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William Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Dear Bill:

Back in the seventies, when both of us were challenging the way Wall Street operated there were two issues of concern to industry members – the Black Box and the CLOB. The Black Box is now a White Box and is considered indispensable to our industry's progress.

The CLOB (Central Limit Order Book) was also viewed as something that might replace Exchanges – maybe even brokers. While most commentators said that a CLOB benefited the public investor, difficult times and an adamant NYSE caused the Commission to abandon the idea.

This change in the Commissions attitude toward a CLOB was noted in Regulation NMS only by a footnote (#29 page 192) which cited the disruptive effect a CLOB might have on the nations markets "at the time" (1979). Complete abandonment of a CLOB came late in 1992 when another footnote, (#30 on page 192) gave as the reason: "The passage of years and the lack of progress on developing a nationwide system for the collection and dissemination of Limit Orders."

In my opinion the Regulation NMS Release must be faulted for having dismissed so casually an issue which played a central role in Congress's concept of a National Market System (NMS).

The Exchange Act Amendments called for 1) a NMS that encourages competition among exchanges and between exchanges and markets other than exchange markets and 2) one that enabled public orders to meet one another without the intervention of a dealer whenever possible.

By definition this requires some sort of Central Limit Order Book.

Shortly after the Act was passed a CLOB was endorsed by a majority of the National Market Advisory Board, a fifteen member board created by Congress with members appointed by the Commission, which met monthly during 1975-77. More interesting, a CLOB received unanimous support from the non industry members of the Board.

The Commission itself, beginning with its white paper in 1972 on a Central Market Place and continuing through a release in 1978 consistently supported a Central Limited Order Book containing both time and price priority.

Surprisingly the Securities Industry Association's (SIA) National Market System Committee chaired by Gus Levy, with 16 members (all members of the NYSE, 8 of whom sat on the NYSE Board) unanimously recommended a Consolidated Limit Order Book as being "the fairest trading mechanism which maximizes the opportunity for orders to meet without intervention of a dealer".

Even Third Market firms, whose business did not cater at all to the non-institutional investor, supported a CLOB because of its role in protecting the small investors limit order!

And more recently, at your April hearings, Mr. Sauter, representing the VanGuard Group of mutual funds said in his opening remarks "We have been consistent supporters of the idea of a Central Limit Order Book". He then went on in his quiet way; "Naturally, all investors want to minimize transaction costs. The way to do that is to create the most liquid market possible. And the way to do that is to provide the incentive to put limit orders in the book. Price time priority does create that incentive".

As you know already, I am greatly concerned that Regulation NMS, and the changes in market structure that one foresees coming out of it, will lead to a single market center for listed stocks.

The establishment of some kind of a central repository for firm quotes including all public limit orders from every market center, would reverse this trend.

At the very least, I believe the Commission should explore the effects of a CLOB on market structure "at this time" in open forum as part of the Regulation NMS ongoing hearings.

Again, with best regards,

Don