

Board  
Memorandum

THE New York Stock  
Exchange

October 19, 1973

Summary Memorandum

NATIONAL SECURITIES MARKET SYSTEM ACT OF 1973

The Issue

To determine what position the Exchange should take in testimony before the Senate Securities Subcommittee on Senator Williams' "National Securities Market System Act of 1973" -- S.2519.

Background

On October 2, 1973, Senator Harrison Williams, Jr., Chairman of the Senate Subcommittee on Securities, introduced the "National Securities Market System Act of 1973" as the last in a series of four bills to revise the Securities Exchange Act of 1934.

This Bill is a counterpart to Title II of the Moss Bill (H.R. 5050) now pending in the House Subcommittee on Commerce and Finance -- except that it does not deal with the key issues of competitive commission rates and institutional membership, both of which were addressed in an earlier Williams Bill (S.470) which has passed the Senate.

Attached as Exhibit A is an excerpt from the Congressional Record which includes Senator Williams' introductory remarks on the floor of the Senate, a detailed summary and the full text of the Bill.

### Discussion

The new Williams Bill focuses on the creation of a National Securities Market System and would confer broad authority on the SEC to move to create such a system, and to direct the establishment of a composite tape and a composite quotations system. A concept not included in other pending legislation in this area would require "securities information processors" -- such as SIAC, Bunker-Ramo and other private vendors, collectors and distributors of market information -- such as Autex and Instinet -- to register with the SEC.

The Bill also directs the SEC to provide for equal regulation of "brokers, dealers, exchanges, securities associations, securities information processors, and investors" and to report back to Congress by December 31, 1975 on the action taken.

The Bill would also clarify and strengthen the SEC's authority over securities industry self-regulatory organizations -- not by eliminating the self-regulatory role of the exchanges and the NASD, but by prescribing new procedures for them to follow in changing their rules.

In addition, the Bill would empower the SEC to review -- but not increase -- disciplinary actions taken by any self-regulatory organization; and to revise, amend or abrogate any exchange or NASD rule, under specified procedures requiring due process for interested parties, the issuance of detailed findings by the SEC, and the right of appeal of the SEC action to the Federal Circuit Court of Appeals.

In his remarks on the Senate floor, Senator Williams stressed the need to preserve the securities auction markets. While the Bill does not require all trading by brokers and

dealers in securities to take place on an exchange, Senator Williams did call attention to the problem of incentives to membership, citing the Exchange's views:

“The question of the need for an incentive for exchange membership is one to which we must address ourselves, and I invite all interested persons to comment on it. One proposal put forward by the New York Stock Exchange would be to amend the Exchange Act to make it --

...unlawful for any registered broker or dealer to effect, whether as broker or dealer, any transaction in any security registered on a national securities exchange other than on a national securities exchange, for its own account or for the account of any other person, except as may be permitted by the rules of the national securities exchange on which such security is registered.”

The invitation to “all interested persons to comment” presumably refers to public hearings to be held on the Bill. At present, it is expected that such hearings may be held before the Senate Securities Subcommittee during the weeks of November 12 and November 19.

#### Recommendations

Clearly, the Exchange should support, consistent with the Board's March 1, 1973 Policy Statement, a legislative requirement, as quoted above, that all transactions by brokers and dealers in listed securities must take place on an exchange.

This legislation is complex and technical and the Bill contains a number of drafting problems. The Exchange staff will call these to the attention of the members and staff of the Senate Securities Subcommittee. Many of the provisions of the Bill are similar to those included in H.R. 5050 on which the Board has taken a position. There

4.

are, however, a number of major proposals in the Bill which should be reviewed by the Board.

The following table outlines major proposals in the Bill, and a recommended position for the Exchange to take on each in its testimony before the Senate Securities Subcommittee.

Donald L. Calvin

Exhibit A – Excerpt from Congressional Record  
(October 2, 1973)