


MEMORANDUM

July 21, 1967

TO: Mr. Harry Pollack, Director,
Office of Personnel

FROM: Mr. Eugene H. Rotberg, Associate Director,
Division of Trading and Markets

RE: Helen Steiner's Personnel Matter



You have asked for a short memo describing what Helen Steiner would do in the Division of Trading and Markets. The following are some of the projects which Helen would work on.

- (1) Off-floor Trading. As you know, the Commission has always had a regulatory problem with floor trading on the major Exchanges. Many members, after the floor trading rules were adopted, simply began trading off floor. Helen's job would be to determine the extent of that trading by examining the volume of off-floor trading which she would obtain through special questionnaires and reports. She would have to "break" out off-floor trading due to arbitrage, block purchasing and underwritings, so as to give us the proper picture of the extent of the problem. We expect that this project would result in a number of enforcement cases as it appears that several members are conspiring to buy and sell at the same time. Helen has done this kind of work before on a much more limited scale and knows precisely what to look for and how to set forth the information so as to be useful for regulatory and enforcement purposes.
- (2) Third Market Studies. The third market is becoming a substantial factor in the markets. As you know, Helen set up all of the reporting forms after the Commission required the New York Stock Exchange to change the rules and she prepares the information for the Statistical Bulletin on a quarterly basis. We expect that she would immediately set up an inspection program for the third market-makers with a view to comparing the prices in the third market compared to those on the New York Stock Exchange. This kind of statistical study involves her knowledge of how the two markets operate and the best way to compare prices. As you may know, the third market-maker sells to a wide variety of customers, some of whom are not ultimate buyers but are merely broker intermediaries. Helen is quite conversant with this kind of problem and on a limited basis has made a study of this problem for us in connection with my Rule 394 report. We have promised the Commission that we will do a study of pricing practices in the third market and we expect that Helen would work on this as soon as possible.

- (3) Odd-lot Rules. The Special Study recommended that the Commission do a study of the rules and practices of major Exchanges concerning the "triggering" of odd-lots by means of round lot executions on the floor of the Exchange. This is not a simple question of making up charts and tables from data, but involves a detailed knowledge of how the odd-lot firms actually trade on the floor of an Exchange. It involves, like the other projects, close coordination with the market people in the Office of Regulation. We expect that Helen would develop the proper questionnaire and assist in working up data which would show us the extent and kind of activity by the odd-lot firms in the round lot market with emphasis on conflict of interest situations, etc.
- (4) Institutional Block Trading. As you may know, the Commission is quite concerned with the substantial increase of institutional business on the Exchanges. The sale of large blocks and the methods by which they are sold affects the market since these blocks place substantial pressures on the ability of dealers to perform a stabilizing function. We expect that Helen would set up a procedure to examine the amount of block trading and the methods by which these trades are affected. This kind of data involves working closely with our regulatory personnel staff since it is important to understand precisely the technical ways that the floor is used to absorb the substantial blocks. This kind of information goes far beyond data gathering from the "Fitch" sheets and requires an understanding of the clearing records of the Exchange and their methods of reporting trades. In addition, we would expect Helen to assist in formulating possible rules which would enable us to (a) get meaningful reporting of these transactions, and (b) develop better ways for the markets to absorb the large blocks.
- (5) Regional Exchange Inspections. At the present time, most of our inspections of regional Exchanges are conducted by our legal staff and Don O'Connor, Fred Siesel or Bob Bretz. These last three financial analysts are required to go on these inspections because there is a very significant amount of data relating to (a) specialist offsets on the New York Stock Exchange; (b) distribution of commissions among members; (c) concentration of commission business; and (d) odd-lot commission business, etc.

We have gathered much of this information in the past on a somewhat random basis and have not obtained the same information from each Exchange. We expect that Helen would develop a series of tables and charts, after having some experience on actual inspections, which would enable us to regularize our data gathering on these inspections and provide us with more useful data than we have been getting. At the present time the financial analysts who are familiar with Exchange operations simply have not been able to prepare for the inspection, conduct them, and write up the statistical results while at the same time doing their regular day to day activities. We think that Helen would be useful in developing more standardized procedures for data gathering on the inspections as well as actually participating in the inspections.

- (6) Over-the-counter Markets. As you may know, Helen worked for extended periods during the Special Study on the over-the-counter market and she is quite familiar with the way the market operates. In fact, I know of no one who has a better grasp of the proper way to obtain data concerning the over-the-counter market than does Helen. We now have a substantial need for finding out exactly what the volume is in the over-the-counter market and who is doing it. Our surveillance program only relates to prices (actually only quotations) and not to who is selling how many shares to whom. There are some good short cuts in this area and Helen knows them.

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Special projects and regular projects of the kind referred to above are always coming up. They involve very detailed knowledge of the operations of the markets and close coordination with the personnel staff of Trading & Markets. The data, while statistical, is not the kind that can be developed from secondary sources but rather must be developed from the market place itself. To do so requires a good deal of background in the markets and a coordination with people who need the information to make decisions. Thus, when we need information on speculation in the market we are somewhat at a loss because we do not have personnel to find out where the buying is coming from and the extent of concentration in either brokers or securities. As a consequence, we have relied on Pete Fried, Don O'Connor or Tom Rae's people to make some sophisticated guesses as to the nature of the speculation and where we might best use our resources to solve the problem. It would be much better if we had a very small group to whom we could give such projects which are not purely statistical in nature. Similar projects relating to the operation of the floor trading rules, specialist performance, stabilizing by underwriters, etc. always seem to be facing us. I think this is one of the reasons why much of Helen's work in the last year has involved Trading & Markets projects.

Obviously, Helen cannot cope with these projects by herself. She will need semi-professional clerical assistants and assistance to do an effective job. I think you would agree, under the circumstances, it is not feasible to separate Helen from her required assistants.

If there is anything else you would like to know, please let me know.