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January 27, 2005

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

Office of Legislative Affairs

57-10-04

Dear Chairman Donaldson:

I am writing to express my concerns about the SEC's proposed Regulation NMS.

- While Regulation NMS will have many ramifications, its success or failure will rest on how it deals with inter-market competition, quote competition, and the balance between the two. Protecting the best bid and offer in each market center preserves both types of competition. The other alternative creates a virtual Consolidated Limit Order Book or CLOB, a concept rejected previously by Congress and the SEC.
- U.S. Equity markets are the strongest in the world. The CLOB 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 and individual customers. The advantage of U.S. markets is that institutional and individual investors' orders are intermingled, so everyone gets equal treatment. The CLOB would change that, and retail investors would suffer.
- Today competition is transforming the largest equities market in the world. Regulation should promote innovation, not stifle it; yet the CLOB would undermine the innovation currently underway at The New York Stock Exchange, which is close to 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 CLOB would eliminate the opportunity for a negotiated trade within the system, and preclude any possibility that the hybrid market will emerge.
- So far, the U.S. has remained the leader in the global financial markets. The SEC should not fix what is not broken, and put the competitiveness of our capital markets with the CLOB. The CLOB was rejected in 2000 and I urge you to reject it again.

Sincerely,

David L. Carey
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Cold Spring Harbor, New York 11724