



Department of Justice

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JUSTICE DEPARTMENT APPROVES SECURITIES INDUSTRY ASSOCIATION'S PLAN TO EXCHANGE INFORMATION

Plan Facilitates Move from Fractional to Decimal-Based Systems

Washington, D.C.--The Department of Justice today approved a proposal by the Securities Industry Association (SIA) to organize an information exchange program designed to facilitate the conversion of equity securities and options trading from fractional to decimal-based systems.

The Department's Antitrust Division said that the proposed conduct was unlikely to have anticompetitive effects because of the limited nature of the information to be exchanged and the restrictions placed on the dissemination of competitively sensitive information. The Department also said that the information exchanges could have beneficial effects because transition to decimalization in a procompetitive manner could reduce investor costs and improve market efficiency.

The Department's position was stated in a business review letter issued by Joel I. Klein, Assistant Attorney General in charge of the Department's Antitrust Division.

The SIA is an association of nearly 800 securities firms. SIA members -- including investment banks, broker-dealers, and mutual fund companies -- are active in all markets and in all phases of corporate and public finance. SIA has developed a comprehensive program to move

the trading increments for equity securities and equity stock options from fractions to a decimal-based system based on either 5 cent or 1 cent increments. Critics of the fraction-based system currently used in the United States assert that it results in wider spreads on margins for dealers and market makers at the expense of investors, and the Securities and Exchange Commission has urged conversion to a decimal-based system.

To be successful, a conversion program will require extensive sharing of information among securities market participants. SIA is proposing an information exchange in which company or exchange-specific information will flow from each individual entity to the SIA staff or its independent consultant. No company-specific information about prices, capacity, or future plans will be exchanged directly among SIA members or other participants in the project; only aggregate information would be shared. No discussion will take place about specific prices of any security or option. Neither the participants nor SIA intend to recommend in favor of, or against, the products or systems of particular vendors. Legal counsel will participate in all meetings, and SEC staff are expected to attend frequently.

Based on the information and assurances provided by the SIA, and the nature of the proposed information exchanges, the Department does not believe that the proposed conduct will have anticompetitive effects, noted Klein. “There will be no transaction-specific price, cost or marketing information exchanged among rivals. . . . No competitively sensitive information will be exchanged between rivals. To the extent that the compilation of any such information is necessary to facilitate the conversion to a decimal-based system, it will be communicated to SIA personnel who will only distribute it in aggregated form that masks firm-specific information. . . . Under such circumstances, the proposed information exchanges would not appear to raise significant risks to competition.”

Finally, Klein observed that, “it is possible that the information exchanges will have procompetitive effects depending upon the nature of the recommendations that emerge from the process.”

Under the Department’s business review procedure, a person or organization may submit a proposed action to the Antitrust Division and receive a statement as to whether the Division will challenge the activity as a violation of federal antitrust laws.

A file containing the business review request and the Department’s response may be examined in the Antitrust Documents Group, Suite 215, Liberty Place, 325 7th Street, N.W., Washington, D.C. 20530. After a 30-day waiting period, the documents supporting the business review will be added to the file.

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