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March 17, 1977

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

Dear Sirs:

Enclosed is a copy of a letter that the Board sent to the National Market Association ("NMA") on March 17, 1977, following a presentation by the NMA on March 14. Our letter encourages the NMA to continue its efforts but expresses the Board's inability to evaluate progress to date and makes certain requests and comments in this regard.

On January 28, 1977, we wrote the Commission on the subject of a composite limit order book ("CLOB"). In our letter we stated:

“The Board judged that the NMA within six months from its inception in September 1976, should be able to analyze alternatives to a composite book as well as agree upon a course of action.”

It now' appears that the NMA has not been able to get as far as we had hoped in that period and it will apparently take at least another month or two before we will be able to advise the Commission as to whether the NMA has proposed a suitable alternative to a CLOB as described in our letter. In the meantime, the majority adheres to the majority conclusions expressed at pages 4 to 6 of our letter, including the recommendation “that the Commission pursue its analysis and its decision-making process with respect to a composite book while the industry efforts are proceeding.”

On February 25, 1977, we wrote the Commission on the subject of off-board trading, expressing our tentative general conclusions and stating that we expected to elaborate on these views by May 1, 1977, by which time we would be in a position to evaluate the outcome of the NMA's efforts. We will still make every effort to express our further views by that date, with the benefit of additional reports that we hope to receive from the NMA as to its progress in the meantime.

Respectfully submitted,

NATIONAL MARKET ADVISORY BOARD

By: John J. Scanlon, Chairman

March 17, 1977

Mr. Edward I. O'Brien
President
Securities Industry Association
20 Broad Street
New York, New York 10005

Dear Ed:

The Board thanks you and each of the other representatives of the National Market Association (“NMA”) for taking the time to meet with the Board this week. We recognize from your presentation that substantial progress has been made to date but that significant unresolved questions still exist.

The Board encourages the NMA to continue its efforts. However, the Board is unable, without further assistance from the Association, to fully evaluate the progress made to date by the NMA or the likelihood that future progress will be made by the NMA on the unresolved problems.

1. Evaluating Progress Made to Date

To better evaluate progress made to date, the Board needs a more precise description of the intermarket execution system ("IME") and some further elaboration of the thinking which underlies certain aspects of the System; particularly how the IME is expected to operate, how it meets the objectives of the Securities Acts Amendments of 1975, links markets, enhances competition, and exactly how it protects limit orders and why this level of protection is believed to be the maximum extent practical. In this regard, it would be helpful to the Board to have a written description of the equipment which would be involved and the basic rules which the NMA believes would be instituted along with the installation of the equipment. For example, it would be helpful for a statement to be included as to who would have the right to use the system, for what purposes, and in what manner they would be able to do so, as well as a description of the proposed parameters outside the current quotation that would require an IME inquiry as to limit orders and an elaboration of the reasons which caused the NMA to suggest such parameters including some discussion of the likelihood that such parameters might be able to be narrowed in the future.

Furthermore, the Board would like an examination of how the IME would work if off-board trading restrictions were eliminated and the effect this would have on the cost of the system and the time to implement it.

Because such a report would be, for the most part, no more than an elaboration on what appears to have already been agreed upon, the Board would hope that such a report could be distributed to its members by April 11 so that they might have the opportunity to study it prior to our next meeting.

2. Evaluating Likelihood of Future Progress

In order for existing open questions to be resolved promptly enough, the Board believes that it is essential for the NMA to create, or turn itself into, a body which would have the power to resolve such questions by the adoption of rules or the taking of other action which would be binding on the constituent organizations. Hopefully, substantial progress could be made by the NMA towards this end prior to the Board's next meeting on April 18 and 19.

Because time is short, the Board would like to invite representatives of the NMA to attend our next meeting in order that they might orally report on progress made on the creation of such a body as well as discuss any questions which

might be raised by the detailed description of the IME and elaboration of underlying thinking, which we would hope to receive by April 11.

Sincerely,

John J. Scanlon