

MEMORANDUM

February 8, 2005

TO: Files—
Regulation NMS
File No. S7-10-04

FROM: Joseph A. Hall

RE: **Correspondence from Robert Stonehill**

Chairman Donaldson received correspondence dated January 20, 2005 from Robert Stonehill, who with his wife owns two seats on the New York Stock Exchange, observing that:

“the SEC has put forth [the Regulation NMS] proposal at the precise time that competition is transforming the largest equities market in the world. Regulation should promote innovation, not stifle it; yet the CLOB proposal would undermine the innovation currently underway at The New York Stock Exchange, which is on the verge of implementing its hybrid market. That market will offer customers what they have been demanding – the ability to trade electronic or through the auction market. The proposed CLOB would eliminate the opportunity for a negotiated trade within the system, and preclude any possibility that the hybrid market will ever become operational.

“U.S. Equity markets are the strongest in the world. The CLOB that the SEC has proposed would create a splintered, electron-only marketplace where markets must chase displayed orders from market to market. In that environment, large orders of stock would be difficult to manage. Instead, those orders would move to private markets or overseas. This would hurt retail investors. One great competitive advantage of our markets is that institutional and individual investors’ orders are intermingled, so everyone gets equal and fair treatment. The CLOB would change all that, and retail investors would pay the price. Remember when DLJ went public in the early seventies; you opted to list on the agency auction market facilitated by the specialist systems.”