

March 17, 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:

Thank you for your letter of February 5, 1975, offering to make available to the Commission the NYSE's experience and expertise in monitoring the impact of negotiated commission rates.

As you know, on January 23, 1975, the Commission adopted Rule 19b-3, prohibiting exchanges from fixing commission rates on exchange transactions, effective May 1, 1975 (May 1, 1976, as to floor brokerage rates). In that connection, the Commission indicated that it proposed to take steps to provide appropriate increased monitoring of the activities of brokers, and their financial condition and operations as well as possible shifts in patterns of trading for some period subsequent to May 1, 1975, in order to assure that the objectives of the Securities Exchange Act of 1934, including the protection of investors and the maintenance of fair and orderly markets, are upheld during any transitional phase.

On March 13, 1975, the Commission published for comment proposed Rule 17a-20 and related Form X-17A-20 which will impose certain financial reporting requirements on broker-dealers. To avoid unnecessary duplication the proposed Rule follows the format of Rule 17a-10 by providing that the information could be submitted under the auspices of an approved plan of a self-regulatory agency. The proposed Rule 17a-20 also states that brokers or dealers which propose to resign from an exchange would be required to give 45 days notice to the Commission and also to notify their customers. The Commission does not anticipate that the reporting prescribed by proposed Rule 17a-20 would be required for periods beginning after June 30, 1976.

As indicated in the Release announcing proposed Rule 19b-3, the Commission intends to collect additional data in its monitoring program. In particular, the Commission anticipates developing information with respect to commission rates being paid by individual and institutional customers to different types of brokerage firms, distribution of volume of transactions in listed securities among national securities exchanges and third market firms, information regarding exchanges and registered national securities associations, information with respect to specialists, and, on a selective basis, information relating to performance of securities markets.

The Commission will very much appreciate the cooperation and help of all self-regulatory agencies. In particular, we hope to have your advice in determining what additional data should

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be collected and the most efficient manner of collection. Consistent with the objective of developing reliable information rapidly, we want to avoid duplicative reporting requirements and rely on the self-regulatory organizations where appropriate. In this connection, we will be seeking the advice and assistance of both SEC advisory committees -- the Report Coordinating Group and the Central Market Advisory Committee. We would appreciate learning of your specific suggestions with respect to the scope and detail of the monitoring program, the problems which you determine are developing and proposed action for the Commission to consider, on the terms suggested by Securities Exchange Act Release No. 11203 (January 23, 1975). Enclosed is a copy of the release announcing proposed Rule 17a-20. The summary of proposed monitoring efforts referred to therein will be forwarded to you shortly.

Sincerely,

Lee A. Pickard
Director

Enclosure