THE FLOOR DEPARTMENT
Memorandum

September 5, 1962

SEC Investigation

Fred Siesel of the Special Study Group of the SEC visited me today.

He asked me to describe the various procedures we use to determine the adequacy of a specialist's performance. I told him that we had already given this information in great detail at other times to members of his Group and suggested that he ask specific questions and I would do my best to answer them.

He then asked me how we computed specialists' %TTV, stabilization, carry-over positions, price continuity, quotation spreads, sequence sheets, etc. I described in detail how all this information is prepared. He probed particularly concerning the method of figuring stabilization. On this subject I told him we do it two ways. (Under one method purchases below last night's close on "plus" and "zero plus" ticks are considered as stabilizing, and under the other method they are considered as non-stabilizing.) I emphasized the fact that there is very little difference in the results of the two methods of computation. He asked me why, under the first method, and for the sake of consistency, we did not consider "long" sales on "minus" and "zero minus" ticks above the price of the previous close as being stabilizing. The best answer I could give him was that there is a basic difference between the assumption of a risk in the purchase of stock as compared to the liquidation of a security in making markets. I again emphasized the fact that there is only a small difference anyway between the two methods. He asked me if the computation of stabilization is based on the number of shares rather than the number of transactions. I answered in the affirmative.

Siesel spent quite a bit of time on the question of how we judge whether the specialist has performed adequately and asked whether we had any specific formula. I answered in the negative and explained that each situation had to be judged separately, due to the differences in the number of shares outstanding in listed issues, price levels, general market conditions, market conditions in a specific stock or stocks, etc.

He then stated that this Group was interested in obtaining, if possible, a historic schedule of the number of specialist units and the number which were competitive units each year over a period of years. I told him we did not have any such prepared information and that to assemble it would be an almost impossible task. I offered to give him the current picture based on present registrations but he said he already had this information.

He then stated that his group is interested in obtaining some information with respect to the relative amount of stock which is bought or sold by specialists as agents. He then showed me a very rough draft of a proposed form which they intend to send to certain specialists. The form contained three sections which called for total purchases and sales in a specific stock on a specific trade date made by the specialists as dealer, as agent, and for “stopped orders”. After discussion I believe I convinced him that the third section concerning “stopped orders” was: (1) very confusing and would need clarification; (2) the information would have to relate to a trade date in the future since the specialist would not be able to remember whether he stopped stock on some past data in a specific situation; and (3) that if their objective is as he stated it to me, then this information is not germane to the objective. In any event, he promised to submit the form to us before sending it out so that we may have an opportunity to edit it.

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