

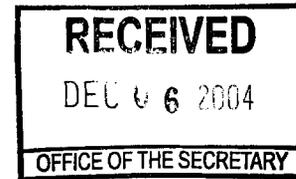
515

57-10-04

AMERITRADE 
Holding Corporation

October 29, 2004

Joseph A. Hall, Esq.
U.S. Securities Exchange Commission
450 Fifth Street, N.W.
Washington DC 20549



Dear Mr. Hall:

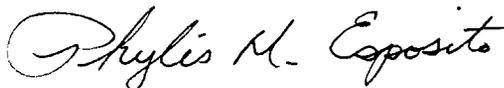
The Ameritrade team and I would like to thank you for your continued interest in the outcome of the National Market Structure proposal from the Securities and Exchange Commission. We are working hard to persuade the Commission to update and modernize the regulations in a way that all investors benefit from greater competition and fairness; this includes the ever-increasing number of retail investors who are investing for their retirement, their children's college tuition, or their first home. Your support is vital to ensuring that all Americans have confidence in the integrity of the U.S. markets.

Ameritrade believes that the SEC proposed rule – which may be finalized before year-end – should, at a minimum, include three measures: 1) It should provide for an all-electronic market alternative to manual, floor-based trading; 2) ensure that the exchange trade-through rule does not extend to the NASDAQ market, unless all markets are equal (meaning they are all required to be electronic or to provide “firm” quotes); and 3) that disclosure and sunshine guidelines are established for the fees that NASDAQ and the exchanges charge for stock price quotes – fees that are paid for in the end by investors.

I am enclosing for your perusal a copy of my recent ORAL testimony before the Senate Banking Committee, which provides further details about Ameritrade's views on the NMS proposal. In addition, it may interest you to read the enclosed summary of our recent Gallup poll, which showed that 97 percent of individual investors would favor market changes.

Please let me know if we can be of further assistance or answer any questions for you or your staff. I can be reached at 201-761-5570 or pesposito@ameritrade.com

Sincerely,



Phylis M. Esposito
Executive Vice President
Chief Strategy Officer

PME/aj
Enclosure

1 **STATEMENT OF PHYLIS ESPOSITO, EXECUTIVE VICE PRESIDENT**
AND

2 **CHIEF STRATEGY OFFICER, AMERITRADE, INC.**

3 Ms. Esposito. Chairman Shelby, Ranking Member
4 Sarbanes, Members of the Committee, I am Phylis Esposito.
5 I am an executive vice president and chief strategy officer
6 at Ameritrade. Thank you for the invitation to testify
7 today.

8 Ameritrade is a leading retail online broker, and we
9 are ranked number one in number of retail online
10 equity trades transacted in the marketplace on a
11 daily basis. As of last quarter, our customers executed on average
12 164,000 trades each and every day. Those customers included
13 3.5 million accounts, representing all 50 States.
14 In less than a decade, online retail client
15 accounts have grown to a total of 27 million in the United States.

16 Ameritrade is a public company, and our business model
17 and our financial interests are directly aligned with retail
18 investor participation in the U.S. equity markets.

19 At yesterday's hearing, there was unanimous agreement on
20 the need to protect the integrity of the capital markets and
21 to enhance their efficiency. I would like to
22 give you the point of view of retail investors as to how, in
23 fact, we can accomplish that.

 There has been much debate
24 in the industry during these past few months over who is speaking for
25 retail investors, be they individuals or institutions.

1 Many of these firms and organizations do not actually
2 deal. directly with retail investors who are investing in the
3 marketplace on a daily basis. We do. We not only interact
4 daily with clients who are investing, but also those clients who phone
5 our client call center and email our client
6 representatives -- so we know their views well.

7 What exactly are retail online investors
8 telling us today about what they want from the marketplace?
9 Overwhelmingly, they seek the following: Number one,
10 consistency of trade execution, whether those trades are in
11 listed securities or whether they are in over-the-counter
12 securities. And what are the metrics? Speed, quality of
13 execution, and a common level playing field in how those orders are
14 processed and executed.

15 Number two, firm quotes. When investors go to their online
16 screens, and they see bids and offers, they want those quotes
17 to be available, tradable. They want them to be -- Number three,
18 immediately executable. There has been quite a bit of
19 discussion about speed versus best price, and which is more important.
20 Let me be perfectly clear: Retail investors clearly
21 prefer -- first and foremost -- best price. Speed is but a
22 means to obtain the certainty of the price they see on
23 the screen.

24 And finally, investors are interested in personal choice.
25 Many of our retail clients are investing for their own

1 retirement, their children's education, or to buy a home.
2 They believe that they have the right to choose for
3 themselves, among the various market participants, which market --
4 in their opinion, based on their criteria -- a
5 trade will receive the best execution.

6 The over-the-counter marketplace today provides
7 all these incentives and gives investors exactly what they are
8 looking for, whereas the listed markets, which have a Trade-
9 Through Rule, do not. This is because the Trade-Through Rule today protects
10 best "advertised" price, not best available price. It protects
11 the best displayed price. Our retail clients do not place
12 much value on that, since it is not a tradable quote.

13 This is what our clients are saying, but I believe
14 that actions speak louder than words. I would like to
15 tell you what our clients are actually doing. Ameritrade is
16 an agency broker, meaning that we do not have proprietary
17 trading accounts, and we do not give advice, so we
18 cannot suggest to our clients what to trade or how to trade.
19 The trades they place with us are their own trades,
20 which they themselves direct.

21 What online retail investors are voicing in the marketplace is their
22 preference for one market over another, and they are voting with their
23 pocketbooks. Ameritrade clients today do 74 percent of
24 their transactions on NASDAQ-listed securities. They do
25 only 19 percent on New York Stock Exchange-listed

1 securities, and only 7 percent on American Stock
2 Exchange-listed securities.

3 Why is that? The NASDAQ
4 marketplace gives them what they deem important: firm
5 quotes, transparency of those quotes, transparency and depth
6 of book, and speed of execution, with the highest likelihood of
7 executions at the quoted price or better.

8 That is actual market behavior. Is that
9 market behavior rational?. According to the SEC's
11 own public numbers for May 2004 retail orders of 100 to 2,000
13 shares, in the NASDAQ marketplace, 88 percent of the orders
14 were executed at or better than the
15 quoted price and in only 3 seconds; whereas, on the New York
16 Stock Exchange, only 78 percent of the orders were executed at the
17 quoted price or better and it took an average of 13 seconds.

18 The bottom line is that the NASDAQ marketplace provides tighter spreads
19 and faster executions. Let me clear up something that
20 came up yesterday: There absolutely is, today, "price improvement" among
21 the electronic markets. In fact, using that same SEC data
22 for trades occurring in S&P 100 stocks,
23 the New York Stock Exchange received price improvement for
24 orders only 25 percent of the time, whereas Ameritrade,
25 placing orders

1 through regional exchanges and market makers, received price improvement 37
percent

2 of the time. Let me also say that the majority of our
3 orders are limit orders, so we certainly want to encourage
4 limit orders. Not only are the majority of our
5 clients placing orders on NASDAQ, but they are placing limit orders.

6 Finally, I want to comment on a proposal
7 for a hybrid system of fast and slow quotes that is gaining attention.
8 This is not a panacea for retail
9 investors. Clearly, professional participants in the
10 marketplace will understand and recognize fast from slow
11 quotes. But retail investors will be confused. Seeing both a fast and
12 a slow quote, they will not easily be able to ascertain and
13 distinguish between them. This will just add to the confusion and
14 a perceived lack of integrity in the markets.

15 In addition, the "opt out" for professionals in the hybrid plan will create a
bifurcated market. We will be
16 taking a step backwards by not putting retail on a level
17 playing field with other investors. A bifurcated market also creates
18 the opportunity for professional arbitrage, as those who can opt out begin to trade
between
19 the fast and slow markets -- at the expense of
20 retail investors.

21 In conclusion, if the
22 Trade-Through Rule is maintained or extended, the only way to make it work
23 is through the auto-execution alternative that the
24 SEC proposed, where all markets, all the time, are fast;
25 there is consistency among trades; there is immediate execution for all; and firm

- 1 quotes and personal choice.
- 2 Thank you.
- 3 [The prepared statement of Ms. Esposito follows:]

**INDIVIDUAL INVESTORS WOULD FAVOR MARKET CHANGES,
ACCORDING TO A GALLUP POLL**

Greater than 97 percent of American retail investors would support changes in the rules that govern U.S. equity markets, according to a Gallup poll released Oct. 7, 2004. The poll was commissioned by Ameritrade Holding Corporation (NASDAQ: AMTD).

“Individual investors want a marketplace that is as familiar as the grocery store – a place where they are charged the price on the label, they shop when they’re ready, and they can see who’s ahead of them on line,”

said Joe Moglia, chief executive officer of Ameritrade.

“Adapting the markets to investors’ expectations is the best way to rebuild and fortify investor confidence in U.S. markets.”

The poll, conducted by the Gallup Organization, indicated the following:

- ***Investors want the price they see:*** 97 percent of investors said that it is important to get the exact price they are quoted on a stock; 86 percent said that it is extremely important or very important.
- ***Investors want immediate execution:*** 97 percent of investors said that it is important to complete their purchase or sale of stock as quickly as possible; 79 percent said that it is extremely important or very important.
- ***Investors want equal access:*** Two out of three investors who responded to the question said that all equity markets should be made available to all investors, regardless of whether they are retail or institutional investors (53 percent of all investors).
- ***Investors want full disclosure of fees:*** 80 percent of investors said that providers of market data quotes should be required to publicly disclose the cost of collecting the data.
- ***Investors want fairness – no “stepping ahead:”*** 80 percent of investors said that one penny should be the smallest increment for stock purchases, and 55 percent said that sub-penny quoting should be banned for most stocks.

The Securities and Exchange Commission is currently discussing how to rewrite antiquated securities regulations to accommodate electronic markets, as part of its National Market Structure proposed rule. Ameritrade views the Gallup survey results as strong evidence that retail investors want to see fundamental change to bring greater efficiency and transparency to the process of buying and selling stock.

“What is revealed in this poll is that individual investors want market rules that would disclose the hidden fees on their stock price quotes, and put them on a level playing field with all other investors in the marketplace,”
said Phylis Esposito, Ameritrade chief strategy officer.

Under today’s 30-year-old rules, investors do not always know if they will get the price they are quoted, or if their trades will be delayed. Ameritrade supports regulatory reform that would correct these problems, allowing retail investors to fully benefit from the reduced costs and improved efficiencies that technology has brought to the markets.

The Gallup Survey

The Gallup poll was conducted in July 2004, surveying 1,010 investors, using Gallup’s standard definition of “investor” as an individual having \$10,000 or more of investable assets and representing approximately 40 percent of the U.S. population. The survey has a 95 percent confidence ratio margin of error of +/-3 percent. A complete copy of the poll results and methodology can be found at www.amtd.com.

Ameritrade Holding Corporation

Ameritrade Holding Corporation has a 29-year history of providing investment services to self-directed individuals through its brokerage subsidiaries. Ameritrade develops and provides innovative products and services tailored to meet the varying investing and portfolio management needs of individual investors and institutional distribution partners. A brokerage industry leader, Ameritrade, Inc.¹, a subsidiary of Ameritrade Holding Corporation, was recently recognized as a J.D. Power and Associates Certified Call Center, the first in the financial services industry. For more information, please visit www.amtd.com.

¹ Ameritrade, Inc., member NASD/SIPC

###