MEMO# 10827

March 23, 1999

INSTITUTE LETTER ON NYSE END-OF-DAY PRICING OF SECURITIES

[10827] March 23, 1999 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 7-99 RE: INSTITUTE LETTER ON NYSE END-OF-DAY PRICING OF SECURITIES ____ As you know, the Institute recently met with representatives of the New York Stock Exchange ("NYSE") to discuss several issues concerning end-of-day pricing of securities on the NYSE. The impetus for the meeting was the problems in pricing several securities at the close of trading on the NYSE on December 31, 1998 due to several changes made to the S&P indexes. These changes caused a large volume of index fund trading just prior to the close which, in turn, caused several stocks to be priced well after the 4:00 p.m. close of trading, and either far above or far below the last indicated price at 4:00 p.m. Several funds were not aware of the final closing price in these stocks until either later that evening or the next business day. This caused several funds to readjust their NAVs and in some instances, also may have caused funds to reprocess purchases and redemptions of fund shares from that day. The Institute has sent a letter (attached) to the NYSE reiterating our views on several of the points discussed at that meeting. In order to address these problems, the letter recommends that the NYSE modify its procedures by establishing a system where a "red flag" would appear on the tape for a particular security when a closing price for that security is still pending at 4:00 p.m. A "red flag" would alert funds that a final price is forthcoming and that the 4:00 p.m. price should not be relied upon as the final price for that security. The letter also recommends that the NYSE expand the types of information disseminated when trading imbalances occur at the close of trading. Specifically, the letter recommends that specialists provide the expected range of closing prices in addition to the size of the imbalance and that specialists disseminate this information electronically. The letter states that the Institute believes this would attract more investors to buy or sell on the contra-side of an imbalance. Finally, the letter urges the NYSE to support revisions to the way in which changes are made to an index, in particular, phasing-in these changes over several days instead of implementing the changes entirely on one day. If you have any questions, please contact the undersigned by phone at (202) 371-5408 or by e- mail at aburstein@ici.org. Ari Burstein Assistant Counsel Attachment