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"Quote" versus "Market"

When I started to work in Wall Street in 1951, more than a half-century ago, one of the first things I was taught was the difference between asking for a "quote" for a security, and asking for the "market" for a security.

I was instructed in no uncertain terms that if you asked a market maker for a "quote," you would be given information on both the bid and offer prices, but you could say "thank you," without trading, and the market maker was not required to trade at either the bid or offer price quoted.

On the other hand, if you asked for the "market" in a security, you would also be given a bid and offer, but the market maker was expected to trade at either the bid or offer side of the spread. In short, a "market" was real, and could be instantly executed against, while a "quote" was just an indication of a price that was not necessarily firm.

It's now 54 years later. The Commission seems to have backtracked on their Regulation NMS proposal. They have changed their definitions from an "automated market" to an "automated quote." Here's what the Commission wrote in their *Extension of Comment Period 34-49749*:

"The Proposing Release [34-49749] *recognized that there are differences between the speed and certainty of response in electronic (i.e. automated) versus manual (i.e. non-automated) markets. To provide flexibility to market centers with different market structures, the Commission proposed an exception to the trade-through rule to allow an automated market to trade-through a non-automated market up to a certain amount. Many panelists at the NMS Hearing agreed that the distinction between an automated and non-automated market - a market that provides immediate access to its quotes through automatic execution and one that does not - is important, and that market participants should be able to trade-through a manual market.* ***Panelists at the NMS Hearing, however, expressed the view that the distinction could, and perhaps should, be made between manual and automated quotes, rather than manual and automated markets".*** [Emphasis added.]

John J. Wheeler, Director of U.S. Equity Trading at American Century Investment Management Inc., said it best in his comment letter to the Commission on June 30, 2004:

"If we are going to move forward, we need to recognize that only auto-ex displayed prices, whether they represent customer limit orders or proprietary interests, deserve the protection of a trade-through rule. *In other words, quotes which do not represent* *firm, executable orders are meaningless and need to be treated as such by not having any standing within the NMS.* ***We should not consider an auto-ex trade at a price inferior to a nominal "quote" to be a trade-through.*** *To do so implies that the two are of equal importance to the price discovery process and they clearly are not.* [Emphasis in original.]

*"In our view there is no reason ever to trade-through an auto-ex quote. Those who are arguing for exemptions are doing so for proprietary purposes and therefore they should take a back seat to the overriding principal of limit order protection. "In summary, the marketplace has long realized that "quotes" which are not auto-ex are nothing more than meaningless advertisements used t*o attract customer order flow – with little assurance of an actual execution."

Having perused the New York Stock Exchange's Amendment No. 1 to File SR-NYSE-2004-5, submitted July 30, 2004, the difference between a "quote" and a "market" could not be more striking.

I would remind the Commission that the Congress called for them to facilitate a "national **market** system," not a "national **quote** system."

Very truly yours,

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