



NEWS

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(202) 755-4846



FOR RELEASE: September 27, 1976

76-9

COMMISSION GIVES PRELIMINARY VIEW ON NASD DUAL MARKET MAKING PROPOSAL

The Commission has advised the NASD that, in principle, an options program along the lines discussed in the NASD's analysis, submitted to the Commission in a May 14 memorandum, would be consistent with the Securities Exchange Act of 1934 and that, in an environment of vigorous competitive market making, it would be appropriate to permit market makers, if they choose, to make markets in both options and the underlying securities. In that connection, the Commission's Division of Market Regulation and the Directorate of Economic and Policy Planning are developing a program to analyze various aspects of the functioning of a dual market making system and are formulating procedures for the surveillance of that system.

The text of the letter is attached.



SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

September 24, 1976

Mr. Gordon S. Macklin
President
National Association of
Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D. C. 20006

Dear Mr. Macklin:

The Commission has reviewed the NASD's memorandum of May 14, 1976, analyzing the issues relating to dual market making in options and their underlying stocks on NASDAQ. Because of the costs of developing an options program along the lines discussed in the NASD's analysis, we understand that you wanted a preliminary view from the Commission.

The Commission believes that, in principle, an options program along the lines discussed in the NASD's analysis would be consistent with the Securities Exchange Act of 1934 and that, in an environment of vigorous competitive market making, it would be appropriate to permit marketmakers, if they choose, to make markets in both the options and the underlying securities. In reaching that conclusion, the Commission recognized that the market operated through the NASDAQ system is relatively free of anti-competitive restraints and should therefore provide an opportunity to test the extent to which competition can be an effective regulator of a unified market for options and their underlying securities.

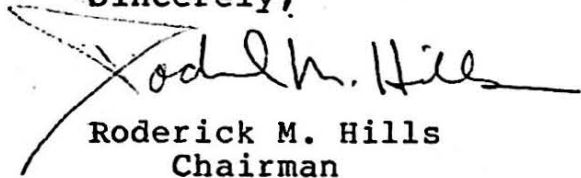
We recognize that a substantial amount of work will still be required to implement your proposal. In that connection, the Commission's Directorate of Economic and Policy Planning is developing a program to analyze various aspects of the functioning of a dual market making system and is formulating procedures for the surveillance of that system; it will need your cooperation in developing

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the necessary data base. In addition, the Division of Enforcement would like to discuss various questions, including surveillance matters, with the NASD staff. The Division of Market Regulation will coordinate their inquiries in connection with the processing of the necessary rule changes and will keep us advised of the progress being made on implementing your proposal.

We wish, of course, to emphasize that the environment in which dual trading may be permitted is of concern to the Commission. We wish to be certain that that environment provides for appropriate regulatory safeguards before the Commission approves the commencement of such trading.

Sincerely,


Roderick M. Hills
Chairman

F.R.Snodgrass/kk
9/24/76