American Stock Exchange

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Ralph S Saul
President

February 12, 1971

Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

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FEB 16 1971

Attention: Mr. Orval L. DuBois, Secretary

Dear Sir:

On October 9, 1970, the Exchange wrote the Commission with respect to fundamental procedural and policy questions relating to the decision of the National Association of Securities Dealers (NASD) to permit an Automated Quotation System (NASDAQ) to accept quotations for securities listed on national securities exchanges.

In a letter dated January 6, 1971, responding to our letter of October 9, 1970, the Commission stated that the NASD had decided "to exclude exchange listed securities from that system (NASDAQ) at startup, pending further study of 'possible technical, operational and regulatory problems involved.' "

THE WALL STREET JOURNAL of January 21, 1971 reported that the governing board of the NASD has scheduled a special meeting on March 13 to vote on the question of whether exchange-listed stocks should be included on a test basis in its automated quotation system for over-the-counter securities.

The Exchange is concerned that this issue of paramount importance to both public investors and the primary marketplace they use may be decided -- if THE WALL STREET JOURNAL article is accurate -- on a limited test and on the basis of criteria, tests and evaluations about which neither the public, the Exchange nor the Commission have any information. Equally important, the Exchange, as a self-regulatory body whose market and obligations may be most affected by the inclusion of its listed stocks in NASDAQ, may not have the opportunity to participate in or formally comment on this matter involving important public policy considerations.

As we stated in our letter of October 9, the Exchange believes the key questions that must be considered and resolved before exchange-listed stocks are included in NASDAQ are the following:

1. Will NASDAQ distort or undermine the public pricing mechanism on which primary exchange markets are founded?

2. What impact will NASDAQ have on the ability of the specialist system to maintain fair and orderly public markets?

3. Will NASDAQ place additional operational burdens on member firms in connection with the execution, clearance, settlement and processing of exchange-listed stocks resulting in less effective service to public investors?

The Exchange also finds merit in some of the questions raised by the NASD in its letter of October 22, 1970, informing the Commission that it believed that listed securities should not be included in the system at startup. The NASD noted at that time:

> "It appears to us now that the system, the industry, and the public would be better served if it were definitely known that the Association did not intend to entertain requests for quotations for listed securities in the system at this time. Numerous reasons for this position exist.
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> "First, the NASDAQ system has been developed over several years at great expense and will be one of the largest real time systems to have been installed for any industry. At startup it will undoubtedly experience technical problems as well as difficulty in operation and regulation. The inclusion of listed stocks would add to this burden.

> "Second is the possible effect on exchange markets. Since a third market is built around and based upon a primary exchange market, its expansion could detract from the exchange market to the point where not only the exchange market is damaged, but to the point where the third market itself would no longer be viable.
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> "Third, and quite important, is the creation of investor confusion as a result of receipt of different price and volume information as to the same security. In addition, the New York Stock Exchange tape shows a last sale whereas NASDAQ initially will show only bid and asked prices. A misleading impression could be created that the third market quotes represented a market equivalent to that of an exchange central market.
>
> "Fourth is the diversion from one of our original purposes which was to fulfill a very real need for current quotations and accurate volume and statistical data for over-the-counter companies. The listed companies now enjoy these benefits and, in fact, could possibly be harmed by the confusion referred to in point three.
>
> "Fifth is enforcement of dual surveillance, volume reporting, issuer disclosure requirements, and related detection and control techniques which would be costly and confusing and could result in disruption of the established self-regulatory patterns.".

While the Exchange regrets responding to a possibility mentioned in a newspaper article rather than to a formal notice, we are sufficiently concerned to raise this matter directly with the Commission.

The Exchange believes that if inclusion of listed securities in the NASDAQ system should generate a substantially enlarged dealer market, operating at the same time as the Exchange's public agency market, the possible impact on the public and the Exchange market could have extremely far-reaching consequences. The Exchange is not, of course, in a position to predict how far the chain of consequences might extend, but we think the Commission shares our concern over any threat to the depth and continuity of the public's central market and the Exchange's ability to provide effective regulation, enforce timely disclosure standards and perform other services which help safeguard public investors and issuers of listed securities.

For these reasons, we urge the Commission itself, in accordance with its statutory authority and responsibility, to play the major role in developing and evaluating any tests that will be undertaken to decide the question of whether the public interest will be served by the inclusion of listed stocks in NASDAQ. Otherwise, major changes may substantially alter the public markets before the Commission has an opportunity to evaluate and act upon the policy questions involved. Moreover, we believe that all self-regulatory bodies whose primary markets may be affected should be consulted concerning the possible tests that may be designed, the analysis that may be done, and the resolution of this matter. In this connection, the American Stock Exchange offers its cooperation and assistance to the Commission.

The Exchange requests the Commission to give this matter its most serious consideration. We believe that the future structure of the nation's securities markets and their ability to serve millions of individual investors is at stake.

We appreciate your consideration of the matters raised in this letter and look forward to hearing from the Commission.

Sincerely,

Ralph Saul

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NARA-CP
RG 266 UD-UP Entry 1
Subj. Files 34-81
Box 71 Folder "National Association of Securities Dealers, vol 17"