

March 11, 1975

Mr. James J. Needham, Chairman of the Board
New York Stock Exchange, Inc.
Eleven Wall Street
New York, New York 10005

Dear Mr. Needham:

As you are aware, the Commission, on February 2, 1972, in its statement on the Future Structure of the Securities Markets, announced certain regulatory initiatives it intended to effect to assist in the evolution towards a central market system for listed securities.¹ This statement was based on a number of years of hearings and special studies² and on the data and testimony submitted therein, as well as on the Commission's experience gained through the years of administering the Federal securities laws.

As "an essential step toward formation of a central market system," the Commission in its Policy Statement on the Structure of a Central Market System called for the "[i]mplementation of a nationwide disclosure or market information system to make universally available price and volume in all markets and quotations from all market makers."³ The first steps in the development of such a system have already been taken. The Commission has adopted Rule 17a-15 under the Securities Exchange Act of 1934 (the "Act"), governing the reporting of market information on transactions in listed securities,⁴ and has declared effective pursuant to that Rule a joint plan governing the reporting of last sale information on a consolidated basis.⁵ Pursuant to

¹ Securities and Exchange Commission, Statement on the Future Structure of the Securities Markets 7 (1972) (hereinafter cited as Market Structure Statement). The Commission first endorsed the concept of a central market system in the letter of transmittal accompanying the Institutional Investor Study, March 10, 1971.

² See, e.g., In the Matter of the Structure, Operation and Regulation of the Securities Markets, Securities and Exchange Commission File No. 4-147; Securities and Exchange Commission Institutional Investor Study Report, H. R. Doc. No. 92-64, 92d Cong., 1st Sess. (1971).

³ Market Structure Statement, *supra* note 1, at 8-9. This position was reaffirmed by the Commission in 1973 in its Policy Statement on the Structure of a Central Market System (hereinafter cited as Policy Statement).

⁴ Securities Exchange Act Release No. 9850 (November 8, 1972).

⁵ Securities Exchange Act Release No. 10787 (May 10, 1974).

that plan, a pilot phase of a consolidated last sale reporting system began on October 18, 1974 and work is proceeding toward the full implementation of that system.

As you are also aware, the Commission republished for public comment proposed Rule 17a-14 under the Act which provides for the reporting of all bids and offers in listed securities by requiring national securities exchanges, national securities associations, and broker-dealers that are not members of any such organizations to make quotations in such securities available on a real-time, current and continuing basis in accordance with the terms and provisions of a plan filed with and declared effective by the Commission.⁶ The Commission is deferring any further consideration of proposed Rule 17a-14, however, until it has had an opportunity to observe the effects of the action discussed below.

The Commission has determined that quotation information, such as that currently provided by some exchanges to their members, is essential to broker-dealers, whether members or not, in discharging their duty of reasonable diligence in the execution of customers' orders. A broker-dealer that is prohibited from access to that information is severely disadvantaged thereby. In addition, quotation information is of significant value to the market place as a whole insofar as a quotation reflects the considered judgment of a market professional as to various factors affecting the market, including the current price levels and size of buying and selling interest. Thus, restrictions on dissemination of that information detract from the efficiency of the market place in reflecting all available fundamental and market information respecting an issuer's securities. Finally, quotation information is of considerable value to investors, both individual and institutional, in determining the best market for execution and in understanding the market forces at work at any given time.

For these reasons, among others, the Commission believes that it is necessary and appropriate for the protection of investors, to ensure fair dealing in securities traded upon national securities exchanges, and to ensure the fair administration of such exchanges, that the rules and practices of such exchanges that restrict, are interpreted to restrict or have the effect of restricting, access to or use of such quotation information as is currently or may be in the future disseminated by such exchanges to any quotation vendor (*i.e.*, any person, other than a market maker or specialist, who is engaged in the business of disseminating, on a real-time or current and continuing basis, quotations for listed securities, whether distributed through an electronic communications network or displayed on a terminal or other device or otherwise) should be eliminated.

⁶ Securities Exchange Act Release No. 10969 (August 14, 1974).

Accordingly, the Commission hereby formally requests, pursuant to the authority vested in it under the Securities Exchange Act of 1934, and particularly Sections 2, 6, 10, 11, 17, 19 and 23 thereof,⁷ that you effect changes in the rules and practices of your exchange to eliminate those which restrict, are interpreted to restrict or have the effect of restricting, access to or use of such quotation information as is currently, or may be in the future, disseminated by your exchange to any quotation vendor, with such changes to be effective on or before May 1, 1975.⁸

Because we believe that the interests of public investors require the prompt implementation of the above-described rule and/or practice changes, we request that your Board of Directors approve the requested changes not later than April 11, 1975, with such changes to become effective, after appropriate exchange procedures, not later than May 1, 1975. If the boards of directors of all the national securities exchanges registered with the Commission do not take such action on or before April 11, 1975, the Commission will commence appropriate proceedings promptly to determine whether it should exercise its authority to alter or supplement the rules and practices of exchanges in the manner described above. In that event, the Commission will afford you and other interested persons an opportunity to submit views, data and arguments in order to facilitate the Commission's consideration of whether to exercise its authority in this matter and whether to exercise it in the manner described above. The procedures for that purpose would be specified prior to the commencement of any such proceeding.

For the Commission.

Sincerely,

Ray Garrett, Jr.
Chairman

⁷ 15 U.S.C. §§78b, f, j, k, q, s, w.

⁸ The Commission does not view as a restriction reasonable charges for providing access to, or permitting use of, quotation information.