United States Senate

WASHINGTON, DC 20510

April, 5, 2005

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

Dear Chairman Donaldson:

We write to you to urge the Commission to take a cautious and pragmatic approach before adopting major changes to rules governing the structure of the equity markets. In a March 9, 2005 hearing where you appeared before the Senate Banking Committee, you emphasized the need to take action on Regulation NMS now. We agree that the Commission should take timely action on several market structure issues impacting the quality and efficiency of the U.S. equity markets; however, we urge the Commission to move forward with any new regulation in a cautious and incremental manner as a way to help mitigate unintended consequences.

The U.S. capital markets are vital to the continued growth of the economy. Efficient, liquid and fair markets serve to facilitate the capital formation process necessary for the growth of companies of all sizes. Such markets ultimately benefit investors, listed companies, and the economy as a whole, so it is important that any regulatory changes to the structure of the markets be made cautiously.

So long as bids and offers are made available to investors on a timely and continuous basis, and investors have ready access to competing market centers, the government need not – and should not – deprive investors of the freedom to choose among markets. New mandates should be carefully considered to ensure that investors receive significant tangible benefits.

While we agree with the Commission that our national market system is in need of change and modernization, we do not believe that there is yet consensus on the appropriate course of action. Indeed, it is clear from the many comment letters submitted on Regulation NMS that there are several possible courses of action that deserve further study. For example, some favor extending a trade through rule to all markets, while others provide significant reasons for not doing so. Some advocate a top-of-book approach trade-through rule, while others emphasize the need for a depth-of-book approach, or other more incremental approaches. We note that the Commission and a number of leading experts on capital market operations hold strong views supporting different alternatives. Because of this lack of consensus, and because any new such regulation could be a significant departure from the current regulatory framework for the already efficient U.S. capital markets, it is all the more important that the Commission take more time to study the serious policy and practical implications involved, and act only when there is a real consensus on an approach.

It is not too late for the Commission to continue to develop a more consensus-based alternative to Regulation NMS, rather than forcing such divisive mandates with so many experts unconvinced of the benefits. Otherwise it may prove appropriate to have the Senate Banking Committee examine this issue, to perhaps find a better way to address the Commission's goals without burdening our national market system with a one-size fits all cookie cutter approach.

Sincerely,