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New York, New York 10016

RT Asset Management Inc.

September 19, 2008

Dear Mr. Donaldson:

I am writing today to share some views that I have that could enhance the integrity of the financial markets. During the 1990's Arthur Levitt spearheaded several trading reforms that have had some negative consequences on equity trading and valuation. Levitt's market reforms were designed primarily to level the playing field for individual investors. In practice, the reforms have actually created market inefficiencies that have hurt the majority of long term equity holders, while benefiting only a few short term traders.

These regulations have also diverted regulation resources away from regulating corporate issuers to monitoring over a billion transactions per year. While I believe that all investors should get even treatment and have the expectation of fair pricing when they buy or sell equities, the greater risk for individual investors is posed by corporate governance failures. Corporate governance failures have resulted in losses of market capitalization of over 500 billion dollars in 2001 alone (see appendix 1). As a point of reference the 2003 federal budget deficit is projected to be slightly less then 500 billion dollars.

Artificial Decimalization

Decimalization when combined with the Manning II Rule (as it exists today) is an artificial mandate that has re-regulated trading. Re-regulation has had the unforeseen effect of damaging the markets ability of determining efficient pricing. While investors have benefited from low commission costs they are in turn ruined by the grossly inefficient pricing mechanism that has resulted in fragmented markets and lower price liquidity.

Key Deficiencies

- Market fragmentation results in unfair pricing
- ECN's are unfairly advantaged under the law
- Manning II is longer necessary and is a tax on all investors
- Mutual fund and pension investors are paying a decimalization penalty
- Corporate managers asymmetrically rewarded for short term price improvements

Market fragmentation

The central role of the financial markets is to provide a central venue where buyers and sellers of securities can execute their orders at the best possible price given the supply and demand conditions for the equities they are trading. In fragmented markets, investors are most often not getting the best price especially when access to all trading venues is not provided. Today investors are buying stocks at disadvantageous prices on regional exchanges even if the stock is available cheaper on the NYSE. Also, for those traders that do have access to regional exchanges can not rely on those exchanges to trade at the prices the regional exchanges are quoting for several technical and structural reasons.

The central role of the financial institution is to provide capital or expertise to match buyer and seller (intermediation). Based on the foundation of a strong central market, financial institutions will naturally seek to add to market liquidity under normal circumstances. While the central market provides liquidity for all traders the institutions in essence perform proprietary supply and demand functions for their own customers. When financial institutions are allowed to make an economic profit for trading services there is an economic incentive to provide better services in order to maintain a larger client base. These services primarily are quality research, financial consulting and fair investment banking. Any investor cost savings resulting from decimalization has been absorbed by added cost arising from the deterioration and unbundling of these services, the rising costs of acquiring investment research and the new costs of handling their own order flow, due to lack of intermediation.

Evidence of rising costs is identifiable. Most mutual fund expense ratios have not decreased over the last ten years even though commission costs have declined by 80% over this time frame. The reason why expense ratios have been constant is because investment companies are bearing the costs of services that were once purchased by their trading revenues. As a consequence more money has to be spent to achieve the same service level that existed ten years ago, despite lower execution costs and better technology.

ECN's

I am a believer in electronic trading. Electronic trading has reduced costs for all industry participants and enabled traders to efficiently handle the explosive growth in equity volume that resulted from the economic expansion of the 1990's. However there is no economic argument for giving ECNs preferential treatment in the current regulatory structure. ECN's do not provide market liquidity and few offer the information that is provided by other investment intuitions. In contrast ECNs actually redirect liquidity away from the market place and charge market participants for that liquidity. Simply put ECN's are parasitic; they exist by diverting order flow from the exchanges and redirecting that order-flow to other exchange participants while charging a nominal fee. Across markets, ECNs act like a chronic virus, in the short term their fees have not disrupted the function of the markets but have progressively undermined the markets over the last decade. For example, volume for NASDAQ stocks has grown since 1991 but NASDAQ's trading market share has actually declined by over 70% because of ECNs.

Further more, when public prices are quoted on the ECN's primary exchanges ECN fees are not quoted. For example, if MSFT is quoted at 28 dollars by SBSH (A Market Maker) and INCA (An ECN) a market participant pays SBSH 28 dollars and INCA as much as $28.02 for the same stock. So effectively ECN's can charge fees and trade for free. There are remedies for the situation: 1) Eliminate ECN fees or 2) Allow Market Makers to charge the ECN's fees or 3) Permit fees to be charged only to one side of the trade if the other side is a market participant .

While ECNs are modern and technologically sophisticated their true business model is not so modern. ECN's are not crossing or communications networks they are broker's brokers. The role of the broker's broker is to middle markets and to game market makers. Middling is when a trader effects an arbitrage between to the bid and the ask price by intercepting the order and preventing a trade between the buyer a seller. Gaming is when a trader uses a third party to protect his identity. In the short term these practices can add to trading profits but as far as the market is concerned the extensive use of the ECN has undermined market efficiency by artificially inflating/deflating prices and increasing the resources needed to execute trades.

Manning II

When I was a market maker I was not allowed to express my opinion in regards to Manning II for good reason, it's was the law and over zealous regulators might perceive objection as obstruction. My objection to Manning II was not personal it was for economic reasons. America is a free society founded on the fundamental principles of human rights. One of those principles is the right to property. While many rights are claimed to be implied in the Constitution of the United States the right to property was factually implied several times according to the framers. The right to property has been implied by the right to free speech in the first amendment and also the third, fourth and fifth amendments. When this right was denied in the legal case, Schecter Vs. The United States the Supreme Court ruled against the government by saying.

> If the codes have standing as penal statutes, this must be due to the effect of the executive action. But Congress cannot delegate legislative power to the President to exercise an unfettered discretion to make whatever laws he thinks may be needed or advisable for the rehabilitation and expansion of trade and industry. . ..

> [The law] supplies no standards for any trade, industry or activity. It does not undertake to prescribe rules of conduct to be applied to particular states of fact determined by appropriate administrative procedure. Instead of prescribing rules of conduct, it authorizes the making of codes to prescribe them. For that legislative undertaking, § 3 sets up no standards, aside from the statement of the general aims of rehabilitation, correction and expansion described in section one. In view of the scope of that broad declaration, and of the nature of the few restrictions that are imposed, the discretion of the President in approving or prescribing codes, and thus enacting laws for the government of trade and industry throughout the country, is virtually unfettered. We think that the code-making authority thus conferred is an unconstitutional delegation of legislative power.

I understand that SEC derives its rule making power from Congress not the President so the SEC can make rules today. Manning II was actually an act of Congress but I believe that Manning II actually goes against the spirit of the Constitution and this Supreme Court ruling. Former chairman Levitt seems to have crossed the gray line separating regulator and law maker. SEC Chairman Arthur Levitt was in fact making laws by mandating codes. The necessity for regulation was needed when market spreads were ¾'s of a dollar or more however good regulation may have been sacrificed in favor of political popularity. At the time traders were buying stock at bid prices for their customers and selling it to them at prices of dollar or more than they paid per share. The old practice is unfair to customers and structurally dishonest because it silently deprived shareholders of gains. Manning II is a bad response to this practice because it had several negative consequences.

Today, spreads are on average less then two cents vs. seventy five cents ten years ago. Manning II is costing the securities industry millions of dollars and jobs when the need for this rule is no longer necessary. Furthermore, Manning II does nothing to protect investors from miss-pricing resulting from fragmented markets, which is a bigger problem today. By eliminating Manning II while preserving Manning I, investors and the industry will benefit. Rolling back Manning II will save the Government, the SRO's and the Industry millions of dollars while creating the incentive for market participants to create billions of dollars in liquidity. Clearly, it is now time to revisit the regulation.

Decimalization as it exists today

Decimalization as it exists today hurts most investors. In fact it is costing investors billions of dollars a year. While the investor that buys individual stocks has saved a great deal due to decimalization, it can be said his savings are overshadowed by enormous burdens born by almost all investors. Since the Great Depression households that own individual stocks have remained fairly constant at 10-20% of the population depending on market conditions. However the growth of the diversified portfolio has been good for the industry and investors. Because of the success of the diversified portfolio over 70% of all Americans own equities through mutual funds, ETFS, pension plans and annuities. The diversified portfolio has allowed Americans over time to create wealth while minimizing their exposure to individual stock risk.

Decimalization has disadvantaged 70% of all American shareholders by denying them liquidity and increasing their costs. Clearly the decimalization effect is not a zero sum gain only 20% benefit at the expense of the majority. Studies on narrowing spreads have shown that narrower spreads have resulted in as much as 39 cents a share in additional execution costs vs. the wider spreads that preceded decimalization on 10,000 share block orders. The average order size for intuitions is about 50,000 shares, so the cost of decimalization may be greater then 39 cent per share. The average fund may be bleeding money at alarming rates due to decimalization. By trading just twenty 50,000 share orders daily decimalization may be costing a small institution as much as $390,000 per day on those twenty orders. That $78,000,000 annually would otherwise be distributed to investors in the form of a dividend, capital gain or reinvestment. Studies have also shown that decimalization has increased the time it takes to execute a 5000 share order by up to 50 seconds. As a result the average time it takes to execute 50,000 share orders is now 23.5 minutes and as opposed to 15 minutes. Besides the opportunity cost of not being able to trade in fast moving markets investment companies are now spending an addition 600 man hours trading per year. That cost is now being passed on to the average investor.

Decimalization inflates trading costs by allowing traders to create new bids or offers (bidding ahead) in some cases by as little as .001 better then the previously posted bid or offer. A lone this bidder ahead has minimal affect on equity prices and execution costs. In aggregate bidding ahead has hampered market efficiency. When legions of day traders, floor traders, direct access traders and individual investors are posting prices in competition with each other decimalization has inflated/deflated prices before supply/demand can respond. Institutions have responded by braking up their orders into smaller self traded sub-orders, using crossing systems, by paying higher prices for stocks and avoiding more worthy but less liquid issues. So owners of diversified portfolios, 70% of US households, are penalized by; higher expenses, less credible stock prices, higher portfolio turnover, short-term trading and lower diversity.

Decimalization as it exists today can also have the unwanted side effects of stifling economic growth. Decimalization enhances the competitive advantage of large well capitalized companies by offering institutions more liquidity then small and mid-cap competition, than had existed previous to decimalization. Large corporations can attract more capital because an institutional investor can only invest in companies that offer liquidity. This liquidity discount has always existed but is more pronounced today because of decimalization. The liquidity discount is further aggravated by reduced institutional research available for investors. Institutional investors are also less likely buy stocks that have limited research coverage by Wall Street. These two factors dramatically favor institutional investment in large companies over small companies given equal business prospects and earnings quality. If decimalization is in fact hurting small and mid-cap issuers then America's competitive standing in the world economy and the biggest creator of new jobs could be handy-capped. Since decimalization the US economy has lost over 6 million jobs it possible that decimalization under its current structure has contributed indirectly to this job loss. The chart below illustrates the liquidity discount.

Ticker	**Price**	**Difference High/Low**	**Average Volume**	**MCAP**	**PE**	**Analyst Coverage**	**Industry**
BSTE	45.92	71%	372,000	.7b	29	8	Biotechnology
BGEN	39.59	55%	1,760,000	1.760b	34	24	Biotechnology
LWSN	7.94	63%	400,000	.7b	na	3	CRM Software
ORCL	13.00	53%	59,000,000	68.00b	30	37	CRM Software
ECLP	14.83	4.29%	731,000	.6b	na	7	Healthcare Systems
CERN	35.71	241%	1,200,000	1.2b	34	11	Healthcare Systems

This chart was constructed by using screens to identify companies that directly compete yet represent different market capitalization levels. You will notice several affects of decimalization manifesting itself on this table. The small companies BSTE, LWSN and ECLP all have fewer analysts covering their companies. You will also notice that the difference between the 52 week high and low is greater. This difference is an indication that sellers/buyers of these companies are being penalized by liquidity. All three of these small companies are innovative and have managed to stay in business despite strong competition. The question is can any of the small companies offer long term growth in the current market structure when decimalization is giving their larger competitors an unfair advantage?

Asymmetrically rewards

It is not coincidental that increased stock option grants, increased corporate governance failures and changes in market structure have grown simultaneously. You will see that each financial phenomenon is enhanced by the other. Stock options can lead to large economic rewards for corporate executives. Stock options are granted to executives in order to align executive compensation with the share price of the stock.

The problem with stock options as the primary executive compensation is the nature of stock options relative to equity. Option holders by definition are not long term stake holders in companies they are short term traders. When an executive is granted stock his net worth is determined by the entire value of that stock. When an executive is granted options his net worth is only determined by difference between the stock price and the option price and he is not penalized if the stock price is lower than the strike price. So the only way an executive can maximize his net worth is to maximize the share price premium over the strike price. Remember the executive is not penalized by price moves below the option price. Given this asymmetrical reward some misguided executives will seek to maximize the price move even at the expense of the long term value of the corporation. Corporate Governance failures at HRC, TYC, ENE and WCOM are largely linked with reckless business models designed to maximize short term earnings and large stock sales by key executives. Sarbanes – Oxeley is an effective law designed to limit many of the process and practices used to in these scandals but unless over-sized options packages are curtailed unethical executives will continue to find ways to maximize short term returns at the expense of long term value.

As tick sizes have been reduced so has the amount of stock available at each price point for most securities. Total depth (the amount of volume available at all price levels) has also been reduced. Regulation has fundamentally changed the pricing system of the market. Decimalization has reduced the amount of shares available at price points near the market and virtually eliminated limit orders at deeper price points.

One function provided by the financial markets is information processing, the markets provide feed back of opinions and events as reflected by changes in stock prices. Reducing market depth prevents the market from pricing equities to reflect their value. Lack of depth contributes to larger price swings as companies are over sensitive to information. Effectively stocks are trading wildly because buy and sell orders are sitting on trading desks or are in algorithmic cues , not in the market. Stocks are swinging to reflect injections of buy and sell orders often competing for the little volume available at each price point. This pricing action has also lead to the phenomena of the buyer or seller strike. The law of supply and demand dictates that as prices increase so will supply. In today’s markets as prices increase intraday sellers pull their orders in the hope of getting better prices thus reducing supply.

Reduced tick size combined with Manning II has contributed to price moves and is creating higher short term prices that often do not reflect the economic value of businesses. Corrupt executives have used this Phenomenon to flood the market with exaggerated or false news and estimates in order to sell their options at much larger premiums then otherwise would be available. Unethical short sellers may have also attempted to unduly influence prices. Evidence of this behavior by executives is not only found in corporate scandals but also in the decline in issuance of restricted shares as equity compensation as opposed to stock options. Today, for the same million dollars in equity compensation the executives have more earnings leverage and less risk by receiving options. So if their stock appreciates 20% and the options were struck at the market then the potential gain on the option is exponentially greater the gain on the stock.

Recommendations

In order to promote long term economic growth, job creation and corporate ethics many of the regulations that govern equity trading and option issuance need to be revisited and global action needs to be taken to implement fair and prudent reforms. These reforms can without interfering with commerce; bring back liquidity, create capital and reduce investor risk by reorganizing the pricing mechanism and using economic incentives.

Type	Reform	Intended Result
Option	Reduce options sales to .5% of MAVG 4 week volume from 1%	Increases the executives holding period for options
Option	Increase the capital gains tax on corporate stock options, 15-20% surcharge	Increases the holding period and advantages restricted stock
Option	Require disclosure for hedging	Better transparency
Option	Leave option expensing rules unchanged	Promotes entrepreneurship
Option	Leave stock sale volume % unchanged	Promotes stocks in favor of options
Option	Limit directors sales of equity compensation to only 10% of total	Better aligns shareholder with directors
Option	Stock sales that are the result of option exercise treated as options for up to 1 yr.	Closes loophole
Trading	Change up tick rules to + 5 cents	Discourages abusive short selling
Trading	Institute minimum spread rules determined by market capitalization 2,5 and 10 cents	Promotes liquidity and reduces liquidity penalty for small companies
Trading	Reform Manning II	Promotes liquidity and encourages capital commitment by institutions especially in small and mid-cap issuers
Trading	Address ECN favoritism	Reduces inequities, de-fragments markets, creates jobs and accelerates competition
Trading	Address E-trading Brokers	E-trading promotes account churning which is not allowed for other broker dealers.

If you need to contact me I can be reached at 212 679 3016. Thank you for you consideration and have a great day.

Sincerely,

Richard R Tullo

Appendix

Book Cookers CEO Pay, Market Capitalization, and Layoffs

Company	CEO	1999-2001 Total Compensation	Market Cap Change 1/1/01 to 7/31/02 $Millions	%	Layoffs since 1/1/01
Adelphia Communications*	J.J. Rigas	$4,350,162	-7,858	-99%	0
AOL Time Warner	G.M. Levin	$178,364,000	-31,483	-38%	4,700
Bristol Myers Squibb	P.R. Dolan (2001)	$51,566,549	-99,088	-69%	2,295
	C.A. Heimbold (1999-2000)				
CMS Energy	W.T. McCormick, Jr.	$5,465,961	2,757	-72%	0
Duke Energy	R.B. Priory	$14,931,000	-10,292	-32%	0
Dynegy	C.L. Watson	$19,503,064	-17,240	-95%	340
El Paso	W.A. Wise	$85,860,000	-28,134	-79%	300
Enron	K.L. Lay	$250,834,250	-62,335	-100%	4,250
Global Crossing**	G. Winnick (2001)	$20,787,969	-12,607	-100%	8,500
	R. Annunziata (1999-2000)				
Halliburton	D.J. Lesar (2001)	$32,186,497	-9,750	-63%	0
	R.B. Cheney (1999-2000)				
Hanover Compressor	M.J. McGhan	$977,545	-2,261	-76%	0
Homestore, Inc.	S.H. Wolff	$4,503,154	-1,563	-94%	1,000
Kmart	C. Conaway (2000-01)	$18,074,194	-2,206	-86%	23,200
	F. Hall (1999)				
Lucent Technologies	H.B. Schacht (2001)	$10,919,217	-39,786	-87%	54,338
	R.A. McGinn (1999-2000)				
Mirant***	S.M. Fuller	$7,586,000	-7,058	-82%	0
Network Associates	G. Samenuk (2001)	$15,833,276	1,131	196%	200
	W.L. Larson (1999-2000)				
Peregrine Systems	S.P. Gardner	$16,359,119	-2,874	-98%	2,580
PNC Financial Services	J.E. Rohr	$22,189,000	-9,260	-44%	0
Qwest	J.P. Nacchio	$266,132,104	-66,223	-97%	11,400
Reliant Energy	R.S. Letbetter	$10,909,902	-9,728	-76%	0
Tyco	L.D. Kozlowski	$231,765,196	-71,500	-74%	18,400
WorldCom	B.J. Ebbers	$44,062,629	-39,847	-98%	26,700
Xerox	P.A. Allaire (2000-01)	$17,497,107	1,961	63%	4,300
	G.R. Thoman (1999)				
	Total	**$1,430,857,895**	**-$530,750**	**-73%**	**162,503**
	Average	**$62,211,313**			
	Average CEO in *Business Week* Surveys	**$36,500,000**			
	Difference	**70%**			

*2001 compensation not available. Figure is for 1999-2000 only.
**2001 compensation not available. Figure is for 1999-2000 only. Total compensation does not include $308 million in 1999-2001 stock sales by Gary Winnick.
*** Mirant went public in September 2001. Market cap change is from Sept 30, 2001 to July 31, 2001.

Sources: CEO Pay: Business Week's April 15, 2002 executive compensation survey, corporate filings with the Securities and Exchange Commission, and schedules filed with the U.S. Bankruptcy Court. **Market Capitalization:** FactSet. **Layoffs:** Forbes.com Layoff Tracker and press reports.