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Jonathan G. Katz,
Secretary
Securities and Exchange Commission
450 Fifth Street, NW,
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Comments to File Number S7-10-04

Ladies and Gentlemen:

VIANET Direct Inc. appreciates this opportunity to offer our views on the specifics of the Reg NMS reproposal and we hope our recommendations assist the Commission in pursuit of the goal to bring positive change to the NMS market structure.

LIQUIDITY – all rules must foster liquidity, recognizing that there is no market unless there is pool of concentrated liquidity. Trading can only be conducted if the market contains both market and limit orders. There must be a place for "liquidity providers" to fill the liquidity vacuum that occurs in all trading markets, calm or stressed. .

TRADE THROUGH RULES- the SEC should adopt a market-wide trade through rule where all limit orders are guaranteed against" trade throughs" as it relates to price. There should be no" opt out" provisions. The market will provide access to other market centers, as competition for order flow will foster the need to facilitate electronic trading for all types of investors on a global basis. Once a trade through rule is mandated all classes of investors will be protected. We do suggest that a [step into] period of a year be allowed for the market apparatus to embrace all NYSE and NASDAQ securities in the new NMS.

BEST EXECUTION AND ORDER HANDLING RULES- these rules must be vigorously enforced and coupled with severe penalties to violators so the "street' gets the message that the integrity of the market is sacrosanct. Broker-dealers need to create an industry wide compliance menu that guarantees adherence to the rules of the new NMS marketplace.
This menu should include an exemption for the excessive access fees factor whereby an intermediary would be able to bypass that market due to the excessive cost to execute.Certain practices should be banned, such as, payment for order flow and tape shredding.

MARKET ORDERS –are the lubrication to the continuous nature of our markets and as such should be executed instantaneously at the best price and for the quantity posted at the National Best Bid and Offer [NBBO] .A market center could compete as to price and quantity to retain that order for an offsetting transaction, a proprietary transaction, a hedged transaction, a facilitation transaction or a internalized order. Internalization can only occur when the internalizer posts two-sided quotes in an SRO system that reflects the order to the market at the inside price reflected in the NBBO. Internalized execution prices can only be equal or better than the NBBO quotes.

LIMIT ORDERS and MARKET DEPTH-with an industry wide trade through rule in place, a vigorous enforcement of the best execution rule, automatic execution of market orders on the NBBO quotes as to price and size posted across all markets "at the top of the book" the limit order will have a new status. The use of the limit order will become the most important factor in the market. The limit order is the path to true price discovery and at all costs limit orders should be protected from being" traded through." Electronic execution across all market centers at the" top of the book" of limit orders allows investors to use multiple trading techniques that enhance market performance for investors. An automated transaction is the method to guarantee a trade at the price appearing in the quote and for the amount displayed without human intervention. A rule that covers trade through exemptions must include a time factor and de minimus penny increments in calm markets and extended in fast markets. This type of type of flexibility in the automated market would prevent the electronic" chasing " while seeking the best price posted as markets change or are too slow to respond. In this hybrid market structure limit orders would be beget liquidity and large "NOT HELD" orders could be moved in the market with greater ease as long as the investor had that flexibility.

NON-DISPLAYED LIMIT OR MARKET ORDERS-are orders that are referred to as reserve orders or working orders that have a limit above or below the NBBO quotes and due to their size are sensitive to market disclosure in any form. The non-displayed orders are the latent liquidity in the market that frames a bandwidth of trading ranges for large orders to realize the best all in pricing for those orders. Assume that the trade through rule is in effect the limit orders displayed in the NBBO must be satisfied across all markets immediately before a trade of any size and different price can take place in that market center. The underlying issue is how to address the material differences between the trading requirements of the institutional investor and the non-institutional investor and what choices are offered to automate what investors want automated and to allow multiple techniques of trading under a framework of the agent auction market, a hybrid. Institutional investors employ various techniques in the trading process and need the flexibility to use their judgment in order to improve on price, move a large block of stock, attempt to reduce the market impact while trying to get best overall price for their investors, that is an important job for the Institutional investor…..
The concept of being able to manage choices in a continuous market without having to display a party's full interests in an exposed electric order book will actually mitigate volatility for all investors in both calm and stressed markets.

CENTRALIZED OR COMPETING MARKET CENTERS? - This is a question that does not go far enough to supplying an answer. Today's market structure has been pushed by regulations that have attempted to rectify particular problems that crop up over period of time. To illustrate, in 1985 small investors called on the SEC to force lower costs for trading and the SOES became a reality. In 1990 the term ECN was codified when the SEC saw a fragmentation of order flow to unregulated markets, a major public concern. In 1994, the SEC prohibited market makers from trading ahead of customers in the form of the Manning rules. In 1997, Order Handling Rules were instituted and in 1998 Regulation ATS forced ECNs to register either as a market intermediary, or as a registered exchange under

the 1934 Exchange Act. It was this set of rules that required ECNs to make public their “top of the book” prices. In late 2002 the SEC approved the NASDAQ’s Super Montage, a commingling of dealer and order driven market mechanisms instituted to protect a number of constituencies in the NASDAQ dealer community as well as the NASDAQ market itself. Many ECNs declined to participate in this system because it represented a central limit order book [CLOB].

Regulation NMS may be another example of a strategy to use regulation to frame the debate. Everyone should start at this new point Reg NMS, and recognize because of the advancement of technology the markets are now part of a communications network and the network has become the market. Opposing factions in the market are pushing their own cause which clouds every minute detail which the has led to the dilemma that the Commission is faced with. Specifically, can order driven markets cope with the huge market of 7000 NYSE and NASDAQ securities; can they effectively serve the institutional type order and do they create other problems of fragmentation and lack of transparency? The best route to compromise is to formally acknowledge that the market is best served in the form of a hybrid of automated order driven system coupled with the agent auction process that includes dealer liquidity providers. Commercial pressures and technology innovation by market centers have already produced a synthetic connection via network connectivity to all of the markets. Since the first release of Reg NMS the market is already responding to fundamental changes. An important event took place in August 2004 when under the new leadership at the NYSE when it was announced that expanded automatic execution would be available in a new hybrid system being developed to serve investors.

In conclusion, as far we can recall the SEC has never pressed a market structure change as it has on the Regulation NMS issue. The Commission is critical to the method of evolution of market structure and how it is nurtured. Reg NMS may actually force feed a solution that would be stifling to the markets if the wrong solution were chosen. That wrong solution is a CLOB or anything resembling it! The recommendations we made are in the spirit of corrective action necessary to allow instantaneous execution while fostering competition in a modern regulatory setting that recognizes that the network is the market. In this environment additional regulations must be adopted to continue the protection of all investors large and small.

Respectfully submitted,

VIANET Direct, Inc

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