May 19, 1964

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Stan West

<u>SEC Statistical Requests re Specialists' Activity</u>

This memo traces the chronology and current status of discussions with the SEC staff on Special Study recommendations regarding specialists' statistical reporting. The Special Study recommendations in the two areas involved are as follows:

> "…The NYSE and Amex should report to the Commission on a weekly basis each specialist's purchases and sales as principal in each issue traded. Such reports should be made public so as to give interested investors an indication of the degree of activity, exclusive of specialists' participation, in particular issues…." (Chapter VI D, Recommendation 8)
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> "In addition to present tests to evaluate performance, tests for evaluating specialist purchases, sales, and positions in relation to price movements should be evolved, with the object of determining the market effects of specialist dealer activities." (Chapter VI D, Recommendation 11-d)

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By letter to Duke Chapman dated October 17, 1963, Walter Werner requested a meeting to discuss a list of market data items singled out by the Special Study report as warranting first attention, and because the SEC believed that these items could be most readily obtained under the existing member reporting system. The first two items on the list were the ones mentioned above. These items will be designated in the rest of this memo as No. 1 on specialists' purchases and sales as principal, by stock; and No. 2 on details of specialists' transactions. The meeting held on October 30 was attended by several SEC people, R&S people and Roger Wickers.

At the outset we made it clear that the purpose of the meeting was for them to elaborate on the items spelled out in Werner's letter and that we were not committing the Exchange to provide any information at that time. We emphasized also that because the discussion was exploratory, many items would have to be checked out with other departments, particularly Floor Dept. It was immediately evident that they had narrowed the scope of the recommendations in the Special Study report and taken a sampling approach.

On No. 1, their tentative proposal was to have a constant sample of 100 stocks to be tabulated on a regular continuing basis, plus about 25 additional stocks on a variable list for special situations. NYSE would be asked to supply total weekly purchases and sales by specialists in those stocks, for the basic purpose of making this information available to the public. SEC would publish in their Statistical Bulletin the figures on net purchases and sales and the specialists' participation rate for each of the stocks. When pressed they could give no real reason for the need for these data. We pointed out that publication of this information could be misleading and confusing, because TTV can vary greatly in individual circumstances. Apparently they got the point on the need for careful handling of any publication.

On No. 2 NYSE would be asked to supply, in addition to the present Form 81 data, the following information for a small subsample of Forms 81. (This information would be for regulatory purposes and not necessarily for publication. The approach would be to revise the present Form 81 to incorporate the additional information.):

a. Designation of all "own-account" transactions made with the specialists' book.

b. Difference extended between last transaction (i.e., the amount of the tick) for plus and minus ticks only (i.e., excluding zero plus and zero minus).

The subsample consisting of approximately 30 different stocks would be picked by the SEC from the list of stocks covered by Form 81 for each regular two-week sample period. Their thought was to select the stocks at the end of the two-week period. As an alternative, they could designate the stocks for their sample (through the Floor Dept.) before the Forms 81 went out. Also, the amount of the ticks would not have to be tabulated for all the stocks, but only for the ones listed. They seemed receptive to this approach.

On December 5, by letter to Jon Brown, Vito Natrella presented the revised statement of their plans for collecting member trading statistics, based on our October discussion. On point No. 1, the major change was to limit the changing list to any of the week's 15 most active stocks that are not on the pre-selected list. On point No. 2, the letter emphasized that the data would be studied in connection with new specialists' performance tests.

On January 15 Duke, Scotty MacDonald and I met with SEC staff people to discuss the December letter. At that time the Joel Dean report was nearing completion, and we emphasized that it could have a considerable bearing on the statistical requests. On point No. 1 the SEC was willing to wait for the Joel Dean report before coming to any conclusion on computing and publishing specialists' participation rates from these data.

But, on point No. 2 the SEC was unwilling to wait for the Joel Dean report. They wanted to move ahead to collect this kind of information. Recognizing that the Joel Dean report could result in changes in Form 81 and development of new specialists' performance tests, they were willing to limit the collection of these data to a three-month trial period. The object would still be to integrate this request with the regular Form 81 surveillance.

To avoid impairing this surveillance with a changing list of 30 stocks, we suggested a fixed list of 100 for which we would ask the specialists to keep records during a complete three-month cycle. Then, on an unannounced basis, the SEC would designate specific issues from among the 100 on which the specialists would include the requested trading data in their Forms 81. We agreed to explore the feasibility of this or alternative approaches with the Floor Dept. and have Duke Chapman call Dave Silver with our conclusions.

I subsequently discussed this with Bill O'Reilly who considered it a feasible alternative that was better than other approaches. Bill pointed out, however, that the Chairman or the Advisory Committee should be aware of the request if we agreed to it, because it would impose additional clerical duties on the members themselves. He also felt it could interfere with the operation of the market, particularly in busy stocks. On the other hand, if it should prove easy to do, Bill foresaw the danger of this being made a permanent requirement after the test period, even for all stocks.

With Duke's clearance, I have had several conversations with SEC staff people since the January 15 meeting. These conversations all had to do with other statistical requests, such as trading by off-floor members. Duke, however, has had a couple of conversations regarding the specialist data with Dave Silver, as recently as last Wednesday. The current understanding is that the matter is in the SEC's hands, with nothing further expected from us at the moment.

SW/mf
cc: William Jackson
William O'Reilly