

**OPENING STATEMENT
CONGRESSMAN PETER T. KING
before the
HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON
CAPITAL MARKETS**

“The SEC’s Market Structure Proposal: Will it Enhance Competition?”

February 15, 2005

Thank you, Chairman Baker. I appreciate the opportunity to comment on the SEC’s latest market structure proposal.

Today’s hearing builds upon previous inquiries by this subcommittee into of the overall soundness of our capital markets. Regulations issued by the SEC, specifically Reg NMS, have the potential to significantly alter the U.S. equities market structure.

On December 15, 2004, the SEC re-proposed Regulation NMS (National Market Structure) with two alternatives. The first, which I support, is the best Bid and Offer (BBO) alternative which preserves intermarket competition. Protecting the best prices in each market encourages intra-market and inter-market competition which, in turn, attracts the most aggressive orders. This competition within and between markets create low transaction costs and equal protection and choice for small and large investors alike.

The second proposal, which concerns me, is the Voluntary Depth Alternative. This alternative shares many of the characteristics, and problems, of a Consolidated Limit Order Book (CLOB), a proposal conceived in the 1970s and rejected by the Congress and SEC in 2000. This proposed alternative would turn our market centers into mindless order routers. It has the potential to nationalize the U.S. equity markets and remove any incentive for market competition.

Investors in U.S. listed stocks benefit from competition between markets and from efforts made to ensure the best price of a particular transaction. As a result, spreads are among the tightest in the world, and transaction costs are among the lowest. In addition, investors can choose which type of execution they prefer based on particular circumstances or strategy (*i.e. electronic vs. auction markets*).

I have serious reservations on implementing a 100 percent computer-based market system which eliminates human judgment at the point of sale. Our capital markets should be more than order routers because those orders are more than numbers – they’re customers with individual needs and goals. That is why the human element is so important throughout the day, and particularly during times of market duress. Specialist and floor brokers offer judgment and expertise in everyday trading. Those skills benefit large mutual fund transactions as well as the 100 shares of IBM that you or I may be interested in purchasing.

I applaud the Commission for its diligence in considering these important market structure issues, and for offering an alternative that promotes competition and innovation. However, I believe the Voluntary Depth Alternative would have damaging effects on our markets and investors. I look forward to the testimony from our distinguished panel of witness on these proposals.

Thank you, Mr. Chairman.