

THE New York Stock
Exchange

SECURITIES AND EXCHANGE COMMISSION

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Division of Market Regulation

March 28, 1978

Robert C. Hall
Executive Vice President
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Director of Market Regulation
Securities and Exchange Commission
Washington, D. C. 20549

Dear Andy:

As the Commission and its Staff well knows, the securities industry, including this Exchange, has worked for well over a year in an attempt to agree upon the structure of an electronic communication system which would interconnect various market centers, thus permitting orders to be routed directly from one participating market center to another. Our objective has been to lay the foundation for a nation-wide interactive market system that could develop into the national market system envisioned by the Congress as articulated in Section 11A of the 1934 Act.

The securities industry has often been criticized by the Commission and others for its failure to agree jointly on new facilities for trading listed securities in a manner calculated to advance the national market system. (See for example Securities and Exchange Commission Release No. 34-13662 dated June 23, 1977.) However, protracted negotiations among this Exchange, the American Stock Exchange, the Boston Stock Exchange, the Pacific Stock Exchange and the Philadelphia Stock Exchange have finally resulted in the formulation of a plan agreed upon by all participating exchanges which would provide for the interconnection of the trading floors of all participating exchanges and would accommodate the so-called Intermarket Trading System. That Plan (the ITS Plan) has now been executed by each of the participating exchanges and has been filed with the Commission for its approval under Section 11A of the 1934 Act. The ITS Plan is the result of very intensive and strenuous negotiations among the various participants. Crucial to the success of those negotiations was an acceptable resolution of the question of "market identifiers" accompanying last sale prices as reported on the consolidated tape and disseminated under the joint industry consolidated tape plan approved by the Commission under Rule 17a-15. This Exchange has long held the view that the public interest is best served if last sale prices reported through the consolidated reporting system, whether over the ticker network or by means of the high speed line, are accompanied by a

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symbol identifying the market of execution. Rule 17a-15, of course, requires such identification. Other national securities exchanges, in particular the regional exchanges, have long objected to the market identifier and have urged that it be removed. Finally, in order to win the support of the regional stock exchanges to the ITS Plan and to evidence an important and affirmative step forward by the private sector in the development of the national market system, this Exchange and the AMEX agreed to support a recommendation that the market identifier be deleted from the last sale reports emanating from a market center which had joined the ITS Plan when those last sale reports were disseminated over the consolidated tape. The market identifier would continue to accompany all consolidated last sale reports to vendors by means of the high speed line. This concession to the regional exchanges was essential to the formulation of the ITS Plan. The regional exchanges which have agreed to that Plan insist that they will not participate unless the market identifier relating to the last sale prices reported by them are eliminated from the moving consolidated ticker tape. This Exchange is prepared to see the market identifier removed from the consolidated moving ticker tape as to all trades reported by a market center which has joined the ITS Plan, but we are not prepared to agree that the market identifier should also be eliminated as to last sale reports emanating from a market center which has not joined the ITS Plan.

We wish to emphasize that all market centers have, from the beginning, been welcome to participate in industry discussions looking toward the creation of a national market system. For many months all segments of the industry participated in those discussions. However, the Midwest Stock Exchange, the Cincinnati Stock Exchange, and the National Association of Securities Dealers, Inc. have not seen fit to participate in the intensive negotiations which have now resulted in formulation of the ITS Plan. They are, nevertheless, welcome to join that Plan and they have been made aware of this fact on any number of occasions. When and if either the NASD, the Cincinnati Stock Exchange, or the Midwest Stock Exchange, or all, join the ITS Plan, then, of course, the market identifier on the moving ticker tape would be eliminated as to last sale reports emanating from those market centers. However, until and unless those market centers join the ITS Plan, we do not believe it would be appropriate to agree that the market identifier as to last sale prices reported from those centers should be eliminated from the moving ticker tape.

The ITS Plan provides for an embryonic national market system in which all orders within the system can interact with all other orders within the system. It seems to us appropriate, therefore, to identify all trades taking place within the interacting centers in the same manner, that is by the absence of any market identifier. But it is obviously not appropriate to similarly identify trades which have taken place in the over-the-counter market or on the Midwest Stock Exchange or in any other market center which has not seen fit to join the ITS Plan.

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The New York Stock Exchange sees the concession which it is willing to make to the regional exchanges as an acceptable price to pay in return for the launching of the national market system. We believe, furthermore, that non-participating market centers will have a strong incentive to join the ITS Plan if, by doing so, the market identifier as to their prints on the consolidated moving ticker would be eliminated. This incentive should itself add momentum to the development of the national market system.

We think it would be totally unfair and unwarranted for the market identifier to be eliminated from the last sale prices reported on the consolidated moving ticker from a market center which has not joined the ITS system. We do not agree that it would be "discriminatory" to eliminate the market identifier for ITS participating exchanges but not for other market centers. Indeed, we believe that the investing public should be given a means, even on the moving ticker, of knowing whether a particular trade occurred within the structure of interconnected market centers provided by the ITS Plan or outside that structure in a non-participating center. We appreciate the fact that not all NYSE listed equity securities will be traded through ITS immediately and that, in a perfect world, it might be more logical to eliminate the market identifier only as to ITS participants and only as to securities which are, in fact, traded through the ITS system, but to accomplish this would require very significant modifications to the electronic data processing software by SIAC. In view of the large cost and time factors involved for this change, we strongly urge that, for purposes of the moving ticker only, the market identifier be removed from all last sale reports emanating from any market center which has joined the ITS Plan. This arrangement, while not perfect, will nevertheless preserve the basic distinction between trades which occur within the embryonic national market system and trades which occur outside that system.

In addition, we would like to point out that we are proposing the elimination of the market identifier as described above only with respect to the moving ticker tape; not with respect to the high speed line furnished to vendors from which they develop the data base which services their various interrogation devices. Last sale reports furnished to vendors by means of the high speed line would continue to be accompanied by a symbol identifying the market of execution just as is the case today, and transactions which are executed through the ITS system, with a buyer being on one ITS participating exchange and the seller being on another, would be identified when reported by the high speed line by means of the unique identifier "I". Ultimately, both markets would be identified.

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The New York Stock Exchange urges the Commission to permit the securities industry to move forward with a positive and significant development toward the national market system. This can be accomplished at this time only if the Commission is prepared to permit the moving ticker to eliminate the market identifier as to trades reported by ITS participants, but to continue to include the market identifier as to trades reported by others.

The New York Stock Exchange also respectfully requests that its views be presented to the Commission when this matter is addressed by it.

Yours,

B.M.

CC: American Stock Exchange, Inc.
Boston Stock Exchange
Pacific Stock Exchange, Inc.
Philadelphia Stock Exchange, Inc.

RCH:jt

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Subj. Files 34-81

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