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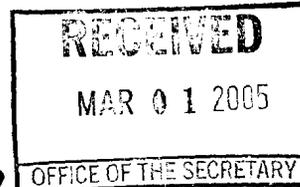
Congress of the United States
House of Representatives

STEVE ISRAEL
Second District, New York

787

January 25, 2005

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



57-10-04

Dear Chairman Donaldson:

I am writing to express my concerns regarding the Securities and Exchange Commission's (SEC) proposed Regulation NMS. Although I appreciate both the importance and complexity of modernizing and strengthening our markets, I believe that this proposal, as currently structured, would undermine their competitiveness.

Any new national market system must seek to protect investors by ensuring they have access to the best price at each market center while also providing for competition between markets. As you are aware, the SEC has proposed two alternatives to the current market structure, one of which maintains this important balance, while the other would require that markets route orders to any displayed limit order in any market center. This would create a virtual Consolidated Limit Order Book (CLOB), a proposal that has been debated and rejected previously, both by Congress and the SEC.

The US equity markets are the strongest in the world, and it is their dynamic nature that keeps them so competitive. In fact, it is the competitive forces of the markets that have ensured improvements in certainty of execution, and best price discovery, while lowering cost of execution and volatility. However, by instituting the CLOB proposal we would abandon this effective, market-driven structure in favor of a one-size-fits-all quasi-governmental institution. This structure removes incentives for markets to compete with each other, and ultimately benefits neither buyers nor sellers.

Of particular concern are the indications that the CLOB would create an all-electronic marketplace where markets must chase displayed orders from market to market. This would result in large orders of stock being nearly impossible to manage, and would drive these orders to private markets or overseas. This would effectively bring an end to a system where the orders of institutional and individual investors are commingled and would hurt small investors.

Hon. William H. Donaldson, Chairman

SEC

January 25, 2004

While I strongly support the efforts of the SEC to modernize our markets, I must oppose the current CLOB proposal. It is my hope that the SEC will eventually choose a method of modernization that protects investors and allows our markets to remain the most competitive and dynamic in the world.

Sincerely,

A handwritten signature in black ink that reads "Steve Israel". The signature is written in a cursive style with a large, stylized "S" and "I".

Steve Israel

Member of Congress