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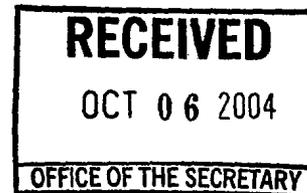
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OFFICE OF THE
CHAIRMAN

Mr. William Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, NW Room 6100
Washington, D.C. 20549



ST-10-04

Dear Dear Chairman Donaldson:

As the Commission continues to consider modifications to the "trade through" rule, I believe that there are several issues that need to be substantively addressed before any proposed changes take place.

Over the last twenty years, the trade through rule has been an invaluable component in protecting the integrity and stability of our markets by ensuring that all investors, both large and small, are entitled to the best available price for their investments, regardless of where that security is traded. Indeed, the trade through rule is an indispensable guideline that demonstrates to investors both at home and throughout the world that our markets are well regulated and transparent. This constancy has led to robust market growth over the course of the last several decades.

During this growth and expansion, technological innovation has dramatically changed the landscape of the securities industry. Consequently, in certain instances it may be appropriate for the rules that govern the day to day activities of the markets to change as well. Nevertheless, it is important that those changes are consistent with the SEC's mandate of protecting investors and maintaining the stability of the market.

While the strength of our markets is rooted in their ability to adapt to and weather changing economic conditions, it is also firmly planted in the underlying principles that ensure investors can conduct their business in an open, consistent and fair manner. Indeed, the speed of market transactions has evolved into an important part of effective and efficient securities trading. However, it is unclear whether the Commission's proposed changes to the trade through rule, allowing transaction speed to overrule the best price requirement, are consistent with those underlying principles.

I believe that the Commission should adequately address the many questions that the proposed rule change raises. Perhaps the most important question is whether transaction speed should trump the current best price principle. By all accounts, the "trade through" rule has served the investor community well since its inception. Would the benefit of faster transaction speed

outweigh the proven benefits and protections of ensuring investors the best price? If so, what would the tangible benefits be, and would these changes disproportionately advantage large, institutional traders at the cost of small investors?

Furthermore, the Commission should speak to how weakening the trade through rule may impact the liquidity of the current marketplace. It would appear that allowing large trading firms to opt out of the best price standard would in effect create two sets of rules for two different classes of investors. Has the Commission determined the effect of this rule change on liquidity of the retail market and how this would affect smaller investors?

Finally, if the rule change should go into effect, does the SEC have an adequate oversight and regulatory structure in place to ensure that transactions outside of the "trade-through" requirement will be as open and transparent as transactions in the current "best price" marketplace? In other words, what measure would the SEC use to ensure that investors' interests are still being served if they are not receiving the best price?

I know that many of my colleagues in both chambers of Congress have shared their concerns about this issue. Like the Commission, we have a mandate to serve the best interests of our constituents. It is my hope that our interest in this matter demonstrates the Commission's need to be deliberate and thorough as it continues to consider these rule changes.

Thank you for your attention, and if I look forward to your response. If I can be helpful in furthering the discussion on this issue, please do not hesitate to contact me.

Sincerely yours,


Hillary Rodham Clinton