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S7-10-04

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Congress of the United States
House of Representatives
Washington, DC 20515–3001

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The Honorable William H. Donaldson, Chairman
Securities and Exchange Commission
450 5th St NW Rm 6102
Washington, DC 20549-0100

Dear Chairman Donaldson:

I am writing to express my concerns about the SEC's proposed Regulation NMS, which is designed to update and strengthen our nation's securities markets.

While Regulation NMS will have many ramifications, its success or failure will ultimately rest on how it deals with inter-market competition, quote competition, and the balance between the two. Of the two alternatives laid out in the rule as re-proposed on December 15, 2004, protecting the best bid and offer in each market center preserves both types of competition in a way that benefits all securities industry participants. The other alternative creates a virtual Consolidated Limit Order Book, or CLOB, a concept debated and rejected previously by Congress and the SEC. The CLOB would effectively nationalize and homogenize the U.S. Equity markets and stifle innovation.

U.S. Equity markets are the strongest in the world. The CLOB that the SEC has proposed would create a splintered, 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. Instead, those orders would move to private markets or overseas. This would hurt retail investors. 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 pay the price.

The SEC has put forth this proposal at the precise time that competition is transforming the largest equities market in the world. Regulation should promote innovation, not stifle it; yet 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. That market will offer customers what they have been demanding--the ability to trade electronically or through the auction market. The proposed CLOB would eliminate the opportunity for a negotiated trade within the system, and preclude any possibility that the hybrid market will ever become operational.

I applaud the Commission for its diligence in considering these important market structure issues and for proposing one alternative that will promote competition and innovation and ultimately strengthen our national securities markets. It is clear to me the CLOB would damage our market system and harm American investors. The global financial marketplace is one in which the U.S. has, thus far, remained the leader. It is unclear to me why the SEC would want to fix what is not broken, and put the competitiveness of our capital markets at risk by again proposing to create a CLOB. The CLOB was rejected as recently as 2000 and I urge you to reject it again. Thank you for your consideration of my comments.

Sincerely,

Robert E. A

Robert Andrews
Member of Congress

REA:rk