STATE BOARD OF ADMINISTRATION
OF FLORIDA
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June 29, 2004

Mr. Jonathan Katz
Secretary, Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: File Number S7-10-04/Regulation NMS

Dear Secretary Katz:

The State Board of Administration of Florida (SBA) is a large institutional investor that has a significant interest in competitive and balanced securities trading markets. Managed by the SBA, the Florida Retirement System (FRS) is the fourth largest pension plan in the United States with approximately 850,000 beneficiaries and retirees, and assets totaling approximately $102 billion. The SBA Trustees are Governor Jeb Bush, Chief Financial Officer Tom Gallagher, and Attorney General Charlie Crist.

Within the extended comment period ending June 30th, we are pleased to comment on the Commission's proposed rule for NMS market centers and applaud the proposed expansion of a uniform rule covering all markets and not just floor-based exchanges. Due to the recent reforms made by the New York Stock Exchange (NYSE), as well as the Securities & Exchange Commission (SEC), the SBA has closely followed the recently developing proposals to reform and/or eliminate the SEC's existing "trade-through" rule. An increasing number of investors have called on the SEC to amend the rule, which requires that orders for NYSE-listed stocks be executed at the best price displayed over various marketplaces.

The current trade-through rule, which is a central component of the NYSE's specialist system, dates back to 1975 and was originally designed to allow for best execution on a national basis among numerous regional exchanges with the sole objective of providing the best price. The rule requires broker dealers to trade at the "best price," whether bid or ask, by routing orders to the exchange that is showing the best price at that moment. It is important to recognize that capital markets have changed dramatically since 1975. Critics see the trade-through rule, initially designed to promote competition between the marketplaces, as outdated and anti-competitive. By focusing on price and ignoring other important aspects of trading—such as speed and ease of execution, as well as anonymity—the rule is viewed by some as an impediment to competition between the NYSE and other trading venues.

Automatic execution may result in some investors to forego the best price; although we think many institutional investors prefer the certainty of an immediately executed trade to only the possibility of marginal price improvement. In its attempts to move toward more automated trades, the board of the NYSE has proposed several amendments to its Direct+[1] trading program to eliminate several trading restrictions now in place—the 30 second limitation for consecutive orders, the 1,099 share size limit for orders, and the addition of market orders to those eligible to trade via Direct+. Most recently, the NYSE has proposed structuring a hybrid market including automatic execution sweeping[2], not only at the best price but also within a pricing band of five cents (or several price quotes) above or below the best price. We commend the NYSE proposals and consider them to be steps in the right direction.

Along with numerous public pension plans, major mutual fund complexes and other institutional investors, we strongly encourage the SEC to seriously consider major reforms of the current trade-through rule. Investors, especially large institutional investors like ourselves, are not interested only in achieving the best price—we also evaluate trading on a number of other criteria such as the speed and anonymity of the trades. Reform of the rule will enable informed investors to accept a trade on one market that might not be as favorable in terms of price—but more favorable in terms of "best execution" factors such as speed, certainty of execution and convenience.

In the interest of balanced and prudent reforms, the SBA fully supports the retention of an opt-out provision in the final rule. Finally, we support all the other Commission proposals covering market access, sub-penny quoting and dissemination of market data. Thank you again for the opportunity to provide comment on such an important issue for U.S. capital markets.

Sincerely,

Coleman Stipanovich

Coleman Stipanovich
Executive Director

cc: Honorable Jeb Bush
Honorable Tom Gallagher
Honorable Charlie Crist
John Thain, Chief Executive Officer, New York Stock Exchange

[1] NYSE Direct+® currently provides optional automatic execution of limit orders up to 1,099 shares at the best bid or offer. Begun as a pilot in December 2000 and fully implemented in April 2001, NYSE Direct+ executes 7 percent of consolidated volume in NYSE-listed equities.

[2] "Sweeping" is a tool used by traders within electronic markets when executing large block trades (also known as "walking the book") whereby orders for large blocks are accepted into computer trading systems and then filled across numerous exchanges' order books until completely filled, within a given price range.