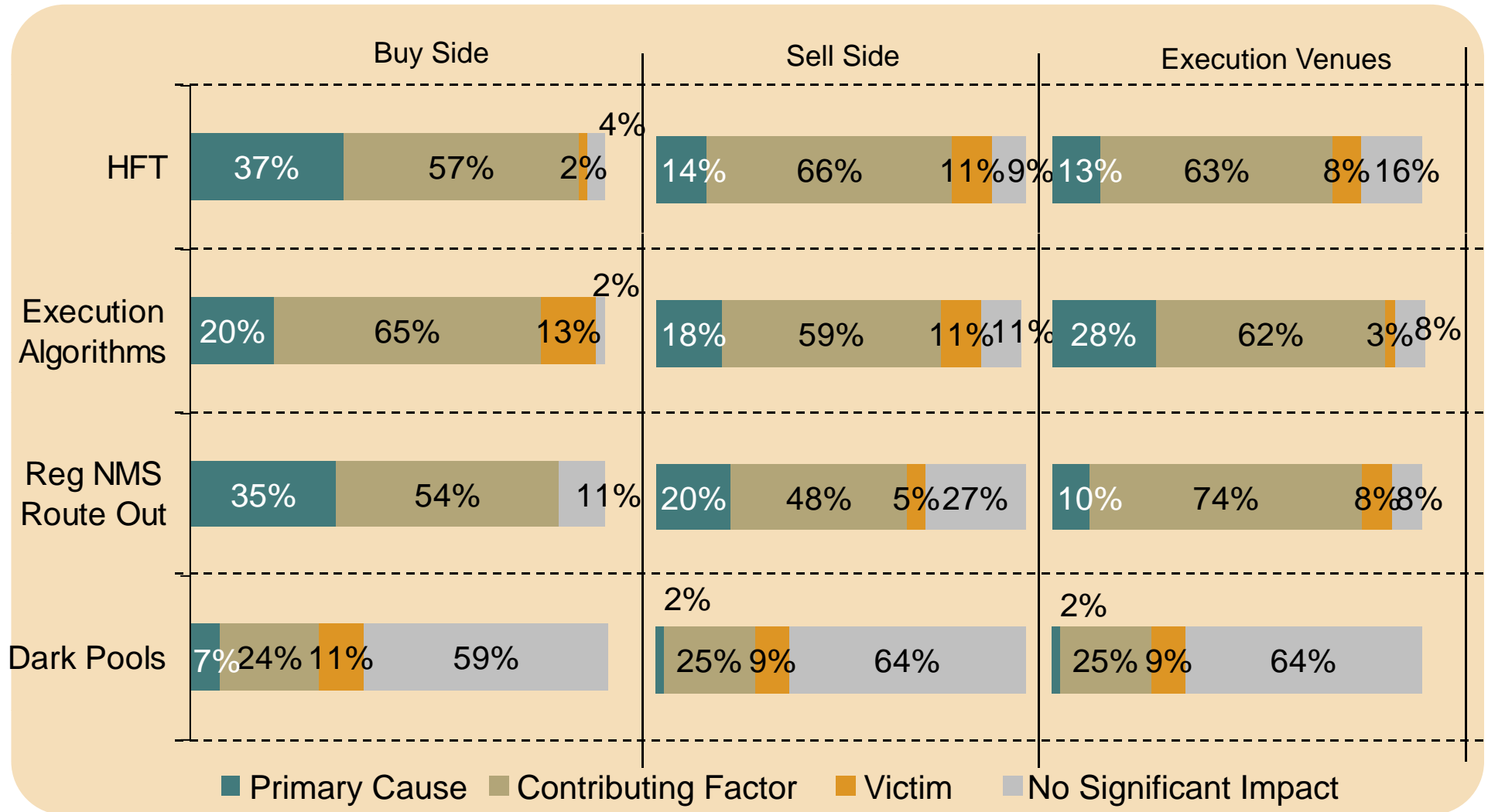
Analysis

- ▲ Across all participants, HFT, execution algorithms and the Reg NMS Route Out were viewed as having similar roles in May 6th.
- ▲ Dark pools are not viewed as having any role in the events of May 6th. This hints that the transparency people were looking for earlier has to do with post-trade reporting.
- ▲ The lack of any majority view on a primary cause backs up regulators' claims that no "root cause" of May 6th will be discovered in the near-term.

■ Primary Cause ■ Contributing Factor ■ Victim ■ No Significant Impact

While the buy side points more fingers at HFT, venues cite execution algorithms as a primary cause

What role do you believe the following played on May 6? (by Participant Type)

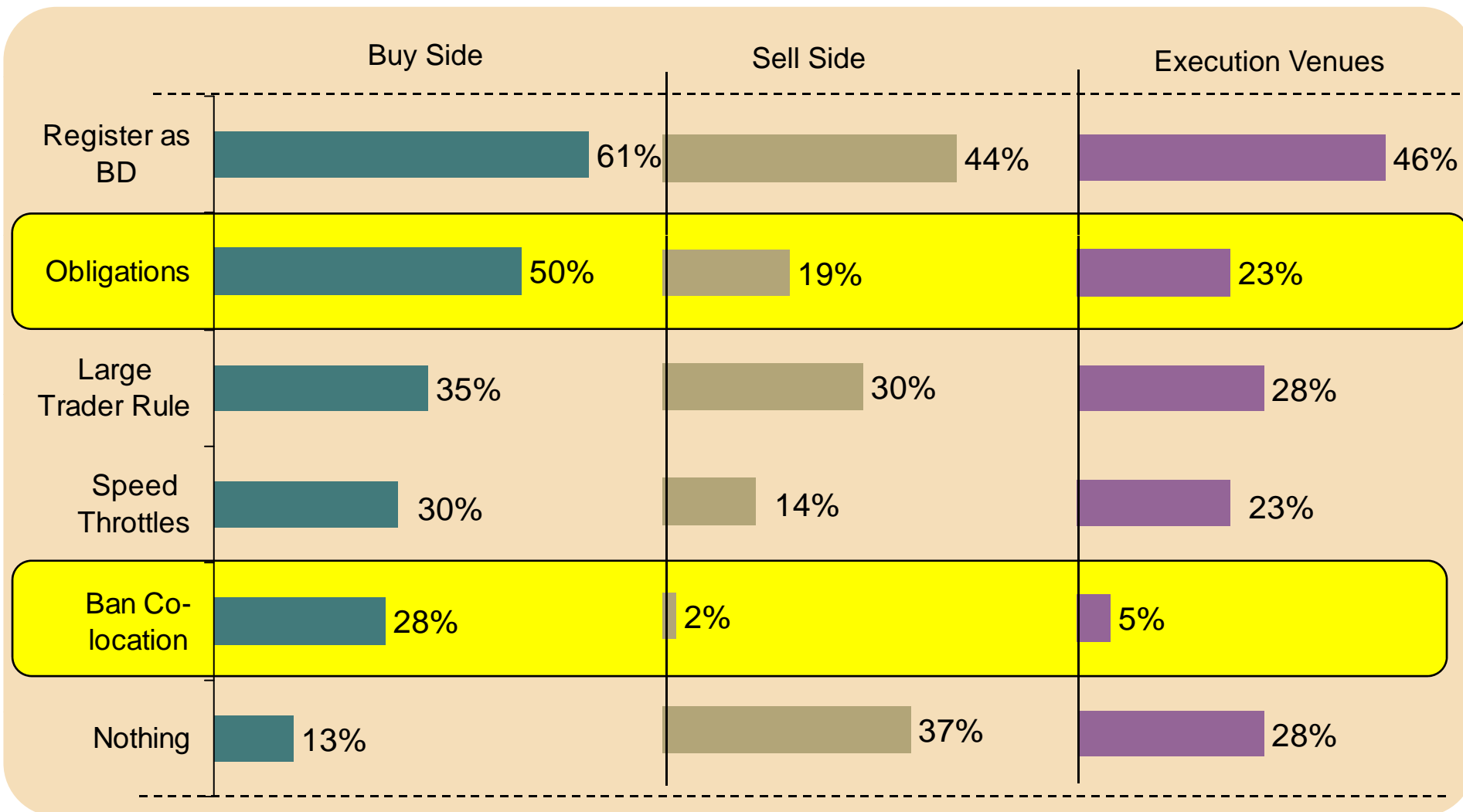


What Should Be Done to Fix the Market



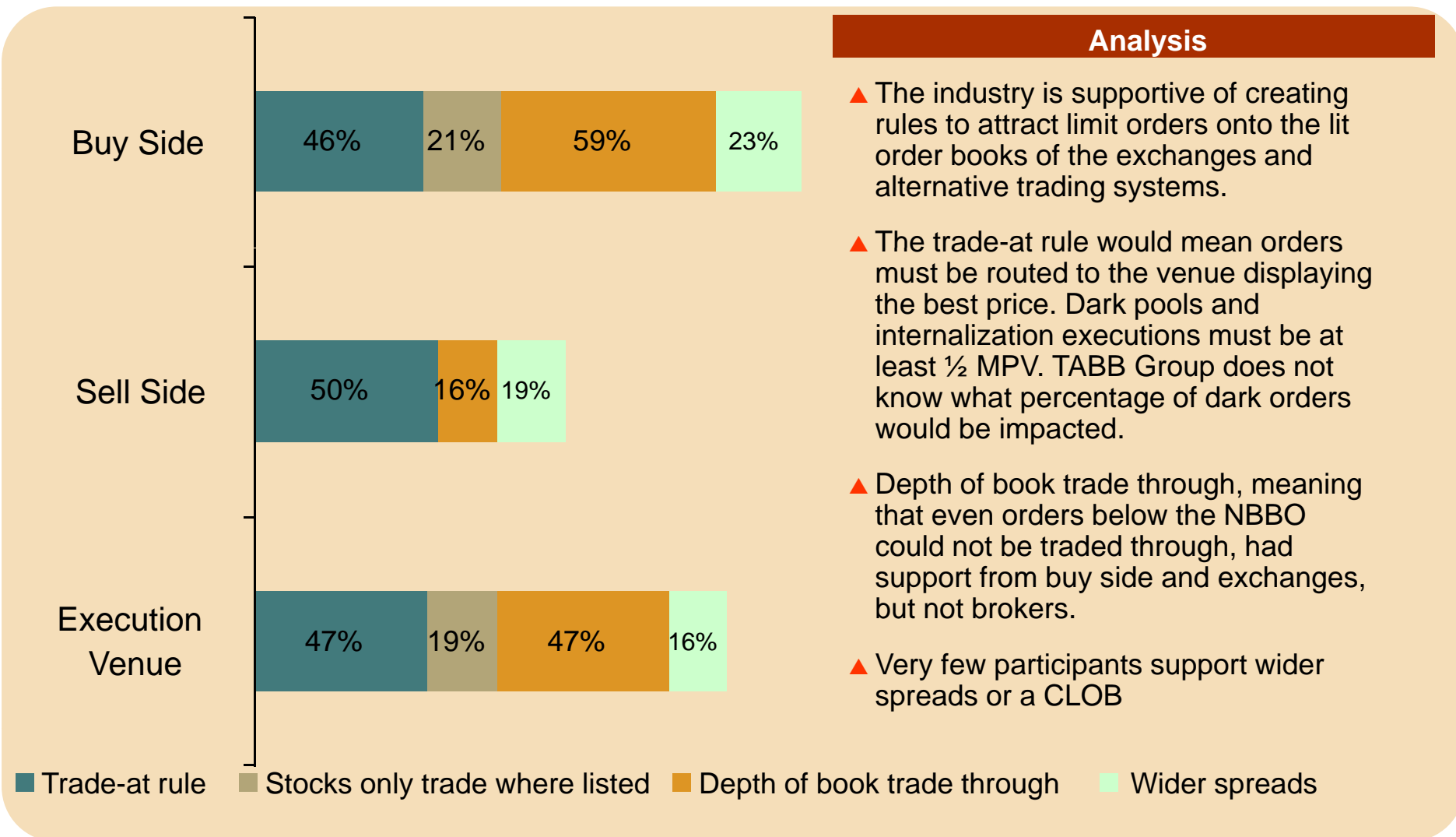
There is disagreement about whether HFTs should have quoting obligations and a ban on co-location

Which of the following regulations should HFTs be subject to? (Pick all that apply)



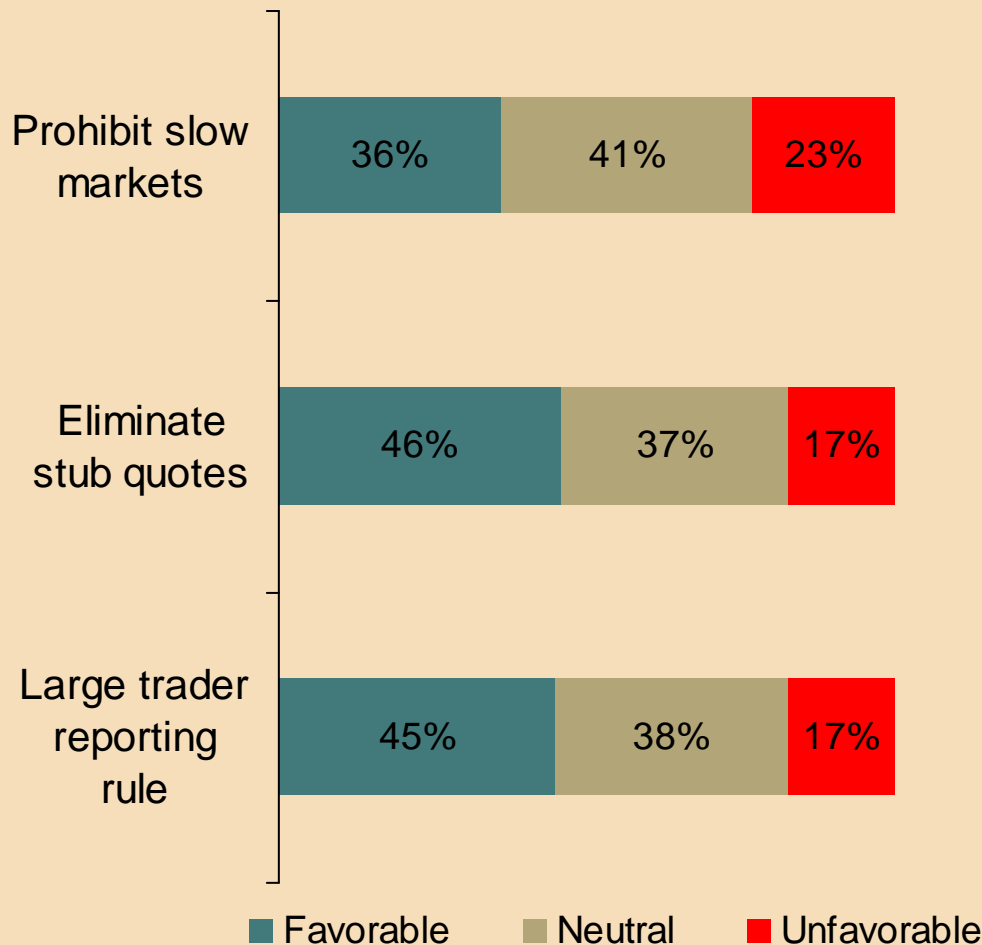
The trade-at rule is seen as the best way to attract limit orders onto the lit markets

Pick all incentives that should be in place to attract limit orders and stop a market free fall



Participants are also in favor of additional post-May 6th proposals, esp. no stub quotes and the large trader rule

How do you view the following actions to alleviate market plunges?

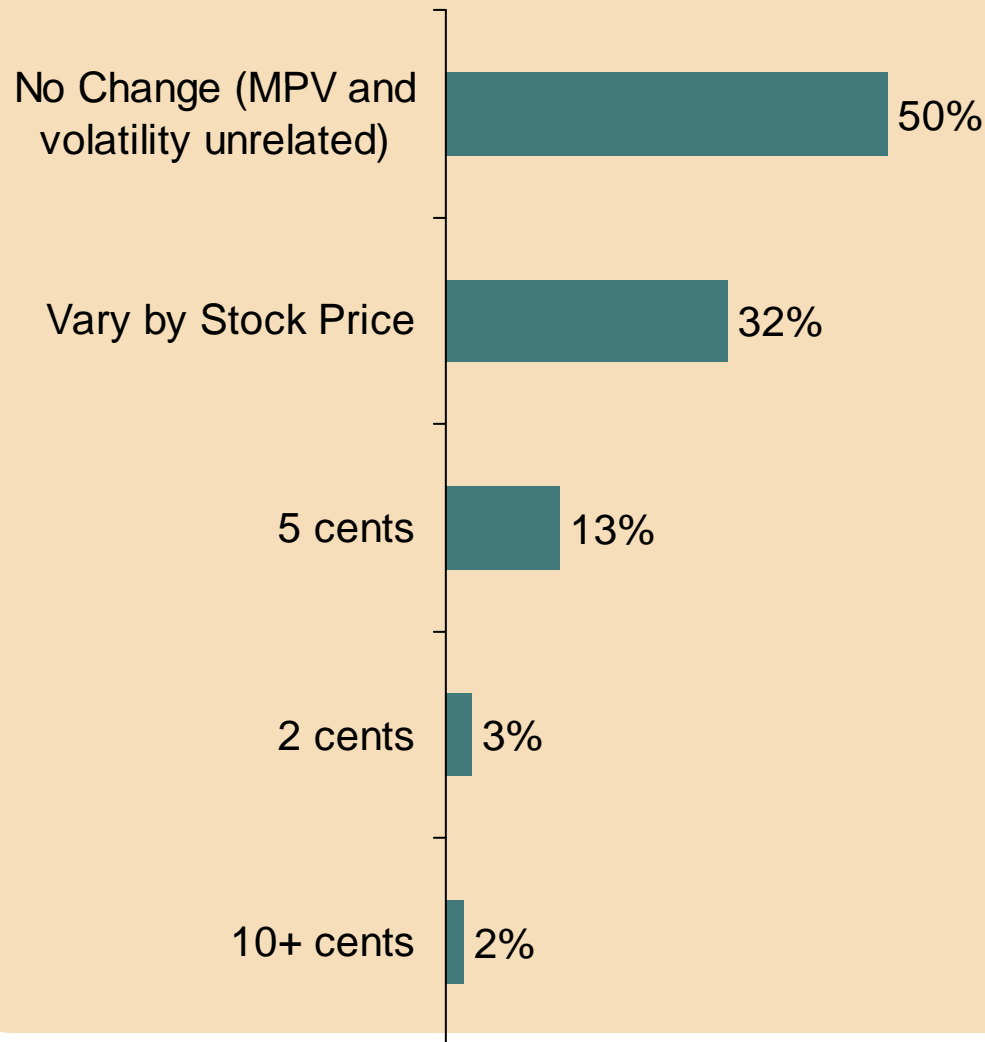


Analysis

- ▲ The fact that the SEC has already proposed stock-specific circuit breakers that would pause trading for 5 minutes seems to make prohibiting slow markets obsolete.
- ▲ The elimination of stub quotes is widely viewed as a primary factor behind the ultra absurd prices for stocks like Accenture.
- ▲ Participants support the large trader rule not because they believe it could alleviate a large plunge but that the SEC would have a better chance at discovering the root cause of wild behavior.

Half of all participants do not believe that increasing the minimum spread would ameliorate volatility

How should the current MPV change for stocks above \$1 to avoid volatility like May 6th?

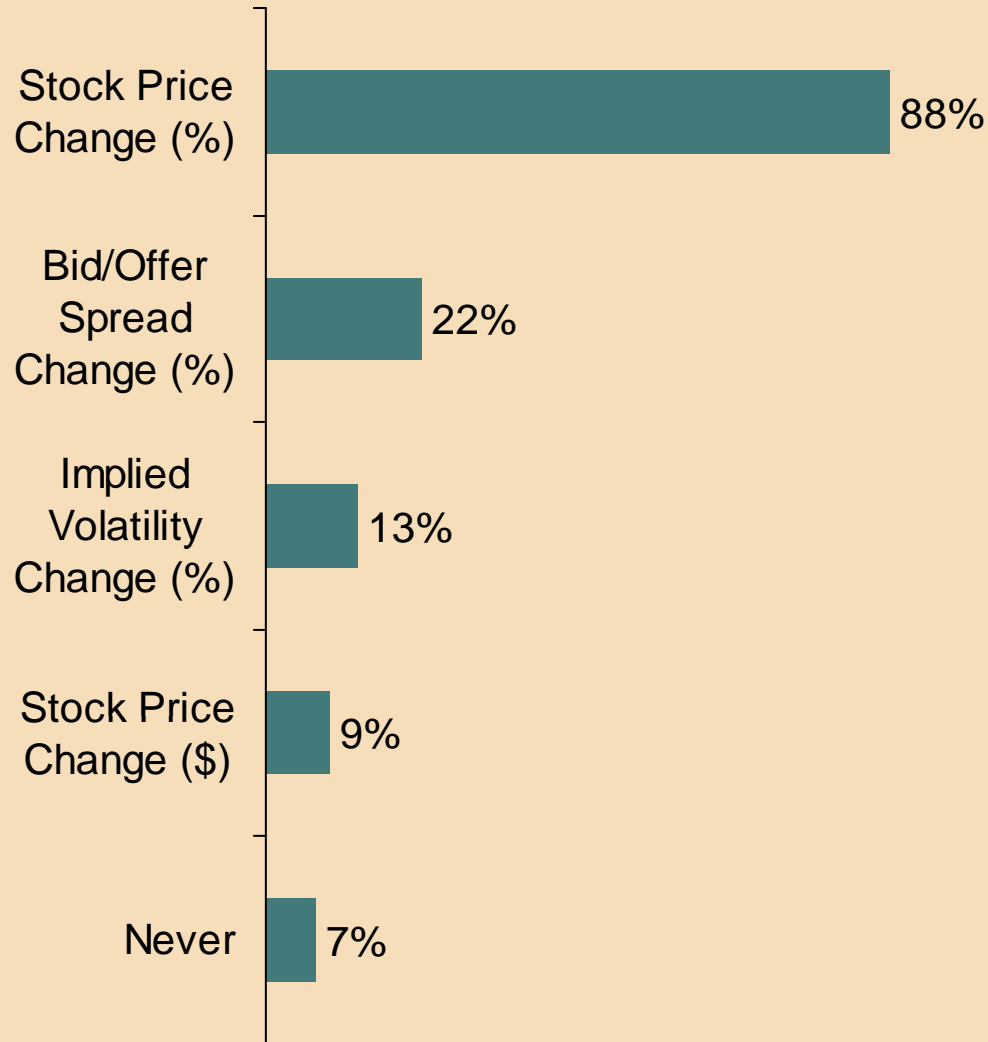


Analysis

- ▲ Little evidence exists that the decline in spreads since decimalization has increased volatility. Indeed, transaction cost analytics have shown that even during volatile markets, transaction costs have fallen.
- ▲ Regardless, there have been advocates among the buy side, sell side and liquidity providers to do away with a one-size-fits-all minimum price variation.
- ▲ Among those who favor a change in MPV, basing it on stock price is the most popular. As a stock's price increases, so too would the MPV. This would benefit participants by increasing size in higher price stocks.

There is overwhelming consensus that the percentage change is the best trigger for stock circuit breakers

Which of the following should trigger stock-specific circuit breakers (pick all that apply)

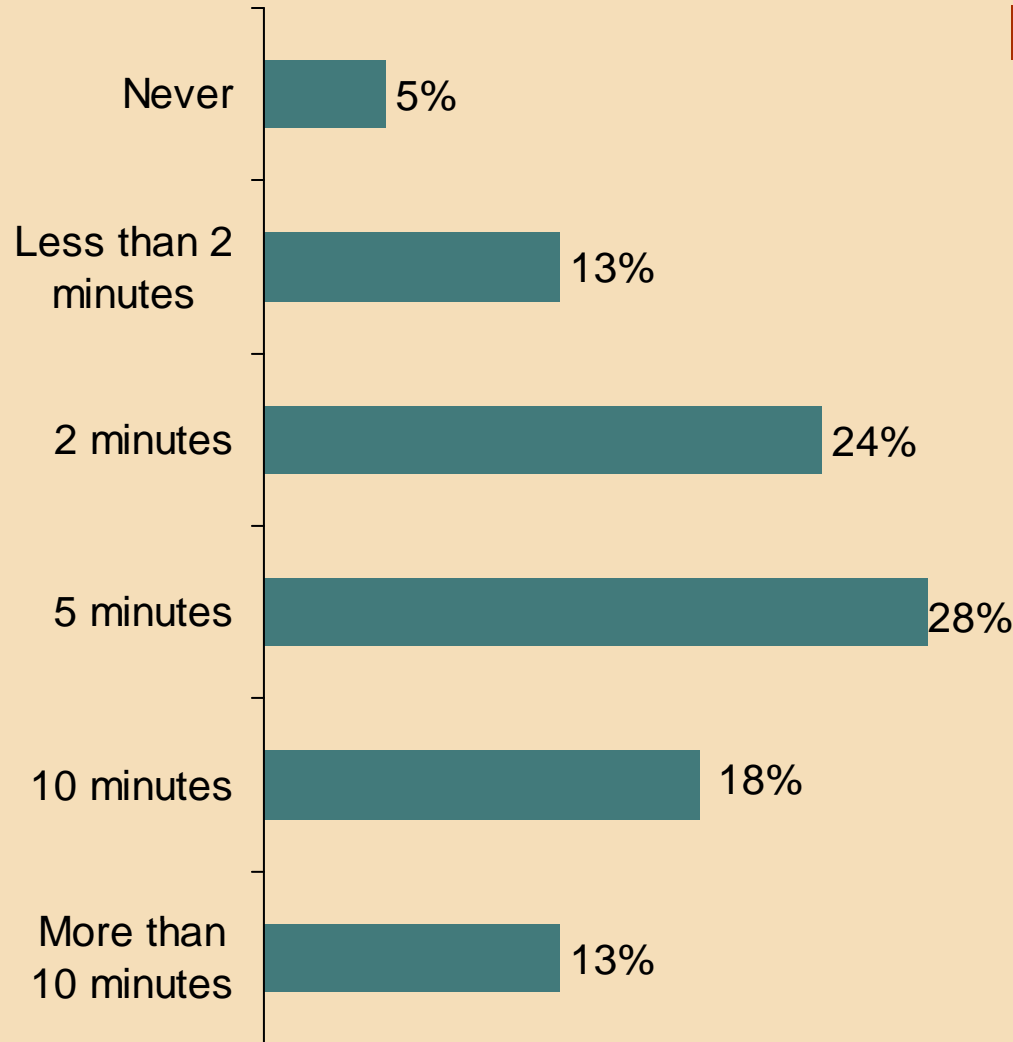


Analysis

- ▲ Most participants agree that the standard industry circuit breaker trigger, percentage change, should also be used for stock-specific triggers.
- ▲ Change in the bid/offer spread is also seen as a good trigger for stock-specific circuit breakers with nearly one-quarter firms voting for it.
- ▲ Very few people saw a change in implied volatility as a useful trigger.
- ▲ Only 7% responded that stock-specific circuit breakers should never be triggered.

More than one-quarter of respondents agree with duration of stock-specific circuit breakers

How long should the stock-specific pause in trading last?

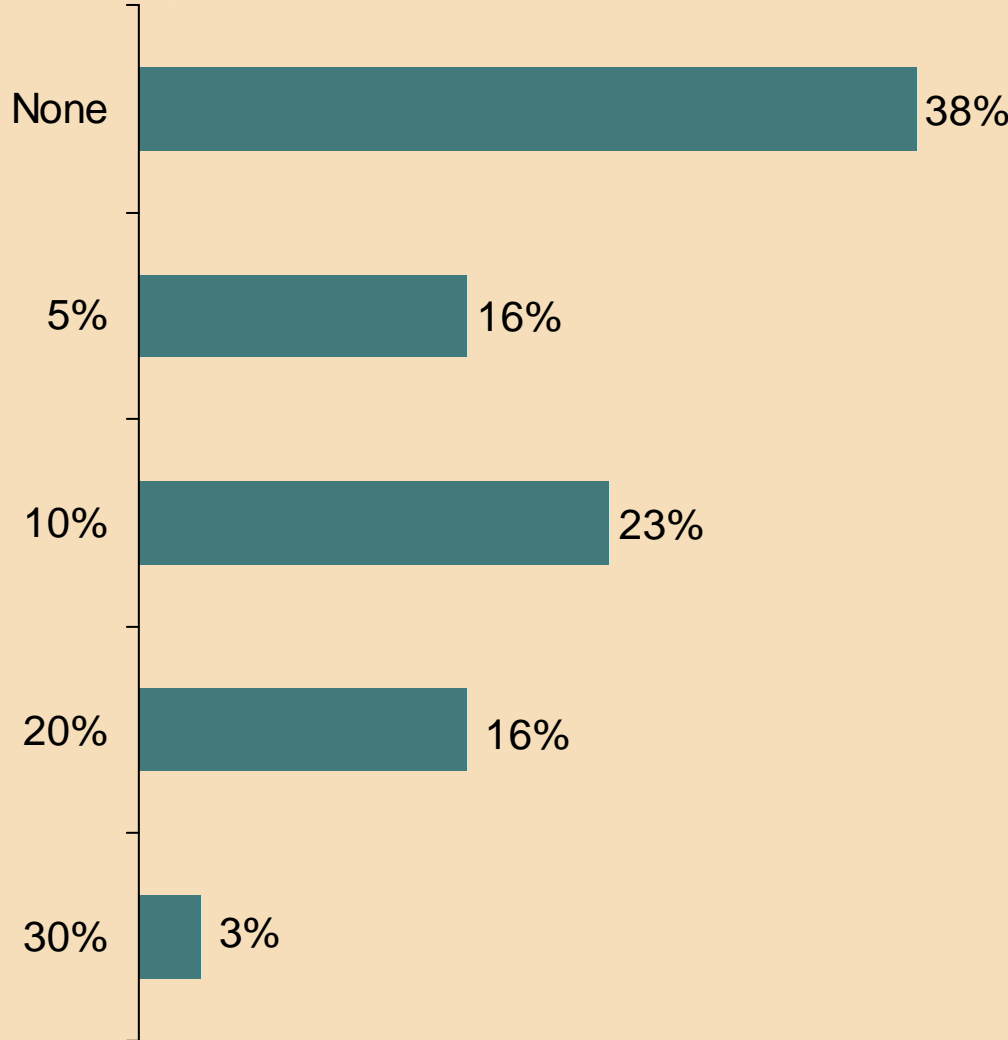


Analysis

- ▲ On May 18, 2009, FINRA and the US equity exchanges submitted proposals to implement stock-specific circuit breakers.
- ▲ "...trading in a stock would pause across U.S. equity markets for a five-minute period in the event that the stock experiences a 10 percent change in price over the preceding five minutes." – SEC press release
- ▲ While the five-minute pause gained the most number of responses, more than one-third believe it should be shorter than five minutes; 33% believe it should be longer.

More than one-third of participants do not believe limiting the size of market / stop loss orders would be effective

If there were a limitation on the size of market / stop loss orders, what should be the maximum percentage of ADV?



Analysis

- ▲ The pros and cons of market orders and stop loss orders is an age-old dilemma. If immediacy and protection is key to the strategy then there needs to be that choice.
- ▲ However, along with stub quotes, market orders were likely responsible for stock swinging way beyond all rationale. But a system that cannot handle a large market order is flawed.
- ▲ Nonetheless, it does make sense to implement some size limitations on market or aggressive limit orders.
- ▲ Participants feel the size limit ought to be between 5% and 20%.

A hand holding a compass over a body of water. The background is a blurred view of water and a distant horizon. The hand is in the foreground, holding a round compass. The overall tone is muted and professional.

TABB
GROUP

Westborough, MA
+ 1.508.836.2031

New York
+ 1.646.722.7800

London
+ 44 (0) 203 207 9397