ES110480

613

RECEIVED
JAN 19 2005
OFFICE OF THE SECRETARY

Walter E. Lamb and Agnes Lamb
2418 Fortesque Ave.
Oceanside, NY 11572

S7-10-04

William H. Donaldson
S.E.C. Chairman
450 5th St. NW
Washington, DC 20549

Date: January 12, 2005

Re: NYSE Specialists

Dear Mr. Donaldson,

My wife and I have been investors in stocks traded on the NYSE for more than 40 years. We watch the market every day especially when we enter a limit order on the NYSE. We get real-time quotes at home, so we see every bid and asked price and every trade executed.

It's amazing to see how these NYSE specialist play games with the general public. I see them change their price the moment we enter our order. It appears to us that they execute their order before ours, many times leaving our order unfilled for the day. We don't really know for sure what's going on, but we just don't trust them. After all, why are they all millionaires?

We never really trusted these NYSE Specialist or the NYSE itself to monitor the Specialist activity. We believe either the Specialist is too clever to be caught or the employees at the NYSE that are supposed to monitor their activities are either incompetent or elect to let Specialists' improper trading just slide.

We don't even understand why, with all the current technology, there is a need for Specialist system today. There is no Specialist system on the NASDAQ and that seems to operate effectively.

You must do something to clean up this archaic way the NYSE and its Specialist do business and restore confidence with the investing public that the trading on the NYSE is not corrupt.

Thank you,

Walter E. Lamb and Agnes Lamb

SEC may act against NYSE

Sources say exchange to face enforcement action on supervising floor-trading specialists.

January 12, 2005: [illegible] AM EST

WASHINGTON (Reuters) - The Securities and Exchange Commission is preparing to bring an enforcement action against the New York Stock Exchange, possibly in mid-February, for failing to supervise some of its floor-trading specialists, sources familiar with the matter said Tuesday.

The action will come as part of a negotiated settlement of a long-running probe into improper specialist trading, with the SEC also hoping to unveil simultaneously a number of separate agreements with smaller stock exchanges, the sources said.

The American Stock Exchange, the Philadelphia Stock Exchange, the Boston Stock Exchange, the Chicago Stock Exchange and the National Stock Exchange are among regional exchanges discussing related matters with the SEC, the sources said.

Enforcement actions are involved in some of the smaller exchange agreements and the SEC is trying to impose reforms that will apply to all regional exchanges, the sources said.

"There are enforcement actions. They are going to try to do some universals. But there are different sets of facts relating to each exchange and they're going to ask for different kinds of cures," said one source, who asked not to be identified.

Exchange floor specialists buy and sell certain issues and are supposed to step into the market to dampen volatility and add liquidity. But they are sometimes accused of trading for their own accounts ahead of customers, leaving clients with inferior prices and sometimes unfilled orders.

Exchanges have an obligation to supervise the activities of specialists. Failing to do so can result in an SEC sanction. It was unclear if the NYSE would have to pay a monetary fine to the SEC as part of its settlement.

Specialists may face charges

Sources said the SEC is also looking at possibly charging specialist firms active on smaller and regional exchanges -- in both the equities and options markets -- for behavior similar to that seen on the NYSE, the sources said.

"What the SEC intends to do there, although they haven't quite worked it out, is to prosecute the largest offenders," a source said, adding that the SEC wants to leave it to regional exchange regulators to pursue smaller offenders.

The five largest floor-trading specialist firms at the NYSE last March agreed to pay a combined $241.8 million to settle charges that from 1999 to 2003, the firms profited by improperly intervening in customers' trades.

In July, two smaller NYSE specialist firms agreed to pay a total of $5.2 million to settle similar charges. All seven firms neither admitted or denied any wrongdoing, as is customary in settlements with the market-regulating SEC.

Spokesmen for the NYSE, the American Stock Excchange, the Philadelphia Stock Exchange, the Chicago Stock Exchange and the National Stock Exchange declined to comment. Officials at the Boston exchange could not immediately be reached.

An SEC spokesman declined to comment.

The five NYSE firms involved in last year's settlement were Bear Wagner Specialists LLC, Fleet Specialist Inc., LaBranche & Co. Inc. (Research), Spear Leeds & Kellogg Specialists and Van der Moolen Specialists USA (Research). The two smaller firms that settled a few months later were SIG Specialists and Performance Specialist Group.

When the big five firms settled, NYSE Chief Executive John Thain was asked whether the NYSE itself would face SEC action. Citing press reports, he said, "there was an expectation ... that there will be some action on the part of the SEC."

On the SEC's inquiry, NYSE chief regulatory officer Richard Ketchum in November said, "I would like to get it past us." ■

Find this article at:
http://money.cnn.com/2005/01/12/markets/sec_exchange.reut/index.htm