

NEW YORK STOCK EXCHANGE  
MEMORANDUM

September 27, 1971

TO: Messrs: Howland, Freund, West & O'Reilly  
FROM: Lee D. Arning  
SUBJECT: Comments on a National Securities Market

Bill Freund's report on the general route of thinking on the establishment of a National Securities Market raises some important questions. I've outlined below some of the areas involved so that a meeting with the Chairman can be arranged to review further the work underway. I am concerned that severe competitive disadvantages can result not even considering the fact some regional specialists will do their utmost to better the N.Y. Market at almost any cost.

1. There is a wide difference in the conduct of the NYSE floor—particularly in quoting markets – than on regional floors. The basic reason lies in the fact that on the NYSE many orders are represented on the floor without being on the Specialists' books or having the best bid or offer. These circumstances are not present generally, on regionals.

An NYSE Specialist – aware of the presence of a large buyer or seller in the crowd makes his market conscious of this presence, and his bid and/or offer is affected. This influence may not be present elsewhere so that recording of quotes showing the location of the best bid and best offer may be illusory rather than informative.

2. Akin to item #1 is the matter of size. Regional quotes are limited pretty much to single 100 share units, while NYSE quotes are regularly for substantially large amounts. The NYSE Specialist could suffer by a bare comparison of quotes when his competition did not have similar forces present and when his competition would probably only deal in a single unit.

3. What will be the impact on markets in general and NYSE seat prices in particular if non-member access, coupled with a National Market gives regional exchange members all the benefits of NYSE membership at considerably less cost?

4. Regulations of Specialists surely cannot lessen at the NYSE but with different capital requirements and performance measures on regional aren't we placing our Specialists at a competitive disadvantage?

LDA:pjc