

Draft

What do Institutional Investors Want in a Securities Trading System?

American Enterprise Institute

October 21, 2003

Respondent Profile

- Interviews conducted September 2 – September 19, 2003.
- Respondents include traders at 103 institutions collectively managing over \$2.5 trillion in assets (an average of \$25 billion).
- Traders represent multiple investment styles, but predominantly active growth and value management.
- On average, two-thirds of volume in exchange-listed stocks.

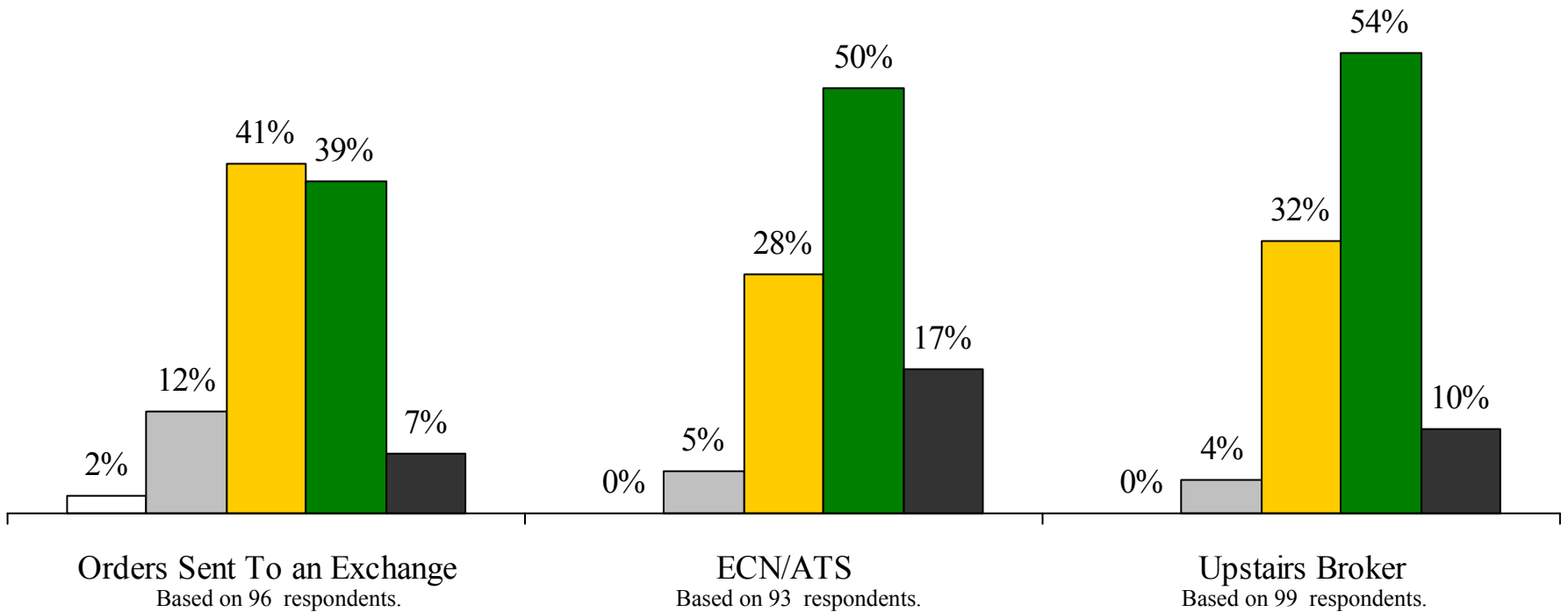
Top-line Findings

- Low market impact, anonymity, price improvement and certainty of execution are all important requirements when executing orders in listed stocks.
- ECNs hold a clear advantage in delivering anonymity and are cited three times more often than an exchange as likely to deliver low market impact (and twice as often as an upstairs broker). Exchanges and brokers hold a modest advantage over ECNs on certainty.
- Over three quarters of traders consider proprietary trading by specialists a conflict of interest. Two-thirds of traders do not think NYSE specialists or NASDAQ market makers add value in trading large liquid stocks.
- Nearly half of respondents would prefer to trade more off the exchange floor. The most common reason: mistrust of the specialists. Other reasons include lack of visible liquidity and order depth, insufficient anonymity, excessive market impact and the need to break up orders.

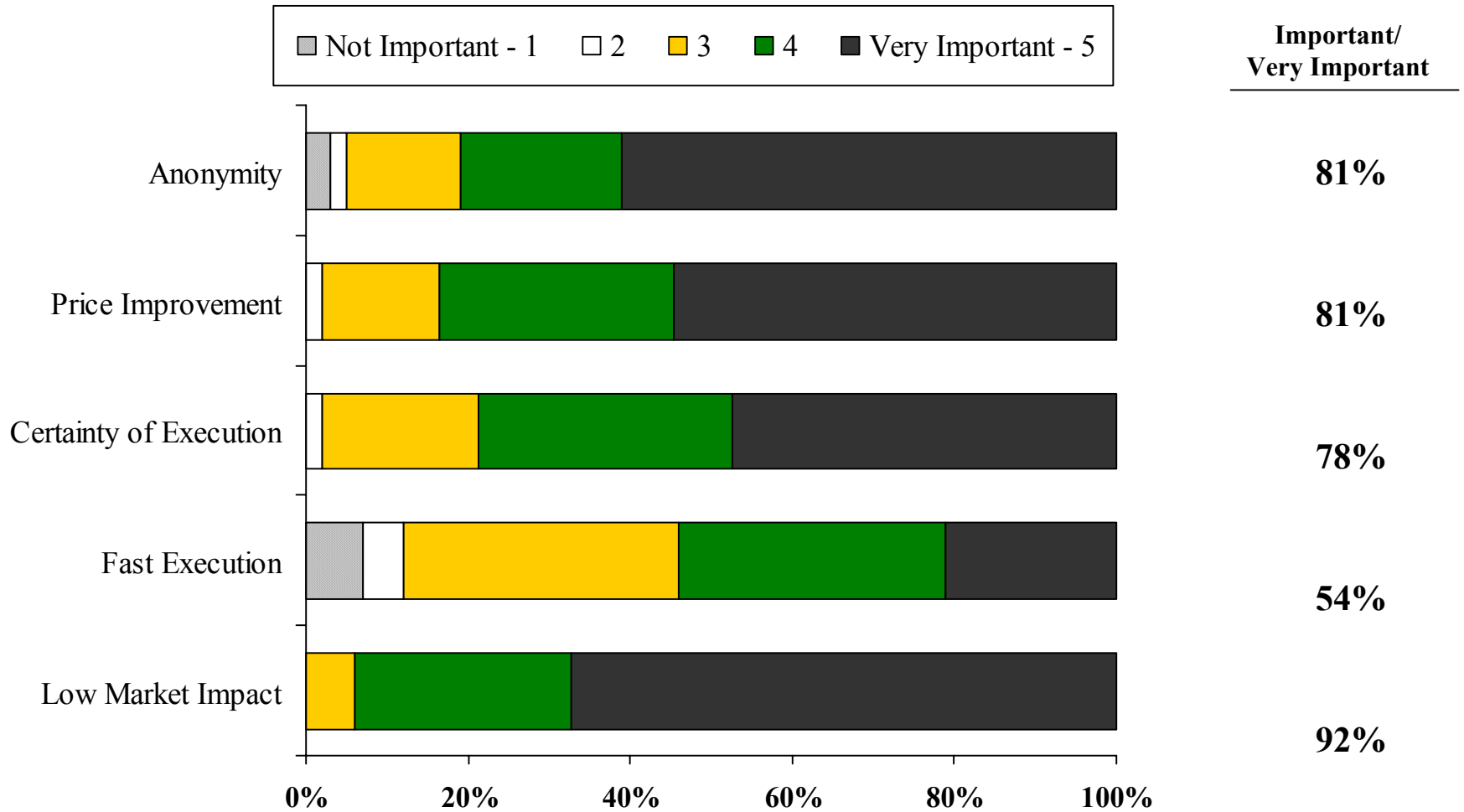
Top-line Findings (continued)

- Among those who would not prefer to move volume off the exchange floor the most frequently cited reasons are the perceived benefits of centralization and the, “human touch”.
- A majority of traders do not see multiple competing venues as a negative.
- Institutions would like to see changes in the listed market — in addition to not allowing specialists to compete with customers, support is expressed for a liquid electronic market in listed stocks with a real time order book and an integrated quote display.

Quality of Listed Execution By Venue



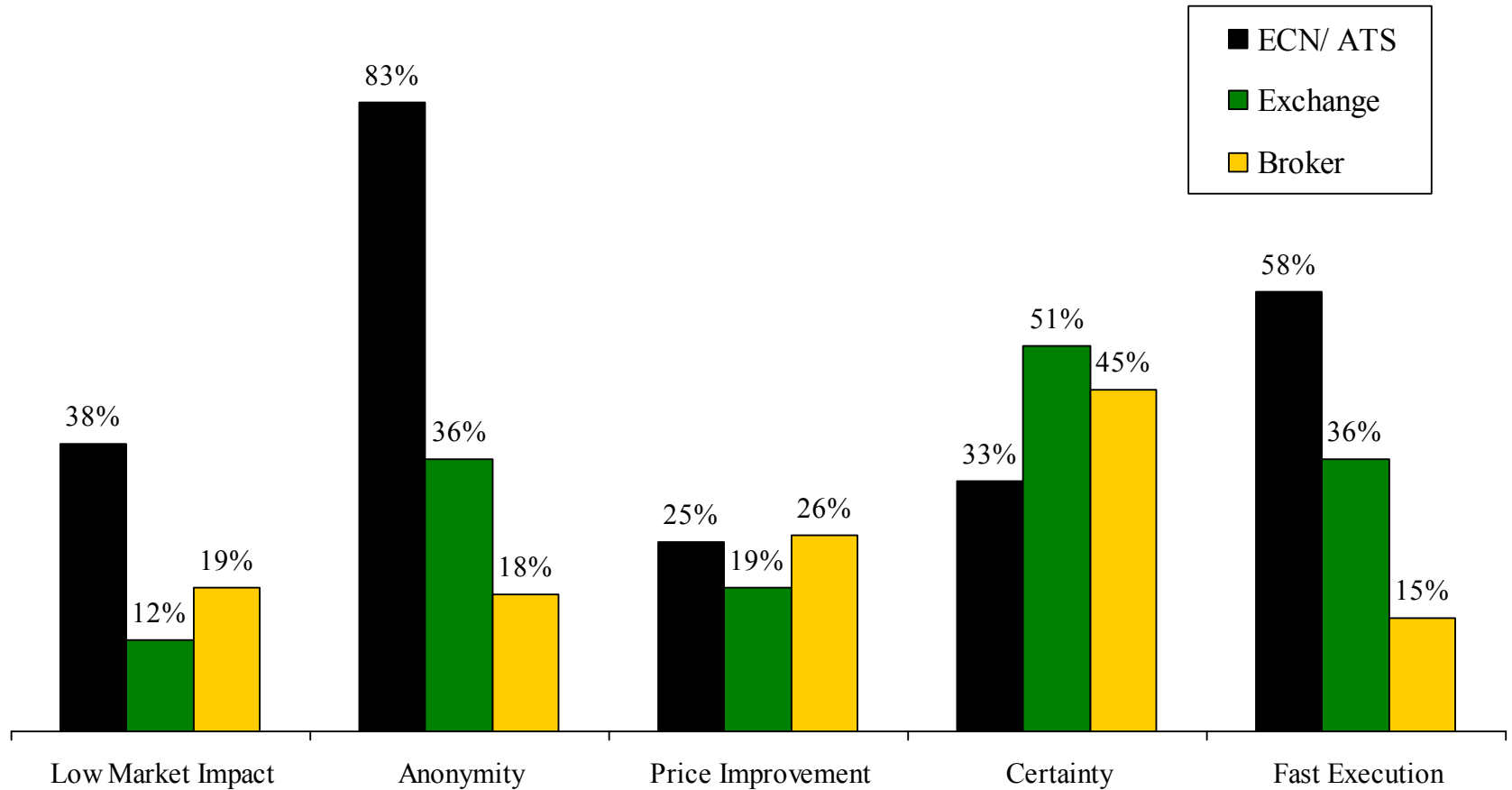
Importance of Attributes When Executing Orders in Listed Stocks



Note: Based on 103 respondents.

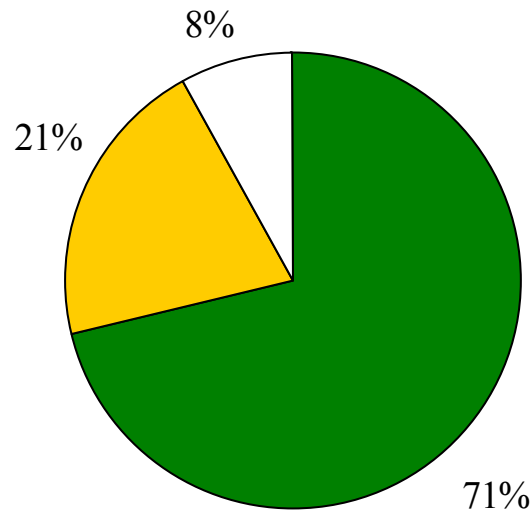
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High Probability of Achieving Objectives by Venue

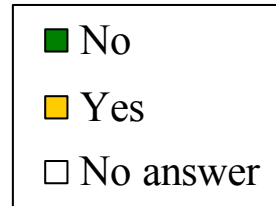
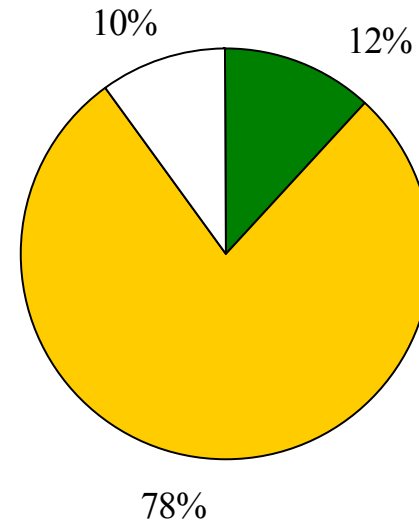


Views On Specialists

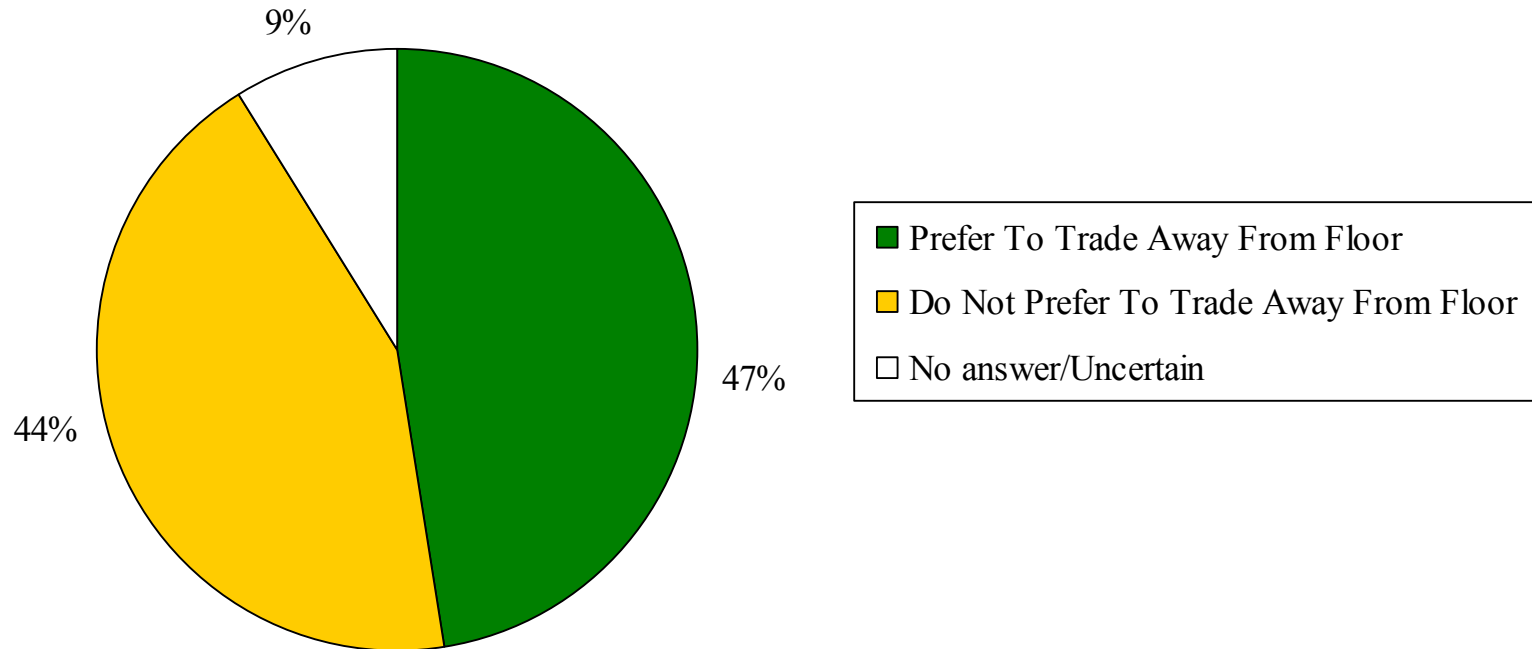
Do Specialists and market makers still add value in highly liquid stocks, such as IBM or Intel?



Does the Specialist's ability to trade on a proprietary basis constitute a conflict of interest?



Would You Prefer to Trade More Volume Away From an Exchange Floor?



Note: Based on 103 respondents.

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Why Traders Prefer to Trade Away From an Exchange Floor

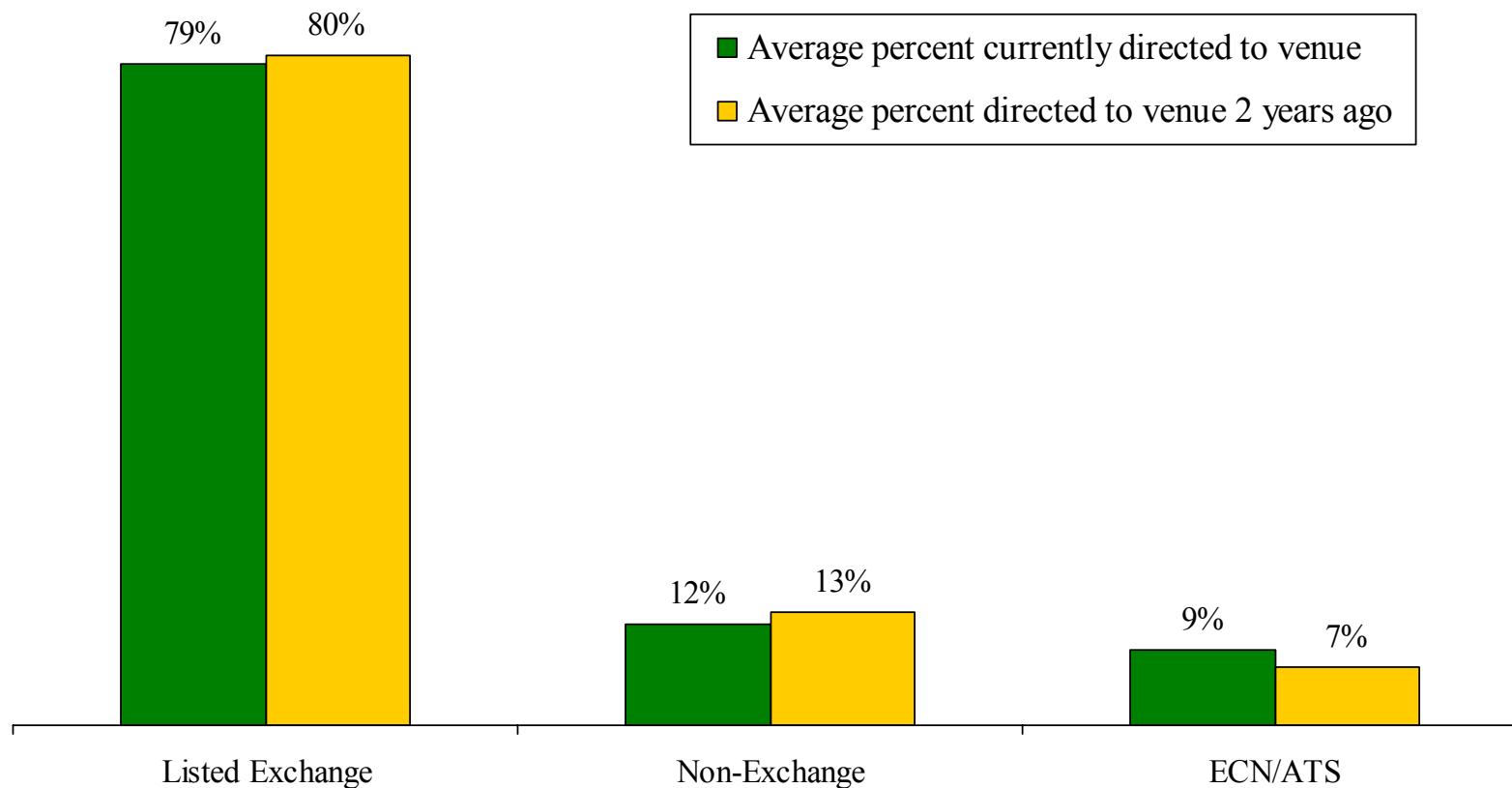
“The specialist is a well funded competitor.”

“The primary problem with specialists is pennyng and lack of visible liquidity...”

“Liquidity is drying up and I have to go where the liquidity is.”

“There are too many intermediaries who don’t have my best interest at heart.”

Exchange-listed Volume Direction



Why Traders Do Not Prefer to Trade Away From an Exchange Floor

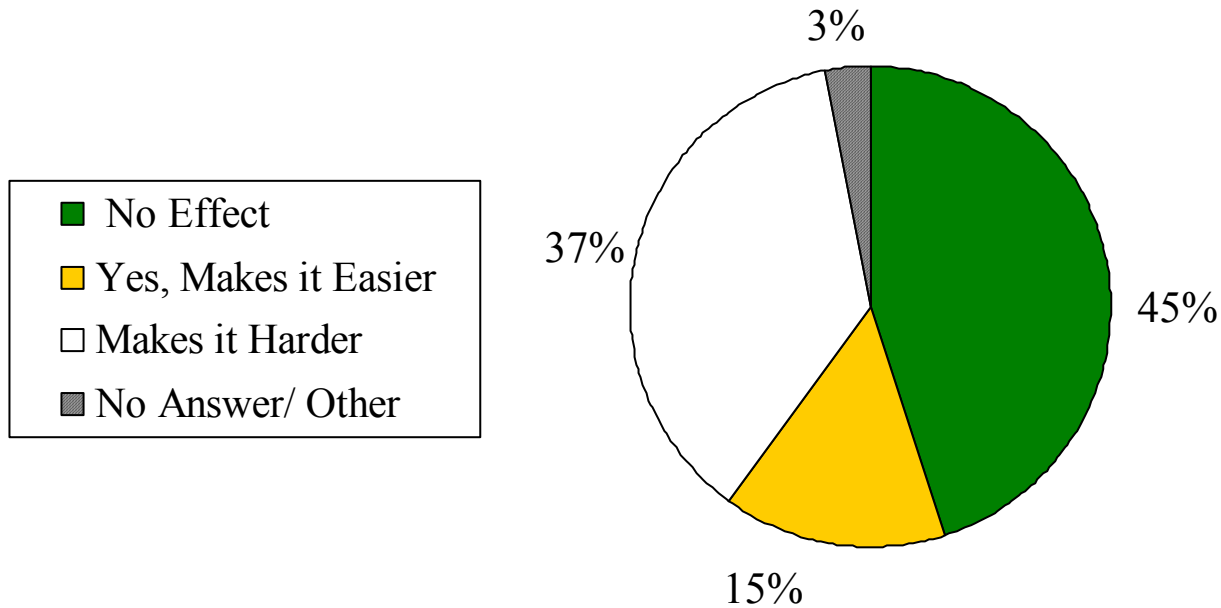
“Central location makes it faster for buyers and sellers to meet.”

“On the floor there is more interaction, which provides a better chance for price improvement.”

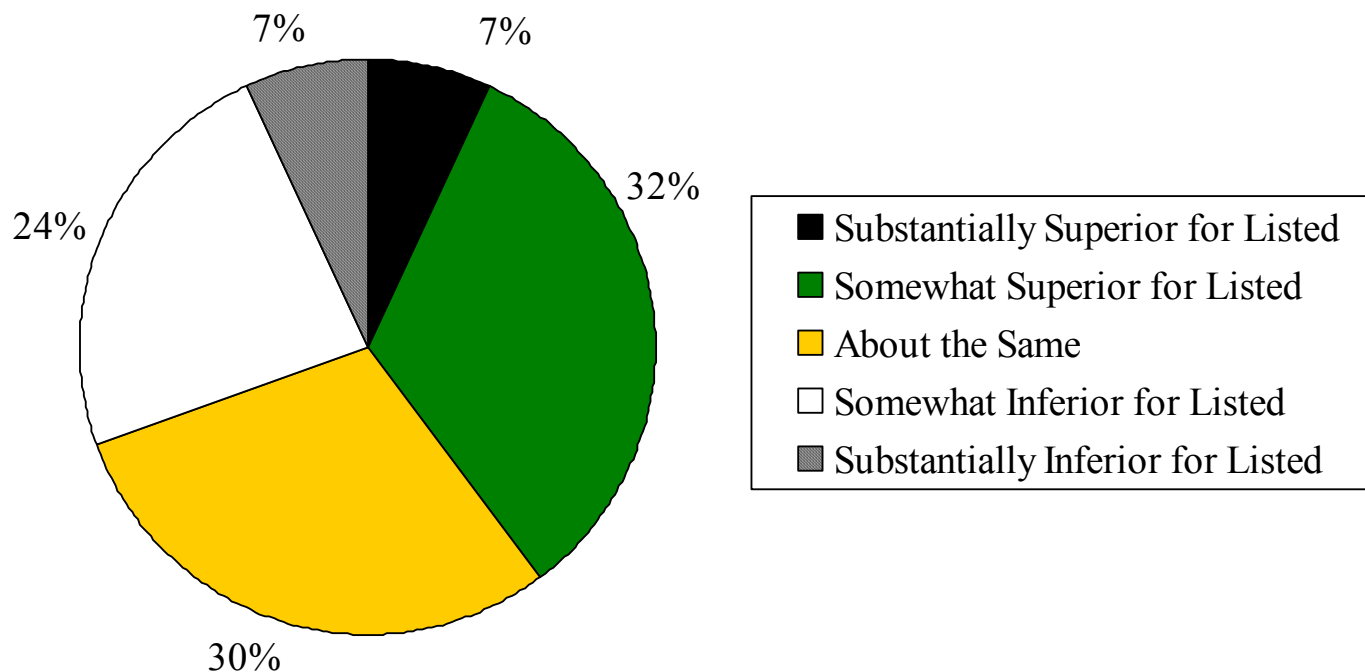
“I don’t like fragmentation of the market. I want to see all the players in one place.”

“I prefer to deal with people, there is more control.”

Do Multiple Competing Venues Affect Traders' Ability to Achieve Best Execution?



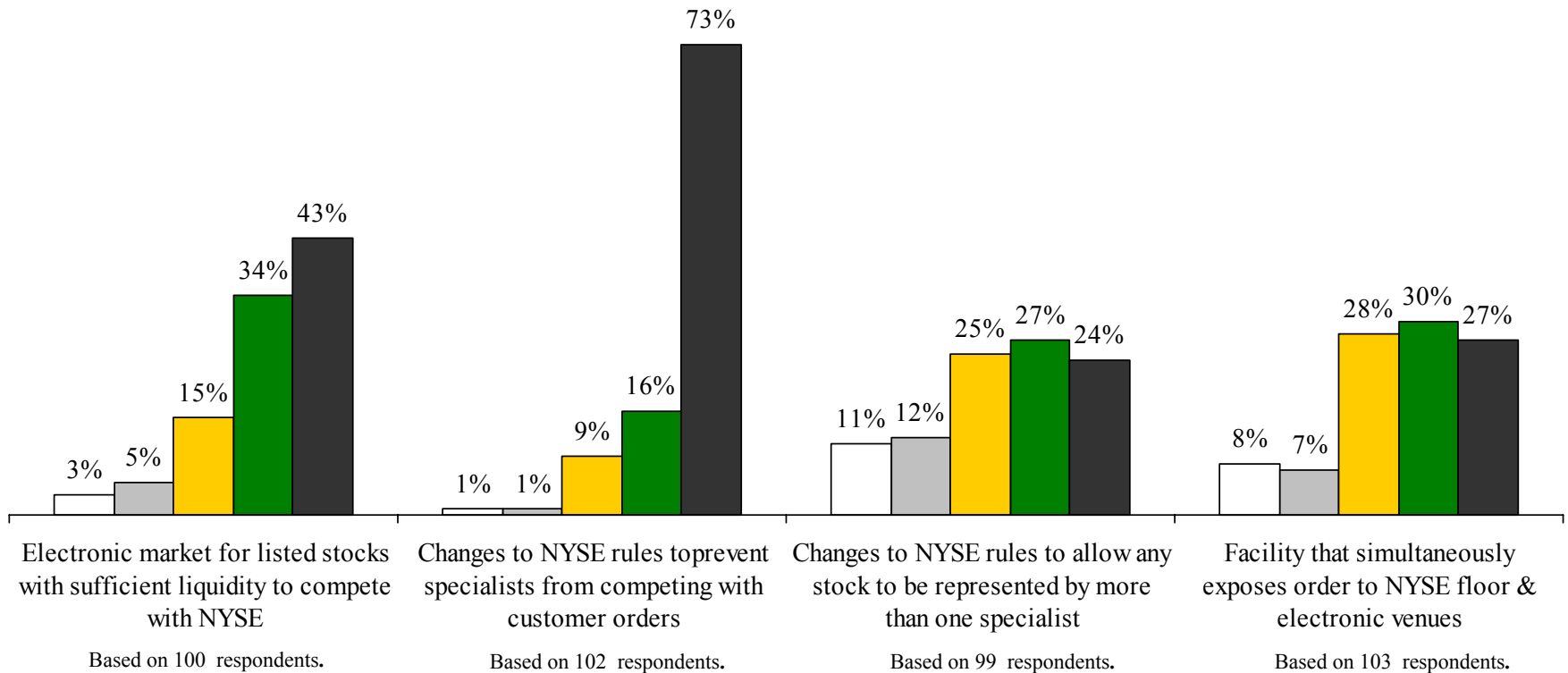
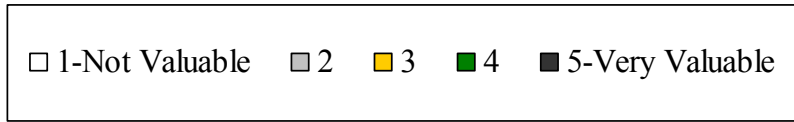
Overall Quality of Execution Between Listed and NASDAQ Stocks



Note: Based on 103 respondents.

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Value of Various Trade Execution Changes and Options



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