



**N.Y. STOCK
EXCHANGE**

LISTED COMPANY ADVISORY COMMITTEE

February 25, 1982

James D. Robinson, III
American Express Company
(Committee Chairman)

Frank Borman
Eastern Airlines, Inc.

Albert Bowers
Syntex Corporation

Alfred Brittain, III
Bankers Trust of New York Corporation

Theodore F. Brophy
General Telephone & Electronics
Corporation

W. H. Krome George
Aluminum Company of America

Harry J. Gray
United Technologies Corporation

Leonard G. Herring
Lowe's Companies

Charles F. Knight
Emerson Electric Company

C. Calvert Knudsen
MacMillan Bloedel Limited

J. Paul Lyet
Sperry Corporation

Thomas M. Macioce
Allied Stores Corporation

Donald E. Noble
Rubbermaid Incorporated

Donald H. Rumsfeld
G.D. Searle & Co.

Robert M. Shaeberle
Nabisco Brands, Inc.

Ex-Officio Members (NYSE Directors)

Fletcher L. Byrom
Koppers Company, Inc.

Honorable John S.R. Shad
Chairman
Securities and Exchange Commission
500 North Capitol Street, N.W.
Washington, D.C. 20549

Dear John:

As Chairman of the Listed Company Advisory Committee to the Board of Directors of the New York Stock Exchange, I wish to express, on behalf of the Committee, our concerns about the impact SEC Rule 19c-3 may have on the structure of our capital markets by continuing to allow trading of listed stocks by exchange members in the over-the-counter market.

We are especially concerned that the Commission's related action of requiring the linkage of the stock exchanges' Intermarket Trading System and the National Association of Securities Dealers' Computer Assisted Execution System, by March 1, 1982, could well result in an irreversible and disadvantageous restructuring of the securities markets with the resulting adverse impact on listed companies and the corporate community's ability to raise new equity capital.

Our Committee sees no benefits flowing to securities customers from the Rule 19c-3 experiment. Presumably the rule is intended to promote a measure of competition that will strengthen the assurance that buyers and sellers of listed securities will be able to obtain the best available prices. However, since it allows individual broker-dealer members of the organized public exchanges to trade listed stocks in their offices, without exposing their own customers' order flow to orders in the exchange auction markets, the rule not only weakens the primary pricing mechanism in those markets but, in fact, denies investors the assurance that they are obtaining the best prices available in those stocks at any given moment.

We are particularly troubled by the potential longer-term effects on the economy. By denying investors the full protections available in the exchange markets, Rule 19c-3 trading, as it is permitted today, threatens to fragment the secondary markets -- making it riskier and more expensive to invest in corporate equities -- and could erode investor confidence in listed stocks and the process by which such stocks are traded. As trading in listed stocks is increasingly restricted to the largest firms, the competitive opportunities available to smaller firms and their customers will be progressively diminished. Any measure that discourages the flow of investable capital into equities impedes the efficient allocation of capital in our economy and weakens the ability of U.S. corporations to raise new capital.

To our knowledge, there is no broad support for Rule 19c-3 among investors, large and small, or among the larger or smaller investment firms; nor has anyone clearly identified the benefits which one might reasonably expect from the experiment. On the other hand, the consensus among these firms and groups is that while the larger firms, such as Shearson/American Express, might benefit in the short term by executing customers' orders in-house, in the long run our capital markets will be adversely affected.

As you know, our capital markets are currently undergoing sweeping changes and we can reasonably expect further changes in the future. The securities industry and the stock exchanges have made significant changes in recent years to meet the challenges of competition at home and abroad. Thus, the situation which may have existed a few years ago, when the Commission's review of securities industry practices led to the adoption of Rule 19c-3, may no longer be relevant.

In light of these changed and changing conditions and the possible adverse impact the Commission's action may have on the structure of the securities markets without any clear cut benefits, it seems prudent to review the situation before proceeding to expand the Rule 19c-3 experiment as the linkage of the Intermarket Trading System with the Computer Assisted Execution System will do.

In our Committee's opinion, the stakes are too high and the consequences too great to proceed to simply implement past Commission policies without a comprehensive review of the consequences of such actions on the structure of our capital markets.

On behalf of the members of our Committee may I say that we would be prepared to assist you and the Commission in any way we can in such a review.

Very truly yours,

ORIGINAL SIGNED BY
JAMES D. ROBINSON III

James D. Robinson, III