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OFFICE OF THE SECRETARY

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 5th St., NW
Washington, DC 20549

S7-10-04

Dear Chairman Donaldson:

I am writing to express my concern regarding the SEC's proposed Regulation NMS changes.

Regulation NMS will have a significant impact on the way our inter-dealer markets communicate and trade. Specifically, it will affect competition, quote competition, liquidity, transparency and ultimately innovation. Of the two alternatives proposed on December 15, 2004, protecting the best bid and offer in each market center preserves competition in a way that benefits all securities industry participants. The alternative that creates a virtual Consolidated Limit Order Book, or CLOB, a concept debated and rejected previously by Congress and the SEC, would not achieve the goal of speed and liquidity it is intended to address. The CLOB would create a flat structure and homogenous market. Dealers and other participants would have little opportunity to differentiate themselves and therefore stifle innovation and competition.

As it currently stands, U.S. Equity markets are the strongest in the world. The CLOB, as proposed by the SEC would create a fragmented, electronic-only marketplace where markets must chase displayed orders from market to market. In that environment, large orders of stock would be difficult to manage and the price volatility associated would benefit no one. Large institutions and quantitative trading strategy models would rule the market characterized by very small average trade sizes and significant volatility. Investors, both institutional and retail, would suffer. One great competitive advantage of our markets is that institutional and individual investors' orders are intermingled, so everyone gets equal and fair treatment. The CLOB would change all that, and retail investors would most likely pay the price.

Regulation should be enacted to better the markets, making them more liquid and transparent for all parties. It is my concern that the CLOB proposal will have the opposite affect and stifle competition and discourage efficient price discovery. Specifically, the CLOB proposal would undermine the innovation currently underway at The New York Stock Exchange, which is on the verge of implementing its hybrid market. This new "Hybrid" market will offer customers what they have been demanding—the ability to trade electronically (in an expeditious and time efficient manner) while preserving the attributes and strengths of an orderly auction market.

I agree that it is important and necessary to increase the speed of execution on the NYSE and I commend the Commission for its diligence in addressing the current market structure issues. I am also encouraged that the Commission has given thoughtful consideration to the concerns of market participants. We should strive to enhance competition, promote innovation and ultimately strengthen our national securities markets. It is my belief the CLOB proposal is not the system to achieve these measures. The United States has commanded a dominant position in the securities market place and it is the standard by which all other are measured.

It is certain that changes need to occur and it is my strong belief that an incremental change to the NYSE system, namely "Hybrid," is the answer to the critique of speed and transparency. The CLOB has been rejected in the past and should meet a similar fate in the near future.

Sincerely,

Keith A. Gertsen

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