



Securities Industry Association

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January 22, 1997

Richard R. Lindsey
Director
Division of Market Regulation
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Dear Mr. Lindsey,

The Securities Industry Association ("SIA") appreciates the Securities and Exchange Commission's ("SEC") recent action approving a number of regulatory and systems changes by the National Association of Securities Dealers, Inc. ("NASD") relating to implementation of the SEC's order handling rules. The changes include a 3-month pilot during which Nasdaq market makers will be able to quote minimum share sizes of at least 100 shares when they are not displaying customer limit orders.¹

As you know, the SIA's Trading Committee ("Committee") strongly supports the proposed changes.² The Committee believes that the display of customer limit orders and orders placed in electronic communications networks ("ECNs") adds significant new sources of liquidity to the Nasdaq market, and that mandatory quote size requirements are therefore unnecessary. Nevertheless, we believe the pilot will provide an opportunity to assess the impact of the rule change on the market.

The Trading Committee will vigorously monitor the pilot, which will begin on January 20 and will apply to the 50 stocks subject to the Limit Order Display Rule as of that date. If the rule change has a negative impact on liquidity in the Nasdaq market, the Committee will report to the Commission and may recommend that the NASD impose some greater minimum quote size requirement.

We look forward to working with you during the phase-in of these important new rules. If you have any questions, please contact the undersigned, or Judith Poppalardo, SIA Assistant General Counsel, at (202) 296-9410.

Sincerely,

Bernard L. Madoff
Chairman
Trading Committee

cc: Chairman Arthur Levitt; Commissioner Steven M.H. Wallman; Commissioner Norman S. Johnson; Commissioner Isaac C. Hunt, Jr.

Footnotes

¹ Currently, the NASD requires market makers to quote minimum sizes ranging from 200 to 1000 shares, depending on the security.

² See Letter to Jonathan G. Katz, Secretary, Securities and Exchange Commission, from Bernard L. Madoff, Chairman, SIA Trading Committee, dated December 26, 1996.