ES/42835

RALPH S. SAUL
ONE TOWER BRIDGE
100 FRONT STREET
SUITE 1445
WEST CONSHOHOCKEN, PA 19428

Phone: [redacted]
Fax:

October 2, 2012

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities & Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Dear Ms. Murphy:

The following comments relate to the panel on market technology and how it impacts the public securities markets.

I have been consistently alarmed at the growth of dealer activity in the markets and the impact that this activity has on how the public investor is treated in our public markets. Since the abolition of fixed commissions in the 1970's, Wall Street firms have steadily enlarged their dealer activities which require more capital but which can be far more profitable than the older brokerage way of doing business. The application of market technology has had the further effect of slowly displacing the individual investor from the markets.

The history of the S.E.C. demonstrates a strong bias against using public markets for dealer activity. In the early days of the Commission, it produced a report required by the Exchange Act to study the segregation of dealers from brokers – a problem which haunted the Congress when it drafted the Act. That report did not recommend segregation but it emphasized that the Commission should use its powers to restrain dealer activity in the public markets. The Commission at the time understood the advantage that a market professional had in time and information over the public. Consistent with this postulate, the Commission sought several times to abolish floor trading on the exchanges and only when the Special Study of Securities Markets recommended its abolition did the NYSE capitulate and substantially reduce the role of floor trading. Finally, dealer activity by specialists was circumscribed by imposing an obligation to help maintain fair and orderly markets. This history became irrelevant as dealers came to dominate the markets and most individuals surrendered to intermediaries to invest on their behalf. The result is that markets have by passed the individual investor.

The growth of electronic trading demonstrates what has happened. These dealers now account for over 50 percent of NYSE trading. Without any obligation to the markets they have become the dominant force in our public markets. The Commission now seeks to restrain these dealers by imposing uniform standards to avoid future technology failures in high speed markets.

Unfortunately these steps will not curtail the adverse impact on our markets of dealers with absolutely no obligation to these markets except to make money. In my view, the only way to truly restrain these dealers is to either impose obligations upon them to help maintain fair and orderly markets or to abolish their franchises to deal. Our markets might have some bumpy periods as a result of these measures but they would eventually adapt.

cc: Hon. Mary Schapiro
Chairman of the S.E.C.