January 13, 2006

Dear SEC:

I am writing with regard to the above-referenced rule submission. This is a truly disturbing proposal that cannot possibly be approved by the Commission. Far from making a case that specialist capital requirements should be reduced, the NYSE has in fact demonstrated (as I discuss in detail below) that, even under current capital requirements, the NYSE specialist system is severely under-capitalised to meet the needs of a crash/severely stressed market.

The NYSE's rule submission is a classic example of "can't see the forest for the trees" reasoning. The proposal is seriously flawed for the following reasons:

1. The NYSE has omitted entirely the most material pieces of information, namely a discussion of the "before" and "after" implications of the proposal in real dollar terms.

2. The current capitalisation of the specialist system is inadequate and the proposed reduction is potentially catastrophic.

3. The NYSE's "risk management" analysis is fundamentally flawed, and is irrelevant to a crash/severely stressed market.

4. The specialist Combination Policy, properly understood, does not impose a marriage "penalty" and in fact is much too conservative.

5. The proposal is entirely premature in light of the radical expansion of specialist dealer activity being proposed as part of the NYSE's controversial "hybrid market."

6. The proposed reduction will make it easier for current specialist organisations to "sell out" at high premiums, and is not really addressed to "new entrants" to the specialist business.

The NYSE Has Omitted Material Information

The NYSE's rule submission is a demonstration of disingenuousness par excellence. Nowhere does the NYSE acknowledge in so many words what it is actually proposing, namely a very significant reduction in specialist capital requirements. Nowhere does the NYSE explain explicitly what the current capitalisation of the specialist system is, and nowhere does the NYSE explain the impact of its proposal, which should be expressed both as a matter of how many dollars would be taken out of the system, and what the percentage decline would amount to.

The NYSE states (Page 10 of the rule submission) that "$1.1 billion of net liquid assets across all specialist organisations would provide a prudent level of capitalization for normal business operations with sufficient reserve in the event of s evere shocks to the market."

Presumably, the NYSE is stating here that the capitalisation of the specialist system will be approximately $1.1 billion should its proposal be approved. But notwithstanding a passing reference (page 9) to current rules imposing "excessively high capital requirements", the NYSE does not indicate exactly what the current capitalisation of the specialist system is, or what exactly is the extent of the proposed reduction.

Newspaper accounts when the NYSE first submitted the proposal (May 2005) indicated that capitalisation of the specialist system would be reduced by a whopping 40 percent. This would mean that current capitalisation of the specialist system is approximately $1.8 billion, and that $700 million would be taken out of the system.

The NYSE needs to be straight-forward and direct here. These figures should have been fairly presented and discussed i n the body of the proposal so that the public may fairly comment. It makes a mockery of the Commission's rule approval process for a commentator to have to piece together material information from newspaper accounts published more than half a year before the proposal is published for comment in the Federal Register.

The NYSE must be made to amend its Federal Register notice so that a discussion of all material financial information is presented in a simple, readily comprehensible format. This matter should not be handled in an NYSE comment letter, as these do not receive the wide, formal distribution of a Federal Register notice.

The Current Capitalisation of the Specialist System Is Seriously Inadequate on Historical Terms, and the Proposed Reduction Is Potentially Catastrophic

The bases upon which the NYSE currently determines specialist capital requirements are fairly set out in the NYSE's proposal,, and I won't repeat them here. Before the 1987 market crash (a term the NYSE twists itself into a pretzel to avoid using, but "crash" it most certainly was), capital requirements were relatively low in absolute dollar terms compared to current figures, apparently a reflection of the fact that specialist income had historically been derived from commissions rather than dealer trading. As those of us with long memories can easily attest, specialists in the pre-1987 crash days often complained of "excessive" capital requirements even back then. It is a classic "time immemorial" complaint.

The 1987 market crash indicated that the specialist system was seriously under-capitalised, and capital requirements were raised. Specialist capital requirements were also raised in the context of a post-1987 phenomenon occurring on the NYSE whereby specialist organisations began rapidly merging with one ano ther. The NYSE adopted its Specialist Combination policy to oversee and manage this process, presumably in full consultation with the SEC staff. As I recall, the Combination Policy was quite controversial, as many observers questioned whether a highly concentrated specialist business, with its magnified risks of financial failure, was truly in the public interest. The Combination Policy attempted to assuage these fears (I can't say it ever fully succeeded) with its seemingly carefully calibrated approach to imposing significant capital requirements with respect to the most actively traded stocks.

One offensive aspect of the NYSE's proposal is the aura of "bait and switch." Having imposed high capital requirements to gain the Commission's and the investing community's acceptance of concentrated risk, the NYSE is suddenly proposing a substantial dismantling of that "financial reassurance" now that specialist combinations have reached their approximate apotheosis (only seven specialist organisations, five behemoths and two midgets).

Determining an "objectively correct" level of specialist system capitalisation is almost certainly an impossible task, but the experience of the 1987 crash provides useful guidance. The current level of capitalisation (which has not been revisited since around the mid -1990s when trading volume was less than half what it is today) derived from the experience of 1987 and concerns about concentrated systemic risk, doubtless provides capitalisation that is at least adequate to meet the needs of "normal" markets, including "normal" market declines. The specialist business, under most market conditions, is highly profitable, as specialists are essentially "buy down, sell up" day traders who flip positions all day long and attempt to be as "flat" as possible by day's end. Specialists do not manage "portfolios" as that term would be conventionally unders tood. Even in "normal" declining markets, the specialist business is often quite profitable, as the volatility associated with typical zig-zags provides plenty of "flip" opportunities.

To say that current levels of capitalisation are at least adequate for "normal" and even moderately unusual market making activity is not at all to say that current capitalisation levels are in any way "excessive." Current capitalisation levels are addressed not simply to a specialist organisation's immediate market making needs (which is all the NYSE proposal really focuses on) but in addition on the need to "shore up" the entire specialist system against the failure of one or more large specialist organisations. Considered from this perspective, current levels of capitalisation are not only not "excessive", they are clearly inadequate.

A singular failure of the NYSE's rule submission is the absence of any discussion whatsoever of a cruc ial consideration in the Combination Policy, the minimisation of risk of failure of the specialist system itself. Rule 123E(b)(2)(ii) is specifically addressed to "minimizing both the potential failure and the negative consequences of any such failure on the specialist system as a whole." In the event of a crash/severely stressed market, investors need to have confidence that the NYSE's market making function can continue to endure. Specialists tell me that the NYSE specialist system, in effect, "self insures" against the failure of a specialist organisation. Should any such organisation fail during a crash, that organisation's stocks are simply reassigned to another specialist organisation, which doubtless will itself itself be under severe financial stress. The NYSE itself has no "reserve fund." As specialist organisations have evolved into behemoths under the Combination Policy, the risks of systemic financial failure have become greatly magnified, much more so than in 1987, when the failure of small organisations would not have brought down the system as a whole.

Thus, given the NYSE's "self insurance" approach, the specialist system itself needs to have a large amount of pre-existing reserve capital in the event of a crash/severely stressed market that may cause one or more large organisations to fail, with the remaining organisations, under strain themselves, having to pick up the slack.

Viewed in this light, the capital requirements of the specialist system can appropriately be analogised to California's strict building codes to make new structures as "earthquake proof" as possible. Contractors squawk all the tie about greatly excessive costs, as the codes provide protection levels that are super-redundant under most conditions. But sound social policy requires that these costs be assumed to protect the public in the unlikely event of a severe earthquake.

The figures supplied by the NYSE suggest that, in relation to the 1987 crash, the specialist system is, even today (much less under the proposed reduction), prepared to withstand a "financial earthquake" of about a 3.0 on the Richter scale. as opposed to what was at least a 7.5 in 1987. Footnote 9 in the NYSE's rule submission is deeply disturbing. The NYSE notes that, just prior to the 1987 crash, the specialist system had net liquid assets of $808 million. The NYSE website indicates that average daily trading volume in 1987 (excluding the crash week) was about 150 million shares per day. In other words, immediately preceding the crash, the ratio of pre-existing net liquid assets to average daily trading volume was slightly greater than 5 to 1. On October 19, 1987, trading volume increased 400 percent to slightly more than 600 million shares, meaning that the ratio of net liquid assets to trading volume had declined from 5 to 1 to 4 t o 3. The result: a close call indeed for the specialist system. Footnote 9 points out that on the close on October 19, 1987 (i) the specialist system on the whole had lost more than half its buying power; (ii) 13 (out of 55, or 24 percent) specialist organisations had no buying power; and (iii) 23 (42 percent) specialist organisations had less than $5 million in buying power. In other words, about two-thirds of the specialist organisations were ether flat broke or within a whisker of it. As I recall, at least one specialist organisation went out of business.

And the situation was truly dire on October 20, 1987. The market opened up, but then went into a tail-spin. At mid-day, it appeared that the entire NYSE market making system was approaching the abyss. The market (almost miraculously) rallied in the afternoon, and the specialist system truly dodged a bullet. But it was all much too close for comfort, which makes the notion of reducin g capital requirements at this point in time seem particularly ludicrous.

Some of the specialist organisations existing in 1987 were doubtless thinly capitalised, but the important learning is that the "self-insured" specialist system, overall, barely survived when it had a pre-existing ratio of net liquid assets to trading volume of 5 to 1, and was faced with a crash ratio of 4 to 3.

The current ratios are shocking/frightening, as average daily trading volume is 1200 percent greater than in 1987 (150 million/1.8 billion), but net liquid assets are only 225 percent greater ($800 million/$1.8 billion). The existing ratio of net liquid assets to average daily trading volume is only 1 to 1, as opposed to 5 to 1 in 1987, when the system was perceived as seriously under-capitalised. Assuming (and it is an extremely conservative assumption) that volume would increase 400 percent in a crash market as it did in 1987, t his would mean trading volume of 7.2 billion shares against $1.8 billion in net liquid assets. The ratio of net liquid assets to crash trading volume would thus be 1 to 4, with respect to a system that barely survived when the ratio was 4 to 3.

It is no exaggeration at all to say that, based on current levels of capitalisation, if a crash started at 9:30, the NYSE specialist system would be out of business by noon. By reducing capitalisation levels, as the NYSE has proposed, the system would be out of business by 10:30 a.m. ("Circuit breakers" may extend these doomsday time periods, but are not likely to save the system. Indeed, inadequate specialist capitalisation would likely exacerbate a crash if the public lost confidence in the ability of the NYSE market to continue to function).

The SEC's interest here is clear. The NYSE is a fundamental linchpin of the world economy, and its market making system must be pre-configured to withstand significant shock, just as buildings in California must be made as "earthquake poof" as possible. Increases in specialist net liquid assets have clearly not kept pace with the explosion in trading volume, and the likely volume in a crash market. Given the NYSE's "self-insurance" approach to maintaining the viability of the specialist system as a whole, specialist capital requirements are clearly not "excessive" when viewed from the perspective of minimising systemic failure in a crash/severely stressed market. Far from allowing the NYSE to reduce capital requirements, the SEC should be insisting that the NYSE raise them, as current levels of capitalisation are clearly inadequate to protect against systemic failure.

The NYSE suggests (footnote 11) disingenuously that it can always raise capital requirements as needed. All well and good, but too late in a market crash (unless the New York Fed is standing by with wheel barrows full of ready money, at a time when the entire financial community will doubtless be "falling out of bed").

Specialist organisations are given unique, monopolistic, highly profitable trading privileges in what is almost certainly the world's most important primary market. It really is not too much to ask in return that the investing community be assured to the maximum extent possible that the specialist system can weather a severe storm.

The NYSE's "Risk Management" Analysis is Fundamentally Flawed and Is Irrelevant to a Crash Market

The NYSE rule submission purports to provide a patina of "sophistication" by referring to a standard risk management technique (value-at-risk, or VaR) as a basis for supplementing basic capital requirements. In addition, the NYSE rule submission purports that its study of market declines from 1998 to 20 04 provides a basis for determining "worst case" market scenarios. The NYSE's analysis is fundamentally flawed with respect to both matters.

VaR is the "flavour of the month" with respect to the securities industry's quest for its Holy Grail, a risk management tool that actually works. I have nothing at all against VaR, and would certainly recommend it to conventional portfolio managers. While specialists do not exactly fit into that category, VaR is certainly a useful tool for them to use for internal, day-to-day management purposes. In fact, I was under the assumption that specialist organisations were already using it, or something similar. NYSE Rule 123E(d) requires specialist organisations to have risk management plans in place, and to have them certified by "nationally recognized management consulting organizations."

But VaR, while useful for internal, day-to-day management purposes, is irrelev ant to specialist market making activities during a crash market, or for pre-positioning specialist organisations from a capital requirements standpoint prior to a crash. VaR deals in rational assumptions based on historical trading models and relationships among trading instruments, and purports to set trading limits and assess predictable market risk over what is usually a very compressed timeline, typically one day.

A universally acknowledged limitation of VaR is that it does not address "event risk" (e.g., a crash/severely stressed market based on events rather than historical trading models and relationships among trading instruments). This limitation is hardly unique to VaR. Long-Term Capital Management is just the most recent, prominent example of how events (in that case, an unanticipated currency re-valuation) can unwind even the most brilliantly constructed risk management model.

The inherent limitation of VaR is really the crux of the matter.Specialists, unlike every other market participant, are under an affirmative obligation to continue to trade during a market crash to attempt to maintain a fair and orderly market. While specialists do not have to buy every single share of stock that is for sale, they must trade very proactively (unless, of course, trading is halted) in the absence of other buying interest. The "rational assumptions" underlying VaR (or comparable tools) are out the window for specialists in a crash market. The affirmative obligation precludes pre-determined trading limits, conventional stress tests become irrelevant, and (as per the 1987 crash) model-driven risk offsets become unavailable. ("Portfolio insurance", the flavour of the month in pre-crash 1987, proved to be largely meaningless in a crash market).

No "rational", model-driven market participant would have purchased the amount of stock acquired by specialists in 1987. But they were required to do so under the affirmative obligation, a singular strength of the NYSE market and one relied on by the investing community. And this is a serious legal obligation. As I recall, the NYSE had to reassign about a dozen stocks because of inadequate specialist performance under the affirmative obligation.

VaR is fine as a "calm seas"/ normal decline internal management tool. But it is ludicrous to use it as a tool for determining pre-existing capital requirements that will have to be brought to bear on affirmative obligation-driven trading in a crash/severely stressed market. The only meaningful public protection here against specialist systemic failure is a very large, pre-existing capital reserve with ratios that are, at a bare minimum, comparable to those existing in 1987, but preferably stronger.

The NYSE's "worst case" market scenario reasoning is similarly flawed in the most fundamental sense. The NYSE has analysed market declines over a six-year period (1998-2004) and determined that, on average, specialists purchase $75 million in stock for each 1 percent market decline. This is a classic example of something that may be entirely accurate on its own terms, but is absolutely wrong-headed when considered in a broader context.

According to the NYSE, based on this 1 percent/$75 million "evidence", the specialist system would be adequately capitalised, even under the proposed reduction, if the market were to experience a straight 30 percent decline (the point at which the "circuit breaker" shuts down the market).

The problem with the NYSE's analysis is obvious: the trading patterns in the "normal" market declines the NYSE studied are be fundamentally different from the trading pattern in a crash market. Declines (and advances) are a "normal" aspect of trading. A straight, uninterrup ted "normal" decline is virtually unheard of. Trading will typically zig-zag as overall prices decline, and while the specialist's dealer activity will increase somewhat, there will certainly be a good deal of other buying interest in the market, even if a bit less than usual. In a typical zig-zag decline, the specialist's trading is not necessarily all that risky, as moderate volatility as the market declines may well result in increased dealer profits. (The NYSE does no discuss the extent of specialist selling during the declines it studied. In typical zig-zag declines, the specialist will attempt to buy on a zig down, and sell on a zag up). But be that as it may. Even if under the 1 percent/$75 million model there is a degree of increased risk and some erosion of net liquid assets, this is not the "formula" for trading in a crash market.

In a crash market (unlike a "normal" decline), there will be very little, if any, other buying interest. Specialists will thus have to purchase much more than $75 million for each 1 percent market decline. And, based on the 1987 experience, there will be much heavier imbalance volume for the specialist to have to trade against than the volume in the "normal" declines studied by the NYSE, meaing that specialists will be assuming much larger positions, with significantly fewer opportunities to trade out of them.

And the NYSE's model assumes a consistent 1 percent/$75 million pattern for each percentage point decline, which is patently absurd. In a crash market, there will almost certainly be an "avalanche effect." As the market declines, sell pressure will intensify, placing ever-increasing demands on the specialist's capital. The NYSE projects a relatively benign impact on specialist net liquid assets even with a 30 percent decline. The NYSE's conclusion here is not surprising, given its flawed assumptions. The declines it studied were not risky in the same way that a crash market is risky. In fact, it would not surprise me if some of the declines studied by the NYSE were in fact profitable for specialists. However, the crash market experience of 1987 (with substantially lower volume, but almost as much in pre-existing net liquid assets as the NYSE is proposing) dictates exactly the opposite conclusion: the specialist system lost more than 50 percent of its net liquid assets after a 22 percent decline on October 19, 1987, and barely survived the next day.

There is no nice way to say this: the NYSE's proposal to reduce specialist capitalisation is a sure-fire prescription for disaster.

There Is No Marriage "Penalty"

Under the NYSE's Specialist Combination Policy, when two specialist organisations merge, the resulting specialist organisation must maintain cap ital at least equal to the total capitalisation of each pre-merger organisation. The NYSE chooses to term this a "marriage penalty" because the resulting total may be greater than that imposed on an organisation that had simply grown organically and not by merger. In footnote 4 (page 6), the NYSE notes that, as a result of the "marriage penalty", the current capitalisation of the specialist system is the same as it was in 2000 (prior to 25 specialist organisations having merged with other organisations).

In the NYSE's view, the "marriage penalty" is inappropriate in that it does not recognise the "benefits"of specialist organisation consolidation, and contends (page 6) that "the incremental risk assumed may not be commensurate with the amount of net liquid assets required to be maintained. The current net liquid assets requirement for such specialist organizations is based neither upon the amount of risk a specialist organisation is taking nor upon the dollar value or volatility of its portfolio."

The NYSE has clearly mischaracterised what the Combination Policy is seeking to achieve. There is no "penalty" imposed in the sense of any additional requirement being added. The Combination Policy simply (and thankfully) precludes any reduction in the overall capitalisation of the specialist system, in line with the Policy's emphasis on minimising systemic risk, as discussed above.

There are clearly benefits when specialist organisations merge, principally of the "economies of scale" variety. But the Combination Policy has also recognised increased systemic risk of catastrophic financial failure as a result of the specialist business becoming so highly concentrated. Simply put, the failure of a large newly-merged specialist organisation would place a much greater strain on the capitalisation of the specialist system than the failure, separately, of either of the organisations involved in the merger. Suppose, for example, organisations A and B merge to form organisation C. In a crash market, "bad" positions in stocks formerly assigned to organisation A may result in the failure of organisation C. Absent the merger, the remaining specialist organisations would only have to "pick up the slack" for organisation A's stocks. Post merger, the remaining organisations, under huge financial pressure themselves, have to "pick up the slack" for the much larger organisation C. Presumably, the possibility of such occurrences as this was what motivated the NYSE (and the Commission) to insist that there be no reduction in the capitalisation of the specialist system when organisations merge, as a safeguard against the magnified effect of financial failure and the tremendous burden any such failure would inflict upon the rest of the "self-insured" specialist system.

Viewed in this light, the notion of a "penalty" is rid iculous. There is obviously increased systemic risk when specialist organisations merge, and the NYSE's emphasis on an organisation's immediate "portfolio management" in calm seas/normal decline markets is seriously misplaced in light of the broader public policy concerns at the heart of the Combination Policy. If anything, the Combination Policy is too conservative in this regard, particularly since specialist system capitalisation has not kept pace with the substantial increase in trading volume, as discussed above.

Any Consideration of Reduced Specialist Capital Requirements Is Premature in Light of the NYSE's Pending "Hybrid Market" Proposal

One would have thought, in the wake of the recent specialist trading scandal, that the NYSE would be taking a hard line with respect to regulating specialists. But, in fact, exactly the opposite is taking place, notwithstanding whatever new lit tle "tweaks" the NYSE may be putting into its surveillance systems. The NYSE's new management apparently takes no responsibility for the scandal, but needs the support of specialists, its key floor constituency, to make a go of the "hybrid market." It is hardly a secret that the "hybrid market" is quite controversial on the NYSE trading floor, and the NYSE seems hell-bent on accommodating the specialist community's "wish list" on the proverbial silver platter in return for their support.

In its "hybrid market" proposal (SR-NYSE-2004-05), the NYSE is proposing to permit specialists to compete directly with public orders, a practice the NYSE has acknowledged is prohibited by NYSE Rule 108. When I and other commentators pointed this out, the NYSE did an "end run" around the Commission's rule approval procedures by disseminating an Information Memo to its members proclaiming that specialist competition with public orders was permissible under a "longst anding interpretation" of Rule 108 which had never before been published or made known to NYSE constituents or the public, and which flies in the face of the simple, NYSE-acknowledged prohibition stated in the rule. The NYSE submitted this Information Memo to the Commission for approval and has not received it to date, but nonetheless the NYSE issued the Information

Memo anyway. The NYSE is clearly operating outside the law here in its accommodation of specialist self-interest.

The NYSE is also proposing in its "hybrid market" to permit specialists to engage in "algorithmic" trading, which I and other commentators have pointed out effectively gives the specialist (and only the specialist) exclusive, insider trading privileges, in a "heads I win, tails you lose manner", with respect to a great deal of the NYSE's systemic order flow. Although the "algorithmic" proposal flies in the face of the negative obligation (and a host of other regulatio ns), the NYSE has not proposed to amend any of its rules which otherwise clearly prohibit such conduct.

And if the ability to compete directly with the public and engage in exclusive, systemic insider trading is not enough, the NYSE is now proposing another "wish list" item, a reduction in specialist capital requirements. So let's get this straight: the NYSE is simultaneously proposing both to radically expand the scope of dealer trading, and to substantially reduce dealer capital requirements..

(Let us pause - in awe - to admire the NYSE's sheer chutzpah!!)

I cannot imagine that the Commission will approve the truly egregious specialist "hybrid market" proposals. (The Commission has to date not approved the bogus Rule 108 Information Memo, and the Commission refused to permit "algorithmic" trading in the "hybrid market" pilot program). But it is clear that the"hybrid market", in whatever its ultimate form, may transform the dynamics of trading on the NYSE. At a minimum, reducing specialist capital requirements at this time is absurdly premature, given the uncertain nature of what role (reduced or expanded) specialists will need to play. Common sense dictates that the NYSE and the SEC need several years experience with the actual "hybrid market" before making a prudent assessment of appropriate specialist system capitalisation. An even wiser course, though, to protect the public interest in the interim, would be to increase specialist capital requirements, given the significant disconnect between static capital requirements and rapidly increasing trading volume.

The SEC Should Not Reduce Capital Requirements to Facilitate a "Fire Sale" of Specialist Organisations

In a rule submission filled with disingenuous statements, perhaps the most disingenuous of all is the N YSE's claim that reducing specialist capital requirements may "encourage new entrants" into the specialist business. What the NYSE really means is the flip side of that coin: current capital requirements may make it more difficult for existing specialist organisations to sell out.

Capital requirements were no disincentive whatsoever at the height of the market when merger mania was at its peak. But the market has cooled, as specialist profitability has declined a bit from its former obscene levels, but the specialist business is still the most consistently profitable business in the securities industry. Nonetheless, as anyone attuned to the NYSE floor will readily attest (notwithstanding pro forma denials), every specialist organisation is for sale at the "right price." The "right price" is the sticky wicket: having bought in at the top of the market, specialist organisations are reputed to be seeking somewhat unrealistic profit multiples in the curr ent market. A reduction in capital requirements, however, makes it easier for a specialist organisation to obtain its selling price, while reducing the overall financial burden on an acquirer. The specialist mind-set is simple: instead of reducing sale price, reduce the capital requirements. (The real public interest answer is the opposite, of course). Regardless of what the credulous NYSE staff may assert, this is a big part of the specialist community's motivation in its aggressive lobbying for reduced capital requirements.

It is obvious that the last thing the NYSE or the SEC need to "encourage" is the entry into the specialist business of organisations attracted by reduced capital requirements, when the current level of capitalisation of the specialist system as a whole is inadequate by historical standards.

Conclusion

The NYSE's Specialist Combi nation Review Policy has always struck most observers as a reasonable approach to the question of increased systemic risk resulting from a highly concentrated specialist business. But the NYSE and the SEC need to take a hard look at specialist capitalisation in relation to exploding trading volume, and what that would mean in a crash market. The Commission cannot be perceived as being "asleep at the switch" in this regard, as a crash would be truly catastrophic, given the inattention regulators have been paying to this issue in recent years. The SEC staff need to begin a dialogue with the NYSE as to raising capital levels commensurate with the degree of systemic risk in today's markets.

Sincerely yours,

George Rutherfurd
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