

ELKINS WETHERILL
PRESIDENT



NMS
ITS

PHILADELPHIA STOCK EXCHANGE

April 14, 1978

The Honorable Harold M. Williams
Chairman
Securities and Exchange Commission
500 North Capitol Street, N. W.
Washington, D. C. 20549

Dear Chairman Williams:

The Philadelphia Stock Exchange, Inc. is pleased to present its comments and plans with respect to the views of the Commission as expressed in Release No. 34-14416, dated January 26, 1978 regarding the Development of the National Market System.

In general, this Exchange supports the Commission's commitment to achievement of a National Market System as outlined in its Release and stands ready to work cooperatively with the Commission and the industry in achieving the mutual goals sought -- competitive marketplaces in an auction market environment.

Specifically, we take this opportunity to address the matters of linking markets and creation of a neutral order routing system.

I. MARKET LINKAGE

This Exchange, together with the American, Boston, New York and Pacific Stock Exchanges (the "Participants") has developed a plan whereby the markets of each of the Participants will be electronically linked. The plan, which was filed with the Commission on March 6, 1978, sets forth an agreement by and between the Participants to establish and operate an intermarket communications system known as the Intermarket Trading System ("ITS"). The Philadelphia and New York Stock Exchanges had hoped to commence a pilot program, in accordance with that plan, on April 10, 1978. However, certain matters remained to be resolved with the Commission on that date and it is expected that trading through ITS will begin shortly.

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Briefly, ITS will facilitate trades between broker-dealers on different Participants. It will provide Participants with access to other marketplaces electronically and with ease. As the Commission stated in its Release, "Such a system would permit orders for the purchase and sale of multiply traded securities to be sent directly from any qualified market center to another such market promptly and efficiently."

With the adoption of Rule 11Ac1-1 (Dissemination of quotations for reported securities) which will require quotes to be "firm", each marketplace will be aware of competitive quotes and will be able to respond to them quickly through ITS. Customers will benefit by the opportunity for best execution. At the same time, processing, clearance and settlement procedures will be virtually the same as if the execution had taken place at marketplace of introduction.

We regard this linkage as a constructive beginning to the National Market System and an important step in the evolutionary process of development of such a system. We do not believe that ITS alone, or in combination with other mechanisms in place today, creates a National Market System. The system will be improved rapidly, however, as necessary.

We urge those market centers which have chosen not to participate in ITS to reconsider their decision. If such other market centers become Participants, we believe the Commission's deadline of September 30, 1978 for establishment of an intermarket routing system can be met.

II. ORDER ROUTING SYSTEM

The Commission, in its Release states its belief that "...the self-regulatory organizations should combine their efforts and take joint action forthwith in order to (i) make available to their members a single system for the prompt and efficient routing of orders for qualified securities directly from brokers' and dealers' offices to any qualified market,..."

We are eager to meet with representatives of the other self-regulatory organizations to discuss and determine the most feasible and equitable method of utilizing the electronic equipment now in place and now servicing the industry. Many of the members of our Exchange, either directly or indirectly, have shared in the cost of the Order Routing System now in place and operated by

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the Securities Industry Automation Corporation (SIAC). To date we have had no such industry meeting and, consequently, it would be presumptuous for us to arbitrarily establish deadlines which may impose unforeseen burdens on other parties. However, we support the Commission's position on this issue and believe that it is in the public interest to facilitate the routing of a customer's order to the marketplace where he would obtain the best price.

Sincerely,

Elkins Wetherill
President