

KEYSTONE CAPITAL CORPORATION

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

**Re: Concept Release Concerning Self-Regulation; File Number S7-40-04;
Release No. 34-50700 (November 18, 2004)**

Dear Mr. Katz:

Keystone Capital Corporation welcomes the opportunity to comment upon the Securities and Exchange Commission's concept release concerning self-regulation (the "Concept Release"). Keystone Capital Corporation is a member of the NASD and MSRB with just under 20 registered representatives. We have been a member of the National Association of Independent Broker/Dealers for many years, and I have served on its board in various capacities. Our ongoing operation requires that we focus some part of each and every business day of on the maintenance of a standard of compliance that meets or exceeds the regulatory expectations of the regulators.

I believe that the current SRO structure for regulating dealer conduct in the municipal securities market through the MSRB has effectively avoided many of the potential SRO limitations identified by the SEC related to conflicts, funding, and redundancies, while retaining the benefits of a self-funded system with market specific expertise enhancing rule promulgation. Similarly, at no time have I felt that the NASD has been any less than diligent and authoritative in carrying out its responsibilities. Since the implementation of "INSITE" (the electronic surveillance tool) I have been subject to periodic and targeted questions from our core examiner on such matters as our hiring and sales practices, to the extent that I am confident that the NASD has access to pertinent and timely information about my firm.

That is not to say that reform would not be welcome. Specifically, I feel that specialization within the SROs is required such that the oversight of small firms is relevant and meaningful. I believe that specialization within the SROs as they exist today will result in the continued satisfactory performance of small firms in compliance with SRO regulations. If the number and amount of fines and sanctions can be used as a guidepost for determining performance, it is important to note that although small firms represent the overwhelming majority of more than 85% of the NASD membership, the proportionate amount of fines, penalties (and headlines) attributable to this segment is significantly lower.

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No one model proposed by the Concept Release, appears to take a degree of specialization in consideration of small firm needs in mind. Because small firms represent the majority of members of the NASD, this is unacceptable. Several of the proposed models, if enacted, would have disastrous effects on the small firms community, not to mention that a great expense would be incurred in their implementation.

In its Concept Release, from one perspective, the SEC proposes a Single Member SRO or a Universal Industry Self-Regulator. I believe any such model resulting in one primary regulator would have vast and disastrous impact on the brokerage community at large, as the benefit from specialization that is currently in place would likely be diluted. Further, the interests of small firms, (already an apparent afterthought) would likely go unheard as the development of such a broad and comprehensive model ensued.

The single Non-Industry Self-Regulator would put regulatory control in the hands of individuals even less likely to recognize the nuances and specialties within our industry, and is an even worse alternative to the first two.

In its Competing Hybrid Model, the SEC proposes that numerous SROs be allowed to register and compete with one another, but does not appear to take into consideration the means through which these entities would compete. To the extent that, as competitors, each would strive to excel, it is likely that varying degrees of regulatory arbitrage would quickly result, and that the high expense of this experiment would far outweigh the benefit.

I suggest that the SEC consider yet another alternative to regulatory reform; an alternative that would be most consistent with the demographics of US brokerage firms, and with the general tenets of a capitalistic and democratic society. I suggest that the SEC offer an opportunity for greater specialization within the existing SRO's through funding of education and training of the SRO examiners, such that the huge sums of money that might be otherwise wasted on an experiment could be used to better an existing system that is demonstrating success. It is my opinion that the NASD has taken adequate strides to eliminate conflicts of interest through divestiture of its trading interests, and that continued improvements take the form of internal enhancements rather than vast and costly experiments in restructuring.

In summary, I feel that SRO reform is required in order to accommodate the small-firm segment of the NASD, a segment which represents more than 85% of broker/dealers nationwide, but that a broad restructuring along any of the model concepts proposed by the SEC would be unnecessary and counter to progress already under way.

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I hope that by sharing my perspective, which may appear unique but which is actually representative of a large percentage of regulated entities, will assist the Commission in its review of potential approaches to securities industry regulation.

Please do not hesitate to contact the undersigned if you have any questions or if you would like additional input from the small firms' perspective.

Respectfully,

Lisa Roth

Lisa Roth, President