



# SPECIAL REPORT

## TO NASD MEMBERS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., 888 17th ST. N.W., WASHINGTON, D. C.

SR3, NOVEMBER 1970

To NASD Members and Branch Offices:

### *NASDAQ and Listed Stocks?*

From time to time since the early stages of the program to develop NASDAQ, there has been substantial discussion and debate as to whether or not to include listed securities in the NASDAQ system. In the fall of 1968, NASDAQ rules were filed with the SEC which included a provision for listed securities because the Association's Board of Governors was under the impression that the NASDAQ rules would not be approved by the Commission if these securities were excluded.

After the rules became effective, changes were made as developments indicated such changes were necessary. The subject of including listed securities in the NASDAQ system has been discussed on many occasions, and on August 26 of this year the Association's NASDAQ Committee requested NASD Chairman Gordon Teach and President Gordon Macklin to see if the NASDAQ system could be started without listed stocks.

On October 22, Macklin wrote to the Chairman of the Securities and Exchange Commission asking permission to exclude listed securities from the NASDAQ system at start-up so that potential problem areas could be studied while the system was operating.

The President's letter discussed the following problem areas:

1. Possible technical difficulties that may arise as a result of the sheer size and complexity of the system.
2. The possible effect on exchange markets.
3. The possible creation of investor confusion as a result of different prices and volume on the same security.
4. The possible diversion from our original purpose to focus investor attention on over-the-counter companies, which prior to NASDAQ did not benefit from the availability of current quotations and accurate volume and statistical data.
5. The possible confusion and added cost to the industry of the dual surveillance, volume reporting, issuer disclosure requirements and related detection techniques necessary to supervise the total activity in securities markets.

The Securities and Exchange Commission acted promptly on the Association's request and officially notified the NASD that they did not object to the exclusion of listed securities from the NASDAQ system at start-up.

On October 30, a prominent member of the Association — believed to be the biggest single factor in the third market — wrote to the Board protesting the recent decision to exclude listed securities from the NASDAQ system at start-up. NASD Chairman Teach answered that letter on November 9. He explained the background to the Board's decision and emphasized that the Board acted with full regard to the rights and obligations of all members in making the decision.

During the recent course of the controversy, it has been implied that the Board would not have voted to exclude listed securities if it were not for those Governors affiliated with firms that belong to either the New York or American Stock Exchanges. The fact is that there were only two votes opposed to this plan from a total of 24. It is important to note that of the 9 Board members who are not affiliated with the New York or American Stock Exchanges, seven voted to exclude listed securities pending further study.

In summary, the overwhelming majority of the Board feels that this issue can be resolved on a

more knowledgeable basis when the system is operating. All interested parties will then have had adequate time to analyze the effects of the system's operation and will then be in a position to fully present their views.

### Misquote Causes Confusion

Confusion has been generated among NASDAQ subscribers by an unfortunate misquote in the October 31, 1970, issue of "Business Week". In the article, "The Gambling Game That Wall Street Plays" NASD President Gordon Macklin was mistakenly quoted on page 61 as saying that "the technology is available any time we decide to step up to a full-scale automated market system." The reporter continued by conjecturing that this would allow "dealers to buy or sell by pushing buttons on their desk-top consoles." This statement could have been interpreted to imply that negotiation would be banished from the over-the-counter market through use of this new system.

Macklin did mention to "Business Week" that it might be possible *eventually* for voice contact to be made through the NASDAQ system. Even if this were the case, one individual would still have to contact another individual in order to trade.

### NASDAQ System Progress Report

The NASDAQ system is scheduled to begin operation in mid-January of 1971. The Bunker-Ramo Corporation, which is the system operator for NASDAQ, is continuing to install NASDAQ equipment in brokerage firms across the country and is holding training sessions with all employees that will be working with NASDAQ. More than 700 firms will have Level II and III terminals in over 1,000 locations at start-up time.

The NASD reminds all brokerage firms that, in order to receive service by start-up, each firm must have signed a contract with Bunker-Ramo and an agreement with the NASD. A number of firms have not yet signed the NASD agreement and they will be unable to use their NASDAQ terminals at start-up if they fail to take care of this detail.

The NASD, which released a list of the eligible securities for NASDAQ in June, issued a supplemental list this month. These lists for start-up of the system were analysed as of August 1970. The list was accompanied by the qualification requirements for NASDAQ securities, a schedule of NASDAQ charges, and the qualification rules for registering as NASDAQ market maker.

In brief, the qualifications for NASDAQ securities are:

1. Equity security.
2. Issues required to be registered and registered under Section 12(g) of the Securities Exchange Act of 1934.
3. Issued by a company with over \$1,000,000 in assets.
4. Public distribution of at least 100,000 shares.
5. A minimum bid of \$3. (This originally was \$5, but was lowered because of market conditions.)
6. Two or more NASDAQ market makers registered in the security.

Market makers must meet the following qualifications:

1. A market maker must have \$5,000 in capital for each NASDAQ security in which he makes a market. The maximum capital requirement is \$50,000.
2. Market makers must also have Level III NASDAQ service and must continue to make bona fide market in their NASDAQ securities.

*All market makers are reminded that the deadline for registering is November 27, 1970. The registration process will not reopen until after NASDAQ is operating smoothly.*

A complete schedule of the charges for the various levels and types of NASDAQ service available is listed in Schedule D. A revision to Schedule D eliminating exchange listed stocks from the NASDAQ system is now awaiting clearance by the SEC and will be sent to members shortly.

There have been some questions from members about the charges for Level I service. To clarify the issue, the charge for Level I as stated in Schedule D — \$20 per month for the first terminal and \$10 for each additional terminal at the same location — does not include any fee for the renting or leasing of a terminal but is for NASDAQ data only. This charge will apply regardless of the distributor chosen by the subscriber.