

THE FLOOR DEPARTMENT  
Memorandum

October 8, 1963

Operation S.E.C.

A meeting was held today in the office of Ralph Saul, Director of the Division of Trading and Exchanges. Present of the SEC Staff: Messrs. Saul, Loomis, Werner, Silver, Poser, Pollock, Rotberg. Present of the Exchange: Messrs. Chapman, Klem, Bishop, Meentemeier and Vanderbeck.

Saul presided. In his opening statement he said they wanted to ascertain priority of items where there may be a "meeting of the minds" and also wanted to establish their own priorities. Also, pinpoint areas that need clarification by discussion between staff members of the Commission and the Exchange. He said that they wanted our reactions and our thinking concerning the proposals which would be discussed.

Chapman then told him about the committees which have been set up and the staff member who will act as secretary of each committee. Saul said he would like to start off with the Chapter VI Recommendations.

He said they are in the process of forming rules concerning the specialist and would like to discuss drafts of such rules with the Exchange.

He then brought up the matter of SPECIALIST STANDARDS. A discussion of the studies being made by outside consultants then ensued, particularly the Joel Dean study. They asked for the scope of that study and I related this to them from recollection.

I was asked how I felt about the recommendation to increase SPECIALIST CAPITAL REQUIREMENTS. I told him that I thought there would be merit in increasing them and that we were studying the matter -- getting figures together relating to the capital strength of each specialist unit and considering how the rule could best be amended. Silver asked how long this would take. I said I did not know. I said the matter would be considered by the committee.

On the recommendation concerning OPENINGS, I told them that I did not understand the recommendation itself or its consistency with the desirability of price continuity expressed elsewhere in the Report. It was suggested that Silver and Vanderbeck discuss this further to achieve clarification.

Concerning LONG TERM INVESTMENT ACCOUNTS, I said I disagreed with the recommendation that specialists no longer be permitted to have them since this would have a serious impact on specialist capital and weaken the specialist system. I said the matter would be considered by the committee. Chapman added that the thinking of the Exchange is that Specialists' Long Term Investment Accounts should be permitted.

DEFINITION OF ORDERS. I expressed my own feeling that definition of orders which should or should not be handled by brokers and specialists would be desirable. I stated this would be considered by the committee.

Concerning PRINTING OF TRANSACTIONS, I agreed that every effort should be made to eliminate errors and get all transactions printed. On the question of PRINTING STOPPED STOCK, I said that there might be a possibility of printing stopped stock with some special designation on the tape but that this would require study and would be considered by the committee.

Regarding SPECIALISTS' PUBLIC ACCOUNTS, it was pointed out that we had adopted a system for the reporting of transactions for such accounts on Form SPA in April 1962. I said that the Study Group recommendation would be considered by the committee. Loomis said that they would like to have not just a "yes" or "no" statement from the Exchange, but any ideas which may be generated through discussion of the committee.

The TICK TEST was mentioned. They were informed that this is one of the matters to be covered by the Joel Dean study.

On the recommendation concerning the taking of BLOCKS by specialists, I reminded them of the Exchange's efforts on the general question of blocks and said the Exchange is as concerned as anybody else with the ability of our market to absorb blocks. I did point out however that the fact still remains that somebody has to pay the bill when a loss is involved. I said the committee would consider the recommendation.

REPORTING SPECIALIST FINANCIAL PROBLEM SITUATIONS TO THE COMMISSION. I asked them what could the Commission do which the Exchange cannot do if such information were submitted -- in other words, why do they want it? Saul said that this was considered to be a sensitive and crucial area -- more sensitive than many other matters and that the Commission might ask their staff about this and they want to be in a position to answer.

RECONSTRUCTION OF SPECIALIST BOOK. I pointed out that any consideration of the specialist book would have to include other bids and offers in the market. I then stated that the human input problems on the Floor in view of speed and unique operational conditions were beyond my imagination as to practical solution. Silver was asked what was in the back of their minds in making this recommendation. Silver said surveillance of the specialist; that they feel some better method of checking on

the handling of agency orders by the specialist should be found. Silver was asked to suggest how the recommendation could be implemented. He answered by saying that one thing which could be done would be the notation of time of entry and time of report in the specialist book. Further discussion ensued in which I expressed the opinion that this was impractical since the time consumed and the burden involved would seriously affect the operations of the specialist, particularly in busy markets. I said the matter would be considered by the committee.

Regarding ODD LOTS, Chapman said the Exchange is taking jurisdiction concerning the differential and that I will be working with the committee concerning adoption of rules. They wanted to know whether the rule adoption and surveillance requirements could be considered by the committee concurrently with the making of the Cost Study by Price, Waterhouse & Co. and the opinion was expressed that this probably could be done. Saul said that they would like to be informed as work proceeds with respect to rule adoption. If the Exchange has any questions, they want to be of help.

AUTOMATION OF ODD LOTS. During discussion they said that the recommendation referred only to "feasibility." When questioned as to whether this didn't really mean adoption in the event it is found to be feasible, Loomis agreed but said, "We have not reached that point yet." They were told the matter would be considered by the committee.

The wanted to know how long it will take for the Exchange to reach a conclusion concerning FLOOR TRADING after the Cresap report comes in. We answered that we did not know. They asked for the scope of the Cresap study. I told them this to the best of my recollection.

Saul also said that he would not like to see consideration of the whole odd lot situation (rules) wait until the Price, Waterhouse study is completed. We said we did not believe this would happen.

There then ensued discussions between Al Meentemeier, Bob Bishop, Duke Chapman and the SEC group. This memorandum does not cover these discussions nor does it cover other discussions had earlier in the day between Charles Klem and the SEC group. However, I did make note of the following general statement: During the discussion relating to submission of copies of member firms' reports of income and expense, Saul was asked why they wanted such copies. He said that he then and there wanted to "lay it on the line" that it is their job to get such information in order to perform their duties properly. He said "That has been one of our troubles around here for years." He pointed out that the Commission is responsible to see that commission rates are "reasonable."

Werner would up the meeting by summarizing the things to be done by the Exchange and those to be done by S.E.C. staff as follows:

N.Y.S.E.

List of matters to be covered by the studies being made by the three outside organizations.

Arrangement for a meeting of an Exchange group and an S.E.C. group as mentioned above.

The scope of the odd lot committee.

The date the Floor Trading study would go to the committee.

What has been done concerning automation and what is going on in this area.

\*Meentemeier to supply "third market" information.

A list of the members of each of the committees.

S.E.C.

Proceed to work on draft of specialist rules

Clarification of recommendation concerning openings.

Specification of the importance of profitability factor concerning specialists and why S.E.C. needs income statement.

Meeting with Al Meentemeier on commission problem.

\*(Meentemeier states that this information is to come from S.E.C.)

W. K. Vanderbeck

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