

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

388 SEVENTEENTH STREET N. W. WASHINGTON, D. C. 20006

October 22, 1970

The Honorable Hamer H. Budge
Chairman
Securities and Exchange Commission
500 North Capitol Street, N. W.
Washington, D. C. 20549

Re: NASDAQ

Dear Chairman Budge:

As you are aware there has been considerable concern expressed recently that the introduction of NASDAQ with the inclusion of listed securities will create investor confusion and lead to the dilution of the effectiveness of exchange markets. The Association's Board of Governors from the outset had determined that listed securities should not be included in the NASDAQ system. It was only after lengthy conferences with the Commission's staff that the Association determined to amend its proposed By-Law pertaining to NASDAQ so that listed securities could be included if they met the qualifications for authorization. This By-Law was adopted in late 1968 primarily because the Board of Governors believed that the Commission would disapprove it should it not include listed securities.

The presently effective Schedule D to Article XVI of the By-Laws states that listed securities are "eligible" for authorization in the system. Eligible securities may be quoted if they meet the requirements for an "authorized" security set forth in the Schedule. In addition, the Schedule provides that the Association may, should it desire, make exceptions to or insist upon additional or more stringent standards for authorization in situations where it is deemed appropriate. Thus the Association could refuse to accept a request to insert quotations for a given listed security into the system.

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In compiling a listing of "eligible" securities, primarily securities of issuers reporting under the provision of Section 12 of the 1934 Act, we received requests from only five potential market makers in respect to approximately 34 listed issues. In no instance did more than one market maker express an intention to make a market in the same security. Thus, to date no listed security would qualify for authorization in the system.

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.

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.

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.


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For these reasons we believe that listed securities should not be included in the system at startup. We propose that experience be obtained with the operation of NASDAQ in the over-the-counter securities for which the system was designed. Our thinking is that within the next twelve months technical improvements in the system plus our experience and studies of the problems will place us in a position to make a definitive judgment as to inclusion of listed stocks. The institutional study now in progress should be of inestimable value in reaching meaningful solutions to these problems.

Since investors will not rely upon NASDAQ for data related to listed securities and because over-the-counter execution of orders in listed securities can continue as at present the delay will cause no detriment to those who trade listed securities over-the-counter.

Since implementation of the system will commence very shortly, we would appreciate your prompt comments upon our proposal.

Very truly yours,


Gordon S. Macklin
President

NARA-CP

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Subj Files 34-81

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