THE FLOOR DEPARTMENT

MEMORANDUM

November 30, 1965

SEC

Messrs. Calvin and O'Reilly met with Messrs. Block, Poser, Birnbaum and Siesel of the SEC Staff.

The principal area of discussion was in financing of specialist accounts. It appears from the discussion:

(1) that they were unaware of the fact that a specialist could be financed by a joint account with a creditor and

(2) that, in its extreme sense, specialists could be financed entirely by a creditor.

They said that the Exchange had agreed to review the question of increasing specialist capital requirements; that they had agreed to the 12 units although they had felt 20 were needed and they wanted to know whether the Exchange had considered increasing the number of units a specialist should be able to carry to that figure. I said we had not but we were reviewing the matter of specialist capital but there was nothing I could tell them at this time. They pointed out that an answer was due about January 4 -- one year after the adoption of the present requirement. They said that in view of the increased volume in the market, it appeared to them a change should be made.

They mentioned that the Federal Reserve had requested their opinion on our proposal for a change in Regulation T. This suggested change would permit a specialist to form a joint trading account with more than one creditor without the necessity of the creditor having a man registered as a specialist. In this connection, Poser said their request for syndication applied to specialists only and not to a creditor having an interest in the profit and loss in the account. Further, he said their request applied not to blocks but to Comsat type situations. The point was made that our letter stated we had been studying the situation regarding blocks before the SEC mentioned Comsat.

The discussion on the matter of blocks covered the possibility of sharing the risk. Mention was made of specialists dealing in large blocks such as in the Pan American trade which did not go through. Poser said he personally did not feel a specialist should be permitted to be in any joint account with anyone other than a specialist; that a creditor should not have an interest in the P & L; that he questioned whether specialist participation in the Union Carbide trade was reasonably necessary for him to maintain a fair and orderly market; that while the Exchange was

proud of the trade, the SEC had a question as to whether it was the function of the specialist to trade in blocks of that size.

Block seconded everything Poser said and added that there is certainly a question of whether the block was of a size that would be a distribution and if so, then the question arises regarding the possibility of the existence of a violation of Rule 10-B-6. There was quite a discussion on this point and on where, in their opinion, a line should be drawn on size of specialist participation. They had no specific answer but the question remained for us to consider as to whether the function of the specialist was not being used to conduct a distribution.

Block said the Exchange can't use the vehicle of the specialist to prevent third market competition. I said the question was can the block be handled in the market. Block brought up the point that we should give consideration to 10-B-6 and inquired why we did not issue circulars like the American Stock Exchange in connection with distributions. I said that I thought *Lee Arning had talked to Ed Emerson but had not reached agreement on what would be said. Block said he felt the Exchange had to keep in mind 10-B-6 and Statuary provision re permissiveness of specialist dealings.

The point was made that the character of the market had changed in view of institutional needs; and that the special study had inferred there was need for specialist participation in blocks. This again brought up the question as to size of blocks. I said I thought they were primarily less than 10,000 shares.

Mr. Block withdrew.

I mentioned that we were going to grant exemptions with respect to Form SPA starting with specialists who never had anything to report and also extending to those who had not reported anything in 1965; that the exemption would last one year; and that we would inquire at the time of the renewal of the exemption as to whether any transactions should have been reported. This would be in addition to checks made by our accountants.

*Lee Arning was informed.

The question as to whether we had reviewed the printing of stopped transactions on the tape in their regular sequence was mentioned briefly. Fred Siesel also spoke to me at greater length about it later. I told him that the matter was on my mind; that the ticker had a symbol for stopped stock; but that at present there was the question of the ability of the ticker to print such sales without causing tape delay and I felt last sale information was of the greatest importance. I reviewed the recent step taken re combining sales on the ticker in order to keep it abreast of the market. I said even a 20 million share day was a possibility and I wanted time to think about the matter.

We briefly discussed (a) a recent ruling on Floor Trading and they requested a letter on the subject; (b) commission firm objection to having to sign specialist records in addition to verbal confirmation of trades when specialists deal with the "book" and the reasons why they insisted on such a provision; they promised to review the matter; (c) question as to

whether Form 85 should be continued. Specialists report dealings in 80 stocks on this Form. Similarly, as to whether they were going to get the same information from the odd-lot dealers on a continuous basis. Siesel said they never knew they were supposed to review the matter but they would insofar as specialists were concerned. However, he said the odd-lot dealer report was essential since it was the only indication they had of odd-lot volume per stock; (d) I gave them several copies of a proposed circular dealing with members' trading off-Floor after they have been on the Floor for a particular day.

Poser withdrew.

I mentioned that the circular did not cover two matters they wanted to see in the circular (1) additional reports--one from Registered Traders covering off-Floor transactions and one from non-Registered Traders covering off-Floor transactions (2) a prohibition against members entering orders in stocks in which they had executed orders--similar to prohibitions on Registered Traders.

Birnbaum said he thought we ought to get reports but we should limit the need for filing to those occasions when there was something to report. I said I would not be satisfied with that kind of a report from a Registered Trader in view of past experience with Form 82; and that we were presently doing enough checking on Registered Traders so that a report would not be necessary. With respect to non-Registered Traders I said we would check their off-Floor trading on a surprise basis covering a period of one week per year.

I mentioned there was no restrictions on any other segment of the industry with respect to entering orders for own account and I would not be willing to recommend the prohibition they mentioned.

They will review the circular and give their opinion.

There was also a brief discussion re use of specialists' broker-dealer income by stock. I said we have been gathering such information when our accountants visit the back office of specialists and we probably would require a report sometime in the early part of next year.

J. W. O'Reilly