

**RICHARD HUGH BAKER**  
9TH DISTRICT, LOUISIANA

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**Congress of the United States**  
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**Washington, D.C. 20515-1806**

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SUBCOMMITTEE ON HEALTH

May 24, 2004

57-10-04

The Honorable William H. Donaldson  
Chairman  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549

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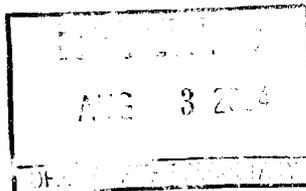
Dear Chairman Donaldson:

As you know, I am a strong believer in the importance of self-regulatory organizations in our nation's market system. They set the critical standards for issuing companies, they operate key trading markets, and they are the front-line regulators of securities firms

Given their important regulatory role, I am deeply concerned by press reports describing a March 11 letter from the chief operating officer of the New York Stock Exchange to the exchange's member companies. The letter encourages the member companies to write letters to the SEC opposing the Commission's proposed Regulation NMS

Coming from an independent, third-party entity, such a letter would be the type of participation in our public policy process that can only add to the debate and discussion. However, when such a letter is sent from a regulator to the very companies it regulates, there is an obvious and unavoidable taint of pressure. Whether those who respond favorably receive regulatory benefits, or those who fail to respond receive negative treatment, is immaterial. The fact that there are significant financial stakes at play for key NYSE members with proposed Regulation NMS only raises further serious questions.

As you noted in your November 23, 2003 testimony before the Senate Banking Committee, "where self-regulation has not worked, this often is a result of the inherent tension between a SRO's role as regulator and as the operator of a market, and between its role as a regulator and as a membership organization." I agree. Clearly, this type of coercive political pressure by a self-regulatory organization is unacceptable. And, I would note that on March 15, the SEC received a comment letter from an NYSE-listed company based in Vermont that repeats almost word-for-word the talking points it was urged to use only days before by its regulator, and



others will likewise follow suit. I would hope the Commission will carefully review and assess the nature of this correspondence.

Self-regulatory organizations such as the NYSE should be held to a high standard of professional conduct, as they are believed to be the world's most trusted fiduciaries. Any question raised that would appear to taint the highest of ethical standards should be reviewed very carefully by the Commission. The Capital Markets subcommittee will certainly act in a manner appropriate to the facts as they become known. I look forward to working with you on this matter and all issues related to our capital markets.

Respectfully,

A handwritten signature in black ink, appearing to read "Richard H. Baker". The signature is written in a cursive, flowing style.

Richard H. Baker  
Chairman  
Subcommittee on Capital Markets,  
Insurance, and Government Sponsored  
Enterprises