

10/8/81  
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MEMORANDUM

~~October~~  
September 5, 1981

To: Ben Milk  
Doug Scarff  
John Fedders  
Ted Levine

From: Wayne Ginion *WB*

Re: Intermarket Surveillance Group Efforts to Date

Background

During the week ended 10/3/81, Commission staff paid visits to the CBOE (9/29), PSE (9/30-10/1) and the Phlx (10/2).

The purpose of these visits were to investigate the content and utility of exchange files related to option trade reporting and as a secondary topic, the construct and progress to date of the Intermarket Surveillance Group (ISG) of which these exchanges are members.

Commission staff participating in these visits (with the exception of the Phlx) included myself, G. Marlott (Market Regulation), C. Piehl (Enforcement), and D. Morf (Executive Director's Office).

SRO staff interviewed included: W. Young and R. Ackerman (CBOE); G. Gluck and C. Rodgers (PSE); and R. Gilmore and M. Ross (Phlx).

Synopsis of Meetings

In each of the meetings, we posed basically the same questions relative to the organization, planning and implementation of procedures and data sharing to facilitate intermarket surveillance.

The following represents a composite of discussions held with each SRO under the aforementioned areas of the ISG project.

A. Organization of ISG

The group has been meeting generally once each month since February 1981. Each involved SRO dedicated on average two persons to ongoing participation.

Logically, this type of project requires continuity in representing the areas of management, operations and data processing. This

would suggest that the SRO's maintain representation for each of these areas in each of their meetings. Our interviews indicate that there has been an ad hoc approach to involving representative personnel thereby stratifying the interests and goals of management, operations and data processing.

For example, although there have been about a half dozen meetings, the representative data processing staff of the SROs have only met on one occasion. With the often cited monumental technical problems of linking the SRO's in this effort, a single meeting seems hardly appropriate over the last seven months.

#### B. Planning

An effort such as the ISG project should evolve from the recognition of a problem and a commitment to attack the problem with a top down approach. This approach assumes that the scope of the solution is not restricted prior to an in-depth analysis.

Our interviews seem to indicate that the boundaries of this project were drawn at inception and for the most part include only perfunctory efforts. The SRO's are clearly awaiting signals from the Commission before proceeding into more meaningful efforts.

The short term plan appears to be the swapping of fundamental trading and clearing data, which has always been available on request, on a daily basis.

The long term plan seems to be whatever the Commission specifically asks for. On numerous occasions the SRO response to staff questions on the regular procedures to be implemented, consisted of "maybe later" or "when it's appropriate" or even "sounds like a good idea, we hadn't considered it." The point is that our questions were not "have you accomplished X", but, "have you considered X." It would seem that the SRO's should be more creative and knowledgeable in these areas than the Commission staff.

Additionally, since the sharing of intermarket information would necessarily include any audit trail data streams to be created by the NYSE, staff posed a question relative to the inclusion of audit trail prototypes in the project. When asked if the audit trail had been discussed in detail sufficient to analyze its content and utility to the SRO's, the response was from the CBOE, "No"; from the PSE, "Not yet, but when appropriate we probably will"; and from the Phlx, "Are you rehearsing your Vegas comedy routine?". Clearly a program such as the NYSE Audit Trail which is due to go into limited operation in November should have found its way to the agenda.

### C. Operational

The accomplishments of data exchange over the past seven months consist of providing existing reports displaying SRO members clearing information and last sale and quote information. With the exception of PSE, which is due to begin reception within a week, this data is currently being swapped via SIAC on a daily basis.

Although the data being exchanged may loosely be described as machine readable by virtue of magnetic tape media, the report format of the data precludes intelligent usage by integration into the SRO data bases. The swapping of reports instead of record oriented data obviates a commitment of data processing efforts and reduces the utility of the data in the surveillance effort.

Additionally, two of the SRO's (Amex and CBOE) have altered their reports through the omission of option marketmakers identifying numbers. This would indicate less than a uniform cooperative effort in the ISG on the part of at least some SRO's.

One would also expect that operational guidelines adopted by all of the SRO's would be in place relative to a clear definition of responsibilities and followup of intermarket inquiries and investigations. When asked about this, each group responded that such procedures have not been addressed or formalized.

### Conclusion

The ISG has been in existence for more than seven months and in that time have begun to share data on a daily basis which heretofore was shared on an ad hoc basis. There have been no significant indications of real commitments and there probably will not be, unless the Commission becomes involved to a significant degree.

Relative to the ISG project plan submitted to the Commission on 8/14/81, the conformance to the deadlines displayed for most of the tasks which would have been completed by this date, could certainly be debated based on our observations. The debate would be centered on conformance to the letter rather than the spirit of the project.

Additionally, since the redirection of MOSS is predicated not only on an effective and meaningful ISG mechanism, but on the ability of the Commission to audit SRO activities through automated techniques, the Commission must ensure that upgrades to automated surveillance systems are really carried out.

In the course of our visit we reviewed with the SRO's the state of their automated surveillance programs and found that they ranged from mediocre to non-existent. Considering staffing levels and the volume of information necessary to adequately perform surveillance, it is imperative that automated analyses and facilities be employed extensively in this area.

If we are to function in an up to date audit mode and rely solely on the SRO direct surveillance efforts, the ISG and the individual SRO automated surveillance programs must receive strong incentive and direction from the Commission.

If you would like further details on particular SRO's or the areas discussed herein, please contact me.

cc: E. Kwalwasser  
J. Hartigan