

March 30, 1936

To: The Commission

From: David Saperstein, Director of Trading and  
Exchange Division

Subject: Report on the Feasibility and Advisability of the Complete Segregation of the  
Functions of Dealer and Broker

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There is transmitted herewith a draft of the report on segregation as completed to date. It consists of the following:

Introduction  
Scope and Sources of the Study  
Part I – The Exercise of the Broker and Dealer  
Functions on Exchanges  
Appendices A-1 to N-1.

The preparation of a draft of the remainder of the report will follow shortly. It will contain Part II – Exercise of the Broker and Dealer Functions in Over-the-Counter Markets; Part III – Conclusions and Recommendations; additional appendices; and the glossary.

*Report referred to herein sent  
to Miss Lenora (Mr. Saperstein's  
secretary) for correction.*

*Returned*

*JDB 5/7/36*

Correct report sent back – Segregation meeting held 5/7/36

REPORT ON THE FEASIBILITY AND ADVISABILITY  
OF THE COMPLETE SEGREGATION OF THE  
FUNCTIONS OF DEALER AND BROKER

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## Introduction

Section 11 (e) of the Securities Exchange Act of 1934 directs the Securities and Exchange Commission to--

make a study of the feasibility and advisability of the complete segregation of the functions of dealer and broker, and to report the results of its study and its recommendations to the Congress on or before January 3, 1936.

Prior to the passage of the Act, Congress gave consideration to the inclusion of a provision prohibiting any member of a national securities exchange or any broker transacting business through the medium of an exchange member from acting as a dealer in securities.<sup>1</sup> During the hearings before the Senate Committee on Banking and Currency and the Committee on Interstate and Foreign Commerce of the House of Representatives, it was urged that segregation of the broker and dealer functions would seriously disrupt the financial machinery of the country and that sufficient information was not available to enable the Committees to recommend such far-reaching legislation. Accordingly, the provision for complete segregation was deleted and the entire subject was referred to the Commission for study.

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<sup>1</sup> S.2693 and H.R. 7852, Seventy-third Congress, second session, provided:

“Sec. 10. It shall be unlawful for any member of a national securities exchange or any person who as a broker transacts a business in securities through the medium of any such member to act as a dealer in or underwriter of securities, whether or not registered on any national securities exchange, It shall be unlawful for any member of a national securities exchange to act as a specialist unless registered as such with the exchange, subject to such rules and regulations as the Commission may prescribe, and it shall be unlawful for any specialist on a national securities exchange (a) to effect on the exchange any transaction except on fixed price orders or (b) to disclose to any other person information in regard to orders placed with him which is not available to all members of the exchange. An exchange may provide that officers or employees of the exchange may perform the functions of specialists subject to such rules and regulations as the Commission may prescribe.”

The complexity and magnitude of the study become apparent when the statutory definitions of the terms “broker” and “dealer” are considered. A “broker” is defined by the Act as a person engaged in the business of effecting transactions in securities for the account of others.<sup>2</sup> A “dealer” is a person engaged in the business of buying and selling securities for his own account.<sup>3</sup> In view of these definitions, the great majority of persons engaged in the securities business in the United States combine the functions of broker and dealer. Hence, a survey of the activities of all such persons is pertinent to this study.

Certain principles applicable to the relationship between broker and customer are well-established in existing law. A restatement of these principles will serve to delineate the boundaries of the present problem. The agency of a broker is fiduciary in its nature. In the performance of his duties he is required to exercise the utmost good faith and integrity. His customers are entitled to his disinterested services, free from any temptation to make an undisclosed, personal profit out of his employment. He is forbidden to act as principal and agent simultaneously. There exists, however, no prohibition against his purchasing and selling securities for his own account in one transaction and acting as broker in another. The problem under consideration, therefore, is to determine to what extent, if at all, this latitude should be permitted to continue.

Where the broker and dealer functions are combined in a single individual, his personal interests may conflict with the interests of those to whom he owes a fiduciary obligation. Thus, a

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<sup>2</sup> Section 3 (a) (4): “The term ‘broker’ means any person engaged in the business of effecting transactions in securities for the account of others, but does not include a bank.”

<sup>3</sup> Section 3 (a) (3): “The term ‘dealer’ means any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise, but does not include a bank, or any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as a part of a regular business.”

broker who, in the exercise of the dealer function, trades for his own account or is financially interested in the distribution or accumulation of securities, may furnish his customers with investment advice inspired less by any consideration of their needs than by the exigencies of his own position. The elimination of this type of conflict is the objective of the proponents of complete segregation.

The conflict between self-interest and fiduciary duty is by no means peculiar to the securities business. It may be present wherever the agency relationship exists. In the securities business, however, the problem is brought into sharp relief by the comparative frequency of transactions.

Moreover, the conflict is not confined to those cases where the functions of broker and dealer coexist. A segregated broker may be influenced by the desire for increased commissions to counsel trading by his customers which is excessive or reckless. Actuated by the same motive he may trade for discretionary accounts with little regard to the safety of his customers. He may divert to his own uses information which he has obtained by reason of his confidential relationship to a customer. He may subordinate the interests of one customer to those of another whose good-will is of greater value. While the Commission is deeply concerned with abuses of this nature, they have not been deemed to be within the scope of this report since they do not result from the combination of the broker and dealer functions. They are significant, however, as evidencing the existence of a conflict of interests which would not be eliminated by segregation.

### Scope and Sources of the Study

The study which has been made for the purposes of this report has included a survey of the broker and dealer functions as exercised on exchanges; a survey of the broker and dealer functions as exercised in over-the-counter markets; a survey of the extent to which undesirable practices arising from the combination of functions have been or may be eliminated under existing law; and an appraisal of the advantages and disadvantages of the enactment by the Congress of legislation completely divorcing the two functions.

To facilitate its study of the combination of functions on exchanges, the Commission devised four forms of reports through the medium of which comprehensive information has been compiled regarding the trading activities of members of the New York Stock Exchange and the New York Curb Exchange, the firms of which such members are partners and non-member partners of member firms.<sup>4</sup>

One form of report called for a recapitulation of the daily purchases and sales of all specialists, odd-lot dealers, and other members, member firms and partners of member firms for their own account in all securities dealt in on the New York Stock Exchange and the New York Curb Exchange, respectively.<sup>5</sup> Reports of this type were furnished to the Commission by both exchanges for a period of twenty-six weeks between June 24, 1935 and December 21, 1935, recapitulating the daily transactions set forth in 28,073 reports filed with the New York Stock Exchange by its members and in approximately 21,200 reports filed with the New York Curb Exchange by its members.

Another form of report called for a similar recapitulation with respect to 20 selected stocks dealt in on the New York Stock Exchange and 9 dealt in on the New York Curb

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<sup>4</sup> A member firm is a firm of which at least one partner is a member of an exchange.

<sup>5</sup> For sample report see Form 1-H, Appendix A-1.

Exchange.<sup>6</sup> A total of 252 such reports were received by the Commission from the Exchanges covering the period from June 28, 1935 to December 18, 1935.

The third and fourth forms were especially designed to procure information concerning the activities of specialists. The former required a daily summary of the purchases and sales in round lots by specialists for their own account and the account of others in the securities in which they specialized; a summary of their daily purchases and sales in odd lots; and a disclosure of their position at the opening and close of the market.<sup>7</sup> A total of 4,567 reports of this kind were furnished to the Commission during the period between June 29, 1935 and December 21,

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<sup>6</sup> For sample report see Form 2-H, Appendix A-2.

The New York Stock Exchange reported on the following stocks:

American Can Company, Common	Radio Corp. of America, Common
American Tel. & Tel. Co., Capital	Sears Roebuck & Co., Capital
American Tobacco Co.,	Southern Pacific Co., Common
American Radiator & Standard	Standard Brands, Inc., Common
Sanitary Corp., Common	Standard Oil Co., N. J., Capital
Anaconda Copper Mining Co., Capital	Texas Corp. (The), Common
Consolidated Gas Co. of N.Y., Com.	Transamerica Corporation, Capital
General Electric Company, Common	Union Carbide & Carbon Corporation,
General Motors Corp., Common	Capital
International Nickel Co. of Canada	U. S. Steel Corporation, Common
Ltd., Common	Woolworth (F. W.) Co., Capital
Pennsylvania R. R. Co., Capital	

The New York Curb Exchange reported on the following stocks:

American Gas & Electric Company, Common  
 Atlas Corporation, Common  
 Creole Petroleum Corporation, Capital  
 Electric Bond & Share Co., Common  
 Niagara Hudson Power Corp., Common  
 Pittsburgh Plate Glass Co., Common  
 Sunshine Mining Co., Capital  
 Technicolor, Inc., Common

<sup>7</sup> For sample report see Form 3-H, Appendix A-3

1935 by 251 specialists registered in 161 stocks on the New York Stock Exchange and by 21 specialists registered in 25 stocks on the New York Curb Exchange.

The fourth form called for the time, amount and price of every transaction effected on the exchange in particular securities and of every purchase and sale made by the specialist in each of such securities for his own account or the account of others; the bid and asked prices quoted by the specialist or by any other member immediately before and immediately after every transaction; and other pertinent data.<sup>8</sup> Daily reports of this type were furnished to the Commission by 18 specialists in 19 stocks dealt in on the New York Stock Exchange between July 2, 1935 and September 7, 1935 inclusive, and by 6 specialists in 6 stocks dealt in on the

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<sup>8</sup> For sample report see Form 4-H, Appendix A-4



New York Curb Exchange between July 9, 1935 and September 7, 1935, inclusive.<sup>9</sup> A total of 1083 such reports were received from the specialists on the New York Stock Exchange detailing

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<sup>9</sup> New York Stock Exchange:

Allied Chemical & Dye Corporation, Common  
 American Radiator  
 American Rolling Mill Co., Common  
 American Tobacco Co., Common D  
 American Tobacco Co., Common  
 Auburn Automobile Co., Common  
 Bendix Aviation Corporation, Common  
 Caterpillar Tractor Co., Capital  
 Commercial Investment Trust Corporation, Common  
 Commercial Solvents Corporation, Common  
 Consolidated Gas Company of N. Y., Common  
 Delaware & Hudson Company, Capital  
 Douglas Aircraft Company, Inc., Capital  
 du Pont de Nemours (E.I.) & Company, Common  
 Electric Auto-Lite Company (The) Common  
 Libbey-Owens-Ford Glass Company, Common  
 Pennsylvania R. R.  
 Sears Roebuck  
 Union Carbide

New York Curb Exchange:

American Cyanamid Company, "B" Non-Voting Common  
 American Gas & Electric Company, Common  
 Technicolor, Inc., Common  
 Niagara Hudson Power Corporation., Common  
 Lake Shore Mines, Ltd., Capital Stock  
 American Cities Power & Light Corp., Class "B"

31,942 transactions; and a total of 312 were received from the specialists on the New York Curb Exchange detailing 3,782 transactions.

The applications filed by all exchanges for registration as national securities exchanges or for exemption from registration were also examined for information with respect to the trading practices prevailing on such exchanges and the rules relating thereto.

The study of the exercise of the broker and dealer functions in over-the-counter markets was aided by information contained in the registration statements filed with the Commission by 5088 brokers and dealers transacting business in such markets whose registration became effective on January 1, 1936.

Conferences were held with members of the investing public, over-the-counter dealers, investment bankers, exchange officials, exchange members, and other persons engaged or interested in the securities business. Available published information was examined. A review was made of the results of the investigation into securities practices conducted by the Senate Committee on Banking and Currency and of the hearings before that Committee and the House Committee on Interstate and Foreign Commerce which culminated in the enactment of the Securities Exchange Act of 1934.

Many of the terms employed in the securities business have a special or technical meaning. As far as practicable such terms have been avoided in this report. Those which it was found necessary to use are explained in the Glossary.

PART I

THE EXERCISE OF THE BROKER AND DEALER FUNCTIONS  
ON EXCHANGES

1. Classification and Functions of Members.

On January 1, 1936, twenty-three exchanges were registered with the Commission as national securities exchanges, five exchanges were exempt from registration and four exchanges had been granted temporary exemption from registration until February 1, 1936.<sup>10</sup>

The

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- <sup>10</sup> Registered exchanges:
- Baltimore Stock Exchange
  - Board of Trade of the City of Chicago
  - Boston Stock Exchange
  - Buffalo Stock Exchange
  - Chicago Curb Exchange
  - Chicago Stock Exchange
  - Cincinnati Stock Exchange
  - Cleveland Stock Exchange
  - Denver Stock Exchange
  - Detroit Stock Exchange
  - Los Angeles Stock Exchange
  - New Orleans Stock Exchange
  - New York Curb Exchange
  - New York Real Estate Securities Exchange, Inc.
  - New York Stock Exchange
  - Philadelphia Stock Exchange
  - Pittsburgh Stock Exchange
  - St. Louis Stock Exchange
  - Salt Lake Stock Exchange
  - San Francisco Curb Exchange
  - San Francisco Stock Exchange
  - Standard Stock Exchange of Spokane
  - Washington Stock Exchange
- Exempt exchanges:
- Honolulu Stock Exchange
  - Milwaukee Grain & Stock Exchange
  - Minneapolis-St. Paul Stock Exchange
  - Richmond Stock Exchange
  - Wheeling Stock Exchange

total number of memberships, regular and associate, on all exchanges as of that date was 6,082.<sup>11</sup>

Members of exchanges may be classified, according to their primary activities, as commission brokers, floor brokers, floor traders, odd-lot dealers, odd-lot brokers, bond brokers and dealers, and specialists. The functions of each of these classes will be hereinafter described.

No limitations are imposed by the rules of any exchange upon the number of capacities in which members may transact business. Until recently, members were not required to be registered in any category. In April, 1935, a rule was recommended by the Commission for adoption by every national securities exchange prohibiting any member from acting as a specialist in a security unless he is registered as such by the exchange; and a similar rule was recommended for any member desiring to act as an odd-lot dealer. These rules have since been adopted by all exchanges upon which the specialist or odd-lot system is in operation. Apart from these registration requirements, members are unrestricted in the selection of the capacities in which they will act. Subject only to the physical and financial limitations imposed by their primary activities, they freely combine any of these capacities. Their business may be further diversified by participation in over-the-counter transactions of various kinds. Since some of these activities constitute functions of a "broker" and others those of a "dealer, it is evident that the segregation of the functions of broker and dealer would circumscribe in some degree the activities of most members of exchanges.

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Temporarily exempted exchanges:	Colorado Springs Stock Exchange Manila Stock Exchange San Francisco Mining Exchange Seattle Stock Exchange
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<sup>11</sup> This figure includes 1549 memberships on the Board of Trade of the City of Chicago held by persons who may deal principally or exclusively in commodities.

Officials and members of the smaller exchanges throughout the country state that the relatively meagre amount of their exchange brokerage business necessitates a broad diversification of their activities. Particularly among those who are not also members of either of the large New York exchanges, grave doubts are expressed concerning their ability to survive should they be compelled to forego any of the present aspects of their business. The conviction is prevalent that segregation would inevitably close the local exchanges. No determination need be made at this point respecting the soundness of these views. It is sufficient to note here that members of exchanges located outside of New York almost without exception engage in multiple types of activity on the exchanges and in the over-the-counter markets.

On the New York Stock Exchange and the New York Curb Exchange the functional classification of members is more sharply defined. The greater magnitude of exchange business to be handled results in a natural concentration of members' activities in particular fields. As the volume of business increases, the tendency toward specialization becomes more manifest. Seldom, however, does this tendency reach the point where the functions of broker and dealer are completely disassociated.

The functional classification of the members of the New York Stock Exchange as of October 1, 1935, is shown in the following table.<sup>12</sup>

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<sup>12</sup> Based on figures furnished to the Commission by officials of the New York Stock Exchange. The enumeration contained in this table is subject to change from time to time as members vary the nature of their primary activities.

FUNCTIONAL CLASSIFICATION OF THE MEMBERS  
OF THE NEW YORK STOCK EXCHANGE  
AS OF OCTOBER 1, 1935

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Function	Total Members	Members of Firms	Individual Members
Commission broker	391	391	--
Floor Broker (\$2 broker)	158	30	128
Floor trader	35	4	31
Odd-lot dealer	25	25	--
Odd-lot broker	115	6	109
Bond broker and dealer	76	70	6
Specialist	348	248	100
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Active members	1148	774	374
Inactive members	227	163	64
	<hr/>	<hr/>	<hr/>
Total	1375	937	438
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A general description of the operations of each class \_\_\_\_\_ members will be useful in determining the manner in which the functions of broker and dealer are combined by such members. While the discussion which follows has special reference to the classes of members on the New York Stock Exchange, it is equally applicable to the New York Curb and, in fact, to all exchanges where such classes exist.

(a) The Commission Broker.

The commission broker engages in the business of effecting transactions for the public.

Three hundred ninety members of the New York Stock Exchange act primarily as commission brokers.<sup>13</sup> In each case the member is a partner of a firm and these firms are the principal media of contact between the investing public and the exchange. They maintain large organizations, branch offices and communication systems to facilitate the transaction of their business and to keep their customers constantly informed of developments in the market; employ customers' men to solicit business and furnish market advice; support statistical departments to analyze securities for the benefit of partners and customers; publish market letters and circulars which discuss general market conditions or the prospects for specific securities; extend credit to enable customers to purchase and carry securities; borrow and lend securities for customers; and act as depositories for the safekeeping of customers' securities and credit balances.

In addition to executing brokerage orders for customers, commission houses may perform a diversity of functions. They may act as fiduciaries in the management of investment trusts, in the conduct of discretionary accounts and in the sale of investment counsel; and they may act as principals in underwritings, primary or secondary distributions and trading operations for firm account. Moreover, the partners of such firms, in the absence of agreement to the contrary, may

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<sup>13</sup> See table, page 14, supra.

further complicate the interrelationships by trading for their own account and by acting as directors or officers of issuers.

It is evident that the pecuniary interests of a commission house, the activities of which are thus diversified, may run counter to the best interests of those for whom it acts as agent. In the management of an investment trust by a commission house, the trust may be used as an outlet for issues which the firm is engaged in underwriting. A commission house may employ its discretionary powers over customers' accounts to create activity and attract public interest in a security which it is engaged in distributing. In furnishing investment counsel, its recommendations may be based not upon disinterested analysis but upon the fact that it maintains a trading position in the security. Substantial participation in underwriting or distributing operations or excessive trading for its own account may impair the solvency of a firm, thereby jeopardizing the securities and credit balances of its customers. Its trading activities on the exchange may so influence the price level of a security that its customers' orders are executed on less favorable terms than might otherwise have been possible.

Undoubtedly, a high standard of business conduct prevails among reputable commission brokers and is enforced on their employees. The rules of the exchanges erect additional safeguards for the protection of customers. Nevertheless, abuses made possible by the multiple activities described above, have not been uncommon in the past.

(b) The Floor Broker (Two Dollar Broker).

The floor broker, also known as the "two dollar broker", engages in the business of executing orders for other exchange members and member firms.



One hundred fifty-eight members of the New York Stock Exchange are engaged in business primarily as floor brokers.<sup>14</sup> Thirty are partners of firms and one hundred twenty-eight are individuals not connected with any firm. The floor broker has little if any direct contact with the public, practically all his business being transacted on the floor of the Exchange. He is frequently a substantial trader for his own account. Data furnished to the Senate Committee on Banking and Currency by New York Stock Exchange members indicated that during the month of July, 1933, the ten most active members of the Exchange classifying themselves as floor brokers bought 880,850 shares and sold 890,650 shares for their own account for a total of 1,771,500 shares bought and sold; while the ten most active members classifying themselves as floor traders bought 1,014,359 shares and sold 1,110,095 shares for their own account for a total of 2,132,454 shares bought and sold. The single most active trader for his own account classified himself as a floor broker. Although the average floor broker does not trade as heavily for his own account as the average floor trader, by reason of their superior numbers floor brokers in the aggregate trade in greater volume than floor traders in the aggregate. Thus, during July, 1933, the seventy individual members of the New York Stock Exchange who classified themselves as floor brokers bought and sold for their own account a total of 3,614,411 shares as compared with 3,310,709 shares bought and sold by the twenty-six individual members classifying themselves as floor traders.

The exercise of both the broker and dealer functions by the floor broker may react to the disadvantage of members or customers of members whose orders he has accepted for execution. His personal trading may divert him from exerting his best efforts when acting as a broker. As pointed out in the case of the commission broker, his transactions may raise or depress the price

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<sup>14</sup> See table, page 14, supra.

level of a security and thereby compel the execution of a brokerage order at a less favorable price or even prevent its execution entirely. He may buy or sell for his own account in competition with an order which he has accepted for execution and in fact may be impelled to trade by his knowledge of such order. While he is prohibited by exchange rules from effecting a transaction for his own account at the same price as is specified in an order which he has undertaken to execute, he may, notwithstanding, outbid or undersell his principal.

On the other hand, the activities of the floor broker are usually subject to the scrutiny of other members of the exchange or their partners who are thoroughly cognizant of his methods of operation. A powerful incentive for this surveillance is the fact that a commission broker is liable to his customer for a negligent or improper execution by the floor broker whom he has employed as sub-agent. Accordingly the opportunities for abuse on the part of the floor broker are to some extent diminished. Failure of a floor broker to execute orders properly and efficiently is swiftly noted and is likely to result in a loss of brokerage business, particularly in view of the keen competition for such business which exists among floor brokers.

(c) The Floor Trader.

The floor trader engages in the business of buying and selling securities for his own account on the floor of the exchange.

Thirty-five members of the New York Stock Exchange act primarily as floor traders.<sup>15</sup> The floor trader has no contact with the public, extends no credit, and usually does not maintain an independent office. He is a professional speculator who deals in securities for quick profits. His activities are seldom restricted to a fixed post or to a particular security or group of securities. He does not solicit brokerage business and his brokerage function is distinctly of

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<sup>15</sup> See table, page 14, supra.

minor importance. He has few personal customers but occasionally is employed by members or firms to execute large orders for the purpose of concealing their presence in the market. By and large, however, the floor trader prefers to remain independent. Unlike the floor broker, therefore, he is not restrained in his trading by the forces of competition for brokerage business or the necessity for retaining the goodwill of customers. Unlike the specialist he does not profess to have any responsibility for the maintenance of a fair and orderly market.

(d) The Odd-lot Dealer.

The odd-lot dealer specializes in filling orders as principal for lots of less than the unit of trading, at a fixed differential away from the round-lot price.

Twenty-five members of the New York Stock Exchange \_\_\_\_\_ partners of firms engaged in the business of dealing in odd-lots.<sup>16</sup> The bulk of the business in odd lots on the New York Stock Exchange is handled by three odd-lot houses.<sup>17</sup> These firms deal as principals exclusively, conduct no brokerage business either in round lots or in odd lots, and have no customers except commission houses which act as middlemen between small investors or traders and the odd-lot dealers. The dealings of the odd-lot houses are confined to the purchase and sale of lots smaller than the unit of trading and the purchase and sale of round lots to offset such odd-lot transactions. They exercise the dealer function exclusively and present no problem in respect to segregation.

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<sup>16</sup> See table, page 14, *supra*.

<sup>17</sup> In addition to these odd-lot dealers, several specialists on the New York Stock Exchange deal in odd-lots but the volume of odd-lot business handled by them is relatively insignificant. On all other exchanges where the specialist system is in operation, odd lots are handled by specialists and the problems presented by this combination of functions will be discussed in the section on the specialist, *infra*, page \_\_\_\_\_ et seq.

(e) The Odd-Lot Broker.

The odd-lot broker specializes in executing orders for the account of the odd-lot dealer firm with which he is associated.

One hundred fifteen members of the New York Stock Exchange act as odd-lot brokers for firms which deal in odd lots on the Exchange.<sup>18</sup> One hundred nine of these members are not partners of any firm and six are partners of member firms. The odd-lot broker has no customers but devotes his services exclusively to the odd-lot dealer firm by which he is employed to execute orders on the floor of the exchange. He may trade for his own account, but the watchfulness of his employer is ordinarily an effective safeguard against abuse.

(f) The Bond Broker and Dealer.

The bond broker and dealer specializes in effecting transactions in bonds either for the account of customers or for his own account.

Of the seventy-six bond brokers and dealers who are members of the New York Stock Exchange seventy are members of firms and six are individuals.<sup>19</sup> The broker and dealer functions are generally found in combination among this group. The problem presented by this combination of functions is complicated by two factors; first, the fact that the primary market in many, if not most, listed bonds is over-the-counter rather than on the exchange; and secondly, the fact that the market in bonds on the exchange is frequently less continuous than in stocks.

Because of these factors, the member who deals in bonds, in the absence of instructions to the contrary, may employ the facilities of both markets to increase his profits. Thus, when dealing in an inactive bond, he may effect a transaction for his own account in a small lot on the exchange in order to establish a price against which he may deal as principal off the exchange in

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<sup>18</sup> See table page 14, supra.

<sup>19</sup> See table page 14, supra.

a larger lot. To illustrate, a member has learned that 100 bonds are for sale over-the-counter which he would like to buy for his own account. The last sale price on the exchange was 25 and the best bid is now 24 for 5 bonds. The member sells 5 bonds on the exchange at 24 and then purchases the 100 bonds off the exchange at the price thus established.

The purchaser of bonds, unlike the purchaser of stocks, does not usually expect an immediate execution of his order. Hence, when semi-active bonds are involved, the broker seldom executes the order immediately on the exchange; but first canvasses the over-the-counter market in search of a selling order which he may “cross” on the floor of the exchange and thereby earn two commissions instead of one. Or, unless he has been instructed to execute the order on the exchange, the bond broker may interpose as principal between two customers, his profit in such cases consisting of the differential between the amount which he pays to one and the amount which he receives from the other.

On the other hand it frequently happens that the demands of a customer exceed the supply of an investment security then available for sale on an exchange, and in such case the customer may be benefited by the fact that his requirements are supplied out of the member’s holdings. Similarly, when an exchange market will not, without a serious decline in price, absorb the amount which a customer desires to sell he may receive a fairer price from a member who is willing to purchase the security for his own account.

(g) The Specialist.

The specialist characteristically confines his activities to a particular security or group of securities in which he transacts business both as broker and as dealer.

The problem presented by the combination of functions in the specialist is separately treated in another section of this report.<sup>20</sup>

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<sup>20</sup> See Section 2(b) page *infra et seq.*

## 2. Extent and Significance of Dealer Activities.

If complete segregation of the broker and dealer functions on exchanges were to be found feasible and advisable, it might be accomplished in two ways. One method would be to eliminate the dealer function entirely by restricting membership on exchanges to brokers.<sup>21</sup> This proposal has been justified by its proponents upon the ground that the proper function of an exchange is to furnish a market place in which only the orders of the investing public can be executed. The alternative method would be to compel exchange members to elect between the broker and dealer functions and to prohibit the commingling of such functions by any member. Since the first method would involve the complete abolition of the dealer function on exchanges and the second its continuance apart from the broker function, an intelligent appraisal of the feasibility and advisability of segregation requires a consideration of the extent and significance of dealer activities on exchanges.

Through the medium of reports furnished by the New York Stock Exchange and the New York Curb Exchange, the Commission has been enabled to determine with reasonable accuracy the volume of trading on those exchanges during the latter half of the year 1935 for the account of members and for the account of the non-member public.<sup>22</sup> The extent to which members

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<sup>21</sup> This method was proposed in an early draft of the Exchange Act to which reference has heretofore been made. See Introduction, footnote 1, page 1, *supra*.

<sup>22</sup> Except as otherwise specifically indicated, the term “members” is used in this section of the report to designate exchange members, member firms and partners of member firms; and the term “members’ trading” is used to designate transactions for the account of members, member firms and partners of member firms effected either by themselves or through the medium of other members acting as brokers.

The term “non-member public” should not be construed as synonymous with “non-professional public” since it includes brokers, dealers and other professional traders who are not exchange members.

participate in these markets as principals may thus be compared with the participation of the non-member public.

Between June 24, 1935 and December 14, 1935 members' trading in all stocks on the New York Stock Exchange (exclusive of transactions by odd-lot dealers<sup>23</sup>) ranged from 21.8% to 26.3% of the total weekly volume of purchases and sales and constituted 24% of all purchases and sales for the 25-week period. The average weekly percentage of members' trading to total purchases and sales was also 24%.<sup>24</sup>

On the New York Curb Exchange, members' trading in all stocks from July 8, 1935 to December 14, 1935, varied between 20.7% and 25.9% of the weekly volume and comprised 23.4% of all purchases and sales for the entire period.<sup>25</sup> The average weekly percentage of such trading was 24.5%. These ratios, it will be observed, are substantially the same as on the New York Stock Exchange.<sup>26</sup>

During the period under observation, members of the New York Stock Exchange and the New York Curb Exchange acted as principals in the purchase or sale of approximately 25 out of

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<sup>23</sup> Transactions in round lots for the account of odd-lot dealers, which generally aggregate about 3% of the total, have not been included in the category of "members' trading" for the reason that such transactions are generally effected for the purpose of off-setting odd-lot orders of non-member customers.

<sup>24</sup> See Appendix B-1 for weekly volume and percentage figures.

<sup>25</sup> See Appendix B-2, for weekly volume and percentage figures.

<sup>26</sup> This statement is subject to the qualification that in the percentages of members' trading on the Curb Exchange are included round-lot transactions of specialists to offset odd-lot orders of customers. As in the case of off-setting round-lot transactions of odd-lot dealers on the New York Stock Exchange, the off-setting transactions of Curb specialists are not strictly in the category of "members' trading" and they are only included therein because of the extreme difficulty of segregating them from other transactions of the specialist. They are estimated at about 3% of the total purchases and sales and proper adjustment can be made accordingly.



every 100 shares bought or sold on their respective exchanges. Their dealer activities, therefore, constituted a substantial part of their exchange business. Their brokerage activities consisted principally of effecting transactions for the account of non-members who may only buy or sell on an exchange through the medium of a member. Hence, the purchase or sale of at least 75 shares out of every 100 was effected by members acting as brokers. To this must be added their brokerage transactions for the account of fellow members, with respect to which unfortunately, no figures are available.

The volume of members' trading varied widely in different types of stocks. In stocks enjoying broad distribution and considerable public interest their trading was considerably above the average for all stocks. On the New York Stock Exchange members' trading in 20 stocks of this character (exclusive of odd-lot dealers' transactions) between June 27, 1935 and December 11, 1935 amounted to 30.1% of all purchases and sales in those stocks.<sup>27</sup> On the Curb Exchange, members traded in 8 stocks of the same character between July 8, 1935 and December 14, 1935 to the extent of 35.9% of the total purchases and sales in those stocks.<sup>28</sup>

While it was not found feasible to gather comparable figures for the smaller exchanges, there is no reason to believe that the situation has changed materially on such exchanges since July, 1933, when the relative volume of members' trading was considerably less in proportion to total volume than on either of the New York exchanges. The figures compiled by the Senate Committee on Banking and Currency for the month of July, 1933, disclosed that the percentage of members' trading to all shares bought and sold on the New York Stock Exchange was

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<sup>27</sup> See Appendix B-3, for names of stocks and weekly volume and percentage figures.

<sup>28</sup> See Appendix B-4, for names of stocks and weekly volume and percentage figures.

27.0125% and on the New York Curb Exchange 27.48% as compared with 12.36% on 27 other exchanges.<sup>29</sup>

Trading activities of members include floor trading and trading off the floor. It is necessary to distinguish between these types of trading because they manifest different characteristics and present different problems. Separate treatment is also necessitated by the fact that the existing powers of the Commission with respect to floor trading are considerably broader than its power to control trading off the floor.<sup>30</sup>

Of the total purchases and sales on the New York Exchanges during the period studied, percentages of members' trading on the floor and off the floor were as follows:

<u>Members' Trading</u>	<u>New York Stock Exchange</u>	<u>New York Curb Exchange</u>
Floor Trading:		
(a) By members other than specialists.....	9.4%	5.5%
(b) By specialists.....	9.4	13
Trading off the floor.....	<u>5.3</u>	<u>4.9</u>
Total	<u>24.1%</u> <sup>31</sup>	<u>23.4%</u>

<sup>29</sup> Report of the Senate Committee on Banking and Currency pursuant to Senate Resolution 84 (72nd Congress) pp. 19-21.

<sup>30</sup> For a more complete discussion of these powers see Part III, *infra*.

<sup>31</sup> The difference of 1/10% between this total and the total shown in Appendix B-1 is accounted for by the fact that the percentages in the appendix were computed to the nearest 1/10%.

(a) Floor Trading by Members Other than Specialists.

Contrary to popular belief, floor trading is not confined to the relatively small group of members classified as “floor traders”. Substantially all classes of active members engaged in floor trading. The dealings of specialists in the securities in which they are registered constitute floor trading, as do also the transactions effected by all other members for their own account on the floor. The trading of specialists in the securities in which they are registered involve several features which do not appear in the trading of other members and will therefore receive separate consideration.<sup>32</sup> Transactions of odd-lot dealers, who are not also specialists, are in a special category by virtue of the fact that such members seldom trade for their own account except to offset odd-lot orders of customers. The ensuing discussion, therefore, relates to floor trading by members other than such specialists and odd-lot dealers.

Floor trading has been subjected to criticism in the past upon various grounds. Several contentions have also been urged in its favor. An analysis of these conflicting arguments and of the pertinent data compiled by the Commission will aid in determining whether any necessity exists for the elimination of floor trading on exchanges or for compelling members to elect between the dealer and broker functions while on the floor.

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<sup>32</sup> See Subsection (b), page , *infra*.

Analysis of Objections to Floor Trading

(i) Objection that floor trading is detrimental to the public interest because it is essentially speculative in character.

It is generally conceded that floor trading is essentially speculative in character. In their capacity as dealers on the floor of the exchange, members ordinarily trade at frequent intervals seeking profits from comparatively small price fluctuations. Their trading is preponderantly of the in-and-out variety, i.e., purchases are followed by corresponding sales and vice versa within the course of a trading session. They endeavor to even up their transactions as rapidly as possible and prefer not to hold a position over a week-end or holiday or for any extended period of time.<sup>33</sup>

Between June 24, 1935 and December 14, 1935 floor trading by members (other than specialists and odd-lot dealers in the securities in which they were registered) represented 9.4% of the total round lot purchases and sales on the New York Stock Exchange.<sup>34</sup> On the Curb Exchange, floor trading by members, (aside from specialists in the securities in which they were registered) constituted 5.5% of the total round lot purchases and sales between July 8, 1935 and December 14, 1935.<sup>35</sup>

The table in Appendix C-1 discloses that week by week the number of shares purchased by New York Stock Exchange members as a group bore a close relation to the number sold. For the entire period members bought 22,971,934 shares and sold 21,998,665 shares. The maximum

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<sup>33</sup> These statements are, of course, subject to the qualification that members with adequate resources purchase securities from time to time which they retain for purposes of investment. Their trading activities on the floor, however, are usually as described in the text.

<sup>34</sup> See Appendix C-1 for weekly volume and percentage figures.

<sup>35</sup> See Appendix C-2 for weekly volume and percentage figures.

divergence between their purchases and sales occurred during the week ending November 16th where they purchased on balance 181,870 shares.<sup>36</sup> During that week members bought a total of 1,386,140 shares and sold a total of 1,204,270 shares. The smallest divergence is noted for the week ending September 7th, when their total purchases were 617,066 shares and their total sales, 616,050 shares, leaving them purchasers on balance of 1,016 shares.

On the New York Curb Exchange, as indicated in Appendix C-2, members' maximum purchases on balance amounted to 48,240 shares for the week ending August 10th during which they purchased a total of 166,560 shares and sold a total of 118,320 shares. The minimum divergence between their purchases and sales occurred during the week ending November 23rd, when their total purchases amounted to 161,250 shares and their total sales to 161,635 shares, leaving them sellers on balance of only 385 shares. For the whole period Curb members purchased 2,537,005 and sold 2,453,060 shares.

Additional evidence in support of the contention that floor trading is speculative in character is found in data compiled by the Senate Committee on Banking and Currency. These data include the number of shares bought and sold by each member of the New York Stock Exchange during the month of July, 1933. In the overwhelming majority of cases the reporting member, whether his trading was large or small, sold almost exactly the same number of shares as he bought. Similar data furnished by members of other securities exchanges demonstrate that this tendency of members to even their positions over comparatively short periods of time persists among members of practically all exchanges.

Whether the fact that floor trading is speculative in nature makes it detrimental to the public interest, depends upon various factors. Insofar as speculative transactions unduly

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<sup>36</sup> Members are purchasers "on balance" when their total purchases exceed their total sales; they are sellers "on balance" when their total sales exceed their total purchases.

influence the course of security prices or create activity which stimulates uninformed speculation by members of the public, they are clearly opposed to the public interest. Insofar as they genuinely contribute to the continuity and stability of the exchange market and to the liquidity of securities traded thereon, they perform a proper and useful function. An attempt will be made to determine whether floor trading renders a service or disservice to the exchange market in the subsequent analysis of the arguments for and against floor trading.

(ii) Objection that floor trading is detrimental to the market because it accentuates price trends.

The contention is frequently made that exchange members roam the floor in search of fruitful trading opportunities and that when activity breaks out in a security they are swift to gauge the character of the orders and the direction of the price trend. If buying orders predominate and the trend is upward they become purchasers, thereby increasing the demand for the security and accentuating the upward trend. Per contra, if the security is in supply and the trend is downward, they become sellers and their sales increase the extent and velocity of the downward trend. Moreover it is alleged that the extent to which members influence prices is not measured exclusively by their own trading but that such trading attracts buying or selling by others which in turn accentuates the price trend.

In testing the validity of these arguments, it is necessary to distinguish between the trend of prices from day to day or over a few days and the trend for longer periods. As shown above, floor trading for the most part, is of the short-run, in-and-out variety. Since members customarily liquidate their positions as rapidly as profitable trading will permit, their purchases and sales, tend to nullify each other and to exert little long-range effect upon prices.

Nevertheless, it should be borne in mind that floor trading may attract to the market many persons who are influenced to trade in a security when it exhibits unusual activity or a pronounced tendency to rise in price. This is particularly true of those who endeavor to forecast security prices upon the basis of information derived from the ticker tape. Such persons are susceptible to “tips” and rumors. They are generally purchasers on margin, inclined to over-trade, and, unlike the professional trader, seldom satisfied with quick, moderate profits. As a result they maintain trading positions for a considerably longer period than do the professionals. Their purchases follow the trend and exaggerate the upward movement. When the trend moves against them, they continue to hold a position until their margin is gone. When they finally sell or are sold out, the liquidation of their securities lends impetus to the downward movement. Thus, while the trading of members on the floor does not of itself materially influence the direction of prices over any considerable period, the trading of non-members attracted to the market by members’ trading may materially accentuate the long-range price trend.

The impact of floor trading upon day-to-day prices, presents a different picture. A study has been made to ascertain what relation exists between purchases and sales by members and changes in price. For a period of 144 days, a tabulation was prepared of the daily changes in the combined position of members resulting from transactions initiated while on the floor of the New York Stock Exchange.<sup>37</sup> Such changes in position measure the extent to which members as a whole were buyers or sellers on balance each day. A comparison was then made between these changes in position and the daily changes in the Standard Statistics Daily Stock Price Index. This comparison revealed that out of 84 days when the Index advanced, members, as a group, purchased more than they sold on 60 days and sold more than they purchased on 24 days. Out of

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<sup>37</sup> See Appendix D-1

55 days when the Index declined, they purchased more than they sold on 25 days and sold more than they purchased on 30 days.<sup>38</sup> It appears, therefore, that the operations of members on the floor were with the daily trend of prices on 90 days or 64% of the time and against the daily trend on 49 days or 36% of the time.<sup>39</sup>

It is interesting to note that on 56 days when the Index changed one-half point or less, members traded with the trend on 29 days and against it on 27 days. On the remaining 83 days when the Index changes more than one-half point, they traded with the trend on 61 days and against it on 22 days. In other words, when fluctuations in price were small, floor trading was neither preponderantly with nor preponderantly against the trend. When, however, the market definitely moved in one direction or the other, floor trading was with the trend of prices 73.4% of the time.

It is also worthy of mention that on 52 days when the aggregate position of members varied less than 10,000 shares, their trading paralleled the trend on 26 days and opposed it on 26 days. On 87 days when their aggregate position varied more than 10,000 shares, they moved with the trend on 64 days, or 73.4% of the time and against it on 23 days, or 26.6% of the time. Thus, when their position change was small, their trading was evenly divided in relation to the trend. Conversely, when their change in position was large, their trading was definitely with the trend.

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<sup>38</sup> Five days when the price index remained unchanged have been eliminated from consideration. On those days members' purchases exceeded sales three times and their sales exceeded purchases twice.

<sup>39</sup> The relationship between changes in members' position and changes in the price index shown in Appendix D-1, is confirmed by calculating the correlation of floor traders' daily balances with daily changes in the New York Herald Tribune Composite Average. Such correlation yields a coefficient of -.55. The probability of this correlation being spurious is smaller than .01.



A further test was made to determine the direction of members' trading when a substantial change occurred both in the price of securities and in the position of members. On 24 days when the index rose or fell one point or more and members' aggregate position increased or decreased by 25,000 shares or more, it was found that their trading was with the market on 21 days and against it on 3 days, or, expressed in percentages, 87.5% and 12.5% of the time respectively.

A similar study of members' trading on the floor of the New York Curb Exchange for 133 days shows that such trading bears a slightly closer relation to the daily trend of prices than on the New York Stock Exchange.<sup>40</sup> Their daily changes in position were with the price trend on 87 days or 65.4% of the time and opposed to it on 41 days or 34.6% of the time. Curb members displayed the same inclination to trade with the market when prices moved emphatically in one direction or the other and when their changes in position were of a substantial nature. On 25 days when the price index moved more than .2 of a point and their changes in position were upward of 5000 shares, such changes were with the trend on practically every day during the entire period.<sup>41</sup>

While it appears that members on the floor trade with the daily price trend more frequently than not, the question remains whether floor trading changes the direction of prices or merely follows the trend. Many instances have been brought to the Commission's notice in the course of its investigations in which prices have been materially influenced by the activities of

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<sup>40</sup> See Appendix D-2.

<sup>41</sup> The use of .2 of a point and 5000 shares as standards for measuring substantial changes in price and position respectively, is more or less arbitrary. These standards were selected because a change of .2 of a point in the price index and of 5000 shares in members' position on the New York Curb Exchange corresponds roughly with a change of 1 point in the price index and 25,000 shares in members' positions in the New York Stock Exchange.

members on the floor. Other instances have been noted in which the trading of members although with the daily trend, exerted no visible influence on the direction of prices. The evidence points both ways and the truth probably lies between. In any event it is evident that floor trading on most days accentuates the trend of market prices in general.

It should be borne in mind that the foregoing analysis deals with the effects of floor trading on the prices of all stocks considered as a group. Particular cases have been noted and more could undoubtedly be adduced in which the trading of members on the floor did not accentuate the price trend but acted rather as a stabilizing factor. To a consideration of such cases, this report will return below.<sup>42</sup>

(iii) Objection that members who trade while on the floor enjoy certain competitive advantages over all other persons.

These advantages allegedly include the fact that such members do not pay any commission upon orders executed by themselves; that they are able to trade extensively with far less capital than non-members; and that by virtue of their presence on the trading premises they have instant access to information concerning the trend of prices and direction of trading which is not available until later to persons off the floor.

Undoubtedly members on the floor are possessed of special trading opportunities and advantages over other persons. The cost to a member of effecting transactions for himself is materially less than the cost to a non-member customer. The non-member pays a minimum commission fixed by the rules of the exchange. On the New York Stock Exchange the minimum commission payable on an ordinary purchase or sale of stocks runs from \$3 per hundred shares for stocks selling under \$1 by gradations up to \$30 per hundred shares for stocks selling between

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<sup>42</sup> See discussion under Contention (ii), p. 48 *infra*.

\$200 and \$250. For the purchase or sale of bonds on the New York Stock Exchange a customer is ordinarily required to pay a minimum commission ranging between 75¢ per thousand dollars of principal in the case of bonds selling at less than \$10 and \$2.50 per thousand dollars of principal in the case of bonds selling at \$100 and above. A member who executes his own orders does not pay these charges but is required to pay a clearing charge unless he or his firm is a clearing member. The clearing charge, which is subject to agreement, is generally between \$1 and \$1.50 for a purchase and sale of 100 shares consummated on the same day. If securities are held overnight the clearing charge for the purchase and sale of 100 shares is generally \$3.75. Thus the cost to a member of effecting a purchase and sale on the same day of 100 shares of a security selling at \$100 is approximately \$1 whereas the cost to a non-member of effecting a purchase and sale of the same security is \$50.<sup>43</sup> It is evident, therefore, that a member trading for his own account is in a position to trade with greater frequency, to profit from smaller price changes and to incur less risk of loss than a non-member.

The allegation that members on the floor are able to trade extensively with less capital than non-members also appears to be well-founded. This situation results from the fact that floor trading is largely of the type known as “daylight” trading.<sup>44</sup> A member may purchase securities at prices far in excess of his ability to pay so long as he evens his position by corresponding sales before the end of the trading session. If he retains a position for a longer period, this advantage is lost. Unless a security purchased for his own account is carried over-night he is not deemed to have incurred any indebtedness with respect thereto. Since daylight transactions involve no indebtedness, he also avoids the payment of interest and other carrying charges. As a

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<sup>43</sup> Exclusive of Federal and State taxes.

<sup>44</sup> As distinguished from over-night trading.

consequence members with small capital are enabled to trade to an extent altogether disproportionate to their resources. While it is true that a non-member may likewise be an in-and-out trader, the firm through which he trades will be likely to require the deposit of adequate collateral to secure such transactions.

Finally the assertion that his immediate view of the market is advantageous to the member on the floor is not without substance. He is in a position to discount or revise his market appraisals almost instantaneously. Upon the basis of information which he derives while on the floor he can increase, decrease or cancel his orders more rapidly than a non-member to whom the same information is only made available at a later time. This is particularly true when the "tape is late", i.e., when reports of transactions which are conveyed to the outside world by means of a ticker system are delayed because of unusual activity on the floor. During such periods the member on the floor has immediate knowledge of the latest prices while the non-member must rely upon prices which may no longer be current on the floor. On the other hand, since there are no news tickers on the floor, important developments in industry, finance or politics affecting the course of security prices are revealed more expeditiously to persons outside the trading premises. Even in such cases, however, the reaction of the investing public as expressed in increased buying or selling orders is quickly manifest to members on the floor. Moreover, news of this character is relayed to members on the floor by their office partners or employees almost as quickly as it appears. On the whole it seems probable that a members' physical presence on the exchange floor invests him with superior knowledge and information.

It is pertinent to observe at this point that none of the objections to floor trading hereinabove described would be obviated by compelling members to elect between the broker and dealer function. These objections could be met only by the complete suppression of the dealer function on exchanges. Before considering the feasibility of such a step an attempt will be made to describe the contentions which have been urged in favor of floor trading.

Analysis of Contentions in Favor of Floor Trading

(i) Contention that floor trading serves a be\_\_\_ purpose by contributing to the continuity of the exchange market and increasing the liquidity of exchange securities.

Underlying this contention is the assumption that an exchange has the function of affording a market which is immediately and continuously available both to buyers and sellers. An exchange market possesses the quality of continuity if under normal conditions a given security can readily be purchased or sold at a price varying but slightly from the last previous quotation. A continuous market in turn imparts to securities increased liquidity, i.e., convertibility into cash. The economic value of an exchange is popularly measured by the extent to which it possesses the quality of continuity and imparts to securities the quality of liquidity.

Respect for these qualities, particularly where stocks are involved, is deeply ingrained in the consciousness of investors and lenders generally. They are accustomed to regard current exchange quotations as accurately reflecting the realizable value of a security. The ability to convert a security readily into cash is a prime consideration in the average investor's deliberations before making a commitment and in the average lender's calculations before making a loan on collateral. The fact that a security enjoys a continuous market renders it more acceptable to lenders and enhances its desirability to investors.

The economic soundness of these views is not now in question. The point is that they are widely and tenaciously held. To attack them is to attack one of the most deeply-rooted \_\_\_ tions in our financial economy. To ignore them is to lose contact with realities.

By the standards of investors and lenders, therefore, floor trading and other dealer activities of members, especially in stocks, can perform a useful function. As has heretofore been shown, members' trading considerably augments the activity of the markets.

Unquestionably such trading in some measure contributes to continuity and increases liquidity. Whether this contribution is important enough to outweigh the objections to floor trading as it is now carried on is a serious question. There is, of course, no way of estimating the extent to which continuity and liquidity would be impaired by the suppression of all or any part of the dealer function. This uncertainty results from the impossibility of determining the number of investors who might abandon the market if it were to become less continuous. It has been shown that on the New York Stock Exchange specialists contribute 9.4%, other members on the floor 9.4% and members off the floor 5.3% of the total volume.<sup>45</sup> It seems reasonable to assume that the elimination of any segment of members' trading would result in a shrinkage in the total volume of at least the percentage contributed by such segment plus some indeterminate percentage now contributed by persons who would be unwilling to trade in a less continuous market; that such shrinkage would lessen the liquidity of some securities; and that such an eventuality would be regarded as contrary to their interests by the bulk of investors and lenders.

The extent to which floor trading contributes to the continuity of the market is gauged not merely by its volume but by the type of stocks among which that volume is distributed. In very active stocks, floor trading, however active, might be eliminated without materially impairing the continuity of prices. In inactive stocks floor trading could add greatly to continuity but it is precisely in these stocks that members are loathe to trade because they offer little opportunity for profitable in-and-out trading. The bulk of floor trading is found rather in active or semi-active securities which enjoy wide public interest.

The concentration of floor trading in active stocks is evidenced by the fact that out of a total of 44,988,799 shares bought and sold by New York Stock Exchange members in 25 weeks,

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<sup>45</sup> See page 27 supra.

their trading to the extent of 9,664,050 shares, or over 21%, was confined to twenty active stocks.<sup>46</sup> Since 1,175 stocks were listed on that Exchange as of December 1, 1935, it is apparent that over 21% of all floor trading took place in 1.7% of the total number of stocks.

This concentration is even more pronounced on the Curb Exchange. Over a period of 23 weeks floor trading aggregated 4,990,065 shares in all stocks, of which 2,365,450 shares or over 46% involved only eight stocks.<sup>47</sup> As of December 15, 1935, 1,085 stocks were listed or admitted to unlisted trading privileges on the Curb Exchange and hence upward of 46% of all floor trading occurred in .7% of the total number of stocks.

That the relative percentage of floor trading is higher in active stocks than in the rest of the market is confirmed by a comparison between the percentages of floor trading in the twenty active stocks in question and in all other stocks on the New York Stock Exchange. For a period of twenty-five weeks floor trading in the twenty active stocks amounted to 14.76% of the total purchases and sales in those stocks; whereas, floor trading in all other stocks amounted to 8.51% of the total purchases and sales in such stocks.<sup>48</sup> On the New York Curb Exchange, over substantially the same period, floor trading in eight active stocks constituted 16.96% of the purchases and sales in such stocks as against 3.45% in all other stocks.<sup>49</sup> On both exchanges, therefore, the percentage of members' floor transactions in active stocks was materially higher than in the market as a whole.

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<sup>46</sup> See Appendix E-1.

<sup>47</sup> See Appendix E-2.

<sup>48</sup> See Appendix E-1 for comparative figures.

<sup>49</sup> See Appendix E-2 for comparative figures.



Additional evidence of the tendency of members on the floor to trade to a relatively greater extent in active stocks than in less active stocks, is furnished by an analysis of floor trading in each of the twenty active stocks on the New York Stock Exchange.<sup>50</sup> The percentage of floor trading in each of these stocks was compared with the percentage of floor trading in each of the others. The result of this analysis is depicted on the chart in Appendix E-3. An inspection of this chart graphically reveals that, with few exceptions, the greater the activity in a stock the greater the percentage of floor trading.

The contribution of floor trading to the activity of the market as a whole during the period studied was a more or less constant factor. Whether market activity increased or decreased, the volume of member's transactions initiated on the floor maintained about the same ratio to total volume.<sup>51</sup>

In short, floor trading is principally confined to active stocks which would probably have a continuous market in any event; it tends to increase with an increase in the activity of such stocks; and it constitutes a more or less constant percentage of the total volume of trading regardless of the activity of the market.

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<sup>50</sup> See Appendix E-3.

<sup>51</sup> See Appendix F-1 for method of determining relation between volume of floor trading and activity of markets. *(To be furnished)*

(ii) Contention that floor trading contributes to the stability of market prices.

An important service which the member on the floor purports to perform is that of preventing or mitigating sudden and unreasonable price fluctuations. It is asserted that he lends stability to current prices by supplying stock to check a temporary, unwarranted advance and by purchasing stock to check a sudden and warranted decline. Particularly during periods of stress when there is a great preponderance of either buying or selling orders his trading is supposed to increase the possibility of executing the public's orders at a fair price.

At any given moment, the volume of buying orders in a security is unlikely to coincide with the volume of selling orders. If the former predominate the price of the security rises; if the latter, the price falls. The interposition of members who trade for their own account allegedly lessens the fluctuations which would otherwise result from the ebb and flow of public buying and selling and promotes equilibrium between the forces of demand and supply from hour to hour and day to day.

This contention on behalf of floor trading, is not entirely consistent with the evidence available to the Commission. As has been indicated, floor trading in all stocks regarded as a group usually accentuates rather than mitigates day to day fluctuations in price.<sup>52</sup> Nevertheless, on more than one-third of the days under observation, such trading moved against the trend and presumably exerted a stabilizing effect on prices.

The effect of floor trading as a stabilizing influence on individual stocks can only be tested in conjunction with the effect of trading by specialists and by members off the floor.

(Tests being made to ascertain whether moderate amount of members' trading stabilizes market and excessive amount aggravates fluctuations.)

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<sup>52</sup> See discussion under Objection (ii), p. 34, et seq.

During periods of stress, occasioned by unexpected events which affected particular securities or groups of securities, the Commission has been furnished with illustrations of the manner in which members on the floor have stabilized the market by supplying bids or by purchasing stocks when, temporarily, no other bids were available. For example, on the day of a Supreme Court decision which was generally regarded as unfavorable to corporations in a particular industry, the non-member public offered stock of such corporations for sale in volume far exceeding the ability of specialists to handle for their own account. For a time no bidders could be found in some stocks, the prices of which threatened to decline in precipitous and unreasonable fashion. Exchange officials thereupon called upon members on the floor to assist the specialists in stabilizing the market by bidding for stocks at reasonable differentials from previous prices. Bids interposed by such members, it is pointed out, had the effect of steadying the market, instilling confidence in prospective purchasers, encouraging holders to withdraw their offerings and preventing sharp declines which might have resulted in wide-spread distress liquidation.

Appendix B-1

NEW YORK STOCK EXCHANGE

Round Lot Transactions for Account of All Members, Except Odd Lot Dealers, in all Stocks between June 24, 1935, and December 14, 1935.

Week Ended 1935	Reported Volume a/ (Shares)	Members' Round Lot Transactions b/			Percentage of Members' Purchases and Sales to Total Reported Purchases and Sales c/ (%)
		Bought (Shares)	Sold (Shares)	Total (Shares)	
June 29	4,960,338	1,253,044	1,284,959	2,538,003	25.6%
July 6	3,997,910	913,863	896,767	1,810,630	22.7
13	6,336,057	1,462,615	1,473,895	2,936,510	23.2
20	6,378,900	1,360,560	1,426,031	2,786,591	21.8
27	7,463,750	1,682,981	1,638,289	3,321,270	22.2
Aug. 3	9,747,500	2,148,371	2,209,940	4,358,311	22.4
10	9,729,330	2,162,928	2,210,834	4,373,762	22.5
17	11,103,470	2,376,800	2,558,816	4,935,616	22.2
24	10,481,780	2,427,463	2,641,162	5,068,630	24.2
31	7,197,370	1,786,866	2,002,143	3,789,009	26.3
Sept. 7	7,240,290	1,690,700	1,809,436	3,500,136	24.2
14	10,812,780	2,803,469	2,698,405	5,501,874	25.4
21	9,582,020	2,285,730	2,387,190	4,672,920	24.4
28	5,834,270	1,358,446	1,333,615	2,692,061	23.1
Oct. 5	8,471,087	2,042,215	2,129,422	4,171,637	24.6
12	6,928,212	1,742,493	1,712,180	3,454,673	24.9
19	10,459,258	2,742,471	2,589,855	5,332,326	25.5
26	14,274,511	3,528,611	3,498,365	7,026,976	24.6
Nov. 2	11,084,580	2,782,654	2,613,935	5,396,589	24.5
9	12,126,573	2,809,107	2,879,247	5,688,354	23.5
16	12,712,730	3,160,695	3,024,213	6,184,908	24.3
23	18,913,437	4,480,250	4,540,317	9,020,567	28.8
30	10,404,305	2,529,398	2,650,874	5,180,272	24.9
Dec. 7	12,358,221	3,180,182	2,863,938	6,044,120	24.5
14	<u>11,671,123</u>	<u>2,862,695</u>	<u>2,913,424</u>	<u>5,776,119</u>	24.7
Totals	240,269,802	57,574,612	57,987,252	115,561,864	

Average of Weekly Percentages 24.0%

Percentage of Members' Purchases and Sales to total reported purchases and sales for the entire period 24.0%

a/ Volume reported by New York Stock Exchange ticker which does not include odd lot transactions or "stopped" stock. (See Glossary for definition.) The volume of "stopped" stock is estimated at 8% of the total reported volume.

b/ Figures do not include odd lot dealers' round lot transactions which average about 3% of total purchases and sales.

c/ Total reported purchases and sales are calculated by doubling the reported volume because every reported transaction involves both a purchase and a sale.

Appendix B-2

NEW YORK CURB EXCHANGE

Round Lot Transactions for Account of all Members in  
all Stocks between July 8, 1935, and December 14, 1935.

Week Ended <u>1935</u>	Reported Volume a/ (Shares)	<u>Members' Round Lot Transactions b/</u>			Percentage of Members' Purchases and Sales to Total Reported Purchases and Sales c/ (%)
		<u>Bought</u> (Shares)	<u>Sold</u> (Shares)	<u>Total</u> (Shares)	
July 13	1,150,000	253,585	281,990	535,575	23.3%
20	1,069,000	239,780	281,795	521,575	24.4
27	1,140,000	271,365	259,955	531,320	23.3
Aug. 3	1,579,000	367,320	414,510	781,830	24.7
10	2,222,000	552,420	493,105	1,045,525	23.5
17	2,975,000	719,375	696,670	1,416,045	23.8
24	2,614,000	562,320	754,340	1,316,660	25.2
31	1,528,000	395,565	395,235	790,800	25.9
Sept. 7	1,346,000	333,445	325,580	659,025	24.5
14	1,618,000	344,845	428,690	773,535	23.9
21	1,553,000	342,945	421,645	764,590	24.6
28	1,285,000	305,480	290,420	595,900	23.2
Oct. 5	1,404,000	332,750	393,935	726,685	25.9
12	1,465,000	329,355	296,460	625,815	21.4
19	1,818,000	397,410	444,415	841,825	23.2
26	2,740,000	670,655	670,870	1,341,525	24.5
Nov. 2	2,552,000	621,335	669,490	1,290,825	25.3
9	3,047,000	638,340	716,565	1,354,905	22.3
16	2,152,000	470,845	476,490	947,335	22.0
23	3,129,000	651,440	782,005	1,433,445	22.9
30	1,817,000	334,125	449,885	784,010	21.6
Dec. 7	2,255,000	513,785	455,960	969,745	21.5
14	<u>2,554,000</u>	<u>460,270</u>	<u>595,975</u>	<u>1,056,245</u>	20.7
Totals	45,012,000	10,108,755	10,995,985	21,104,740	

Average of weekly percentages 23.5%

Percentage of members' purchases and sales  
to total reported purchases and sales for  
the entire period. 23.4%

a/ Volume reported by New York Curb Exchange ticker (approximated to nearest thousand shares) which does not include odd lot transactions or "stopped" stock. The volume of "stopped" stock is estimated at about 4% of the total reported volume.

b/ These figures include specialists' round lot transactions, of which a portion estimated at about 3% of total purchases and sales, represent round lot purchases and sales by specialists to offset odd-lot orders of customers.

c/ Total reported purchases and sales are equivalent to twice the reported volume.

Appendix B-3

NEW YORK STOCK EXCHANGE

Round Lot Transactions for Account of all Members Except  
Odd Lot Dealers in Twenty Selected Stocks<sup>a/</sup> between  
June 27, 1935, and December 11, 1935.

Week Ended 1935	Reported Volume <sup>b/</sup> (Shares)	<u>Members' Round Lot Transactions</u> <sup>c/</sup>			Percentage of Members' Purchases and Sales to Total Purchases and Sales <sup>d/</sup> (%)
		<u>Bought</u> (Shares)	<u>Sold</u> (Shares)	<u>Total</u> (Shares)	
July 3	717,300	221,700	210,350	432,050	30.0
10	792,900	208,550	211,550	420,100	26.5
17	805,600	245,740	272,150	517,890	32.1
24	1,010,600	267,408	248,483	515,891	25.6
31	1,247,400	333,410	299,283	632,693	25.4
Aug. 7	1,181,400	328,573	330,050	658,623	27.9
14	1,585,300	418,225	375,450	793,675	25.0
21	1,278,800	383,901	442,325	826,226	32.3
28	1,211,900	370,925	431,543	802,468	33.1
Sept. 4	457,100	120,050	138,750	258,800	28.3
11	1,729,600	559,217	498,348	1,057,565	30.6
18	1,267,900	370,350	432,100	802,450	31.6
25	1,083,200	306,970	356,163	663,133	30.6
Oct. 2	977,100	287,299	310,050	597,349	30.6
9	947,800	306,972	312,700	619,672	32.7
16	1,407,500	457,650	441,240	898,890	31.9
23	1,440,700	480,704	461,420	942,124	32.7
30	1,362,500	427,679	289,425	717,104	26.3
Nov. 6	1,255,100	415,960	418,430	834,390	33.2
13	1,672,900	518,011	436,827	954,838	28.5
20	2,734,160	840,740	865,400	1,706,140	31.2
27	2,111,600	645,050	622,400	1,267,450	30.0
Dec. 4	1,388,100	436,550	413,870	850,420	30.6
11	<u>1,559,449</u>	<u>572,600</u>	<u>442,070</u>	<u>1,014,670</u>	32.5
Totals	31,225,909	9,524,234	9,260,377	18,784,611	

Average of weekly percentages 30.0%

Percentage of members' purchases and sales to  
total purchases and sales for the entire period. 30.1%

a/ American Can Co., common; American Tel. & Tel. Co., common; American Tobacco Co., common; American Radiator & Standard Sanitary Corp., common; Anaconda Copper Mining Co., common; Consolidated Gas Co. of N.Y., common; General Electric Co., common; General Motors Corp., common; International Nickel Co. of Canada, common; Pennsylvania R.R. Co., capital; Radio Corp. of America, common; Sears Roebuck & Co., capital; Southern Pacific Co., common; Standard Brands, Inc., common; Standard Oil Co. of New Jersey, capital; Texas Corporation, common; Transamerica Corporation, capital; Union Carbide & Carbon Corp., capital; United States Steel Corp., common; and F.W. Woolworth Co., capital stock.

- b/ Volume reported by New York Stock Exchange ticker.
- c/ Figures do not include odd lot dealers' round lot transactions which average about 3% of total purchases and sales.
- d/ Total reported purchases and sales are equivalent to twice the reported volume.

APPENDIX B4

NEW YORK CURB EXCHANGE

Round Lot Transactions for Account of all Members in Eight Selected Stocks a/ between July 8, 1935 and December 14, 1935.

Week Ended <u>1935</u>	Reported <u>Volume b/</u> (Shares)	<u>Members' Round Lot Transactions c/</u>			Percentage of Members' Purchases and Sales to Total Reported Purchases and Sales d/ (%)
		<u>Bought</u> (Shares)	<u>Sold</u> (Shares)	<u>Total</u> (Shares)	
July 13	195,600	50,250	53,650	103,800	26.6
20	118,500	25,950	31,750	57,700	24.3
27	185,200	62,100	60,900	123,000	33.2
Aug. 3	360,200	116,650	147,250	263,900	36.6
10	469,000	155,510	153,110	308,620	32.9
17	532,000	187,000	194,200	381,200	35.8
24	620,900	230,600	227,300	457,900	36.9
31	364,300	152,100	148,500	300,600	41.3
Sept. 7	240,000	95,600	88,100	183,700	38.3
14	237,700	90,100	87,000	177,100	37.3
21	221,200	73,300	84,200	157,500	35.6
28	170,800	53,800	54,300	108,100	31.6
Oct. 5	226,300	77,900	80,600	158,500	35.0
12	214,900	75,200	73,200	148,400	34.5
19	206,100	70,200	73,600	143,800	34.9
26	486,800	192,700	202,150	394,850	40.6
Nov. 2	398,300	160,000	161,400	341,400	42.9
9	455,700	157,500	169,300	326,800	35.9
16	271,600	95,200	96,400	191,600	35.3
23	323,300	108,300	113,900	222,200	34.4
30	241,100	76,800	85,900	162,500	33.7
Dec. 7	227,700	74,900	81,900	156,800	34.4
14	<u>247,700</u>	<u>83,600</u>	<u>88,500</u>	<u>172,100</u>	34.7
Totals	7,014,900	2,465,060	2,577,110	5,042,170	

Average of Weekly Percentages 35.1%  
 Percentage of Members' Purchases and Sales  
 to total reported Purchases and Sales for entire period 35.9%

- a/ American Cyanamid Co., "B" Non-Voting; American Gas & Electric Co., common; Atlas Corp., common; Creole Petroleum Corp., common; Electric Bond & Share Co., common; Niagara Hudson Power Corp., common; Sunshine Mining Co., common; Technicolor, inc., common stock.
- b/ Volume reported by New York Curb Exchange ticker.
- c/ These figures include specialists' round lot transactions, of which a portion, estimated at about 3% of total purchases and sales, represent round lot purchases and sales by specialists to offset odd-lot orders of customers.
- d/ Total reported purchases and sales are equivalent to twice the reported volume.



Appendix C-1

NEW YORK STOCK EXCHANGE

Round-Lot Transactions for own account initiated on the Floor by Members (other than Specialists and Odd-Lot Dealers in the Securities in which they are registered) in all Stocks, between June 24, 1935, and December 14, 1935.

<u>Week Ended</u>	<u>Reported</u> <u>Volume a/</u>	<u>Members' Round Lot Transactions</u>			<u>Percentage of Members'</u> <u>Purchases and Sales to</u> <u>Total Reported</u> <u>Purchases and Sales b/</u>
		<u>Bought</u>	<u>Sold</u>	<u>Total</u>	
(1935)	(Shares)	(Shares)	(Shares)	(Shares)	(%)
June 29	4,960,338	484,945	503,445	988,390	10.0
July 6	3,997,910	340,550	296,690	637,240	8.0
13	6,336,057	560,150	543,030	1,103,180	8.7
20	6,378,900	491,763	488,530	980,293	7.7
27	7,463,750	629,860	568,100	1,197,960	8.0
Aug. 3	9,747,500	788,370	766,010	1,554,380	8.0
10	9,729,330	800,610	747,490	1,548,100	8.0
17	11,103,470	933,150	891,000	1,824,150	8.2
24	10,481,780	1,002,010	999,000	2,001,010	9.5
31	7,197,370	690,200	708,210	1,398,410	9.7
Sept. 7	7,240,290	617,066	616,050	1,233,116	8.5
14	10,812,780	1,159,830	1,062,975	2,222,805	10.3
21	9,582,020	910,860	907,580	1,818,440	9.5
28	5,834,270	537,840	505,400	1,043,240	8.9
Oct. 5	8,471,087	824,290	855,220	1,679,510	9.9
12	6,928,212	708,910	676,500	1,385,410	10.0
19	10,459,258	1,228,880	1,066,860	2,295,740	11.0
26	14,274,511	1,493,855	1,418,525	2,912,380	10.2
Nov. 2	11,084,580	1,103,720	1,009,275	2,112,995	9.5
9	12,126,573	1,096,880	1,119,880	2,216,760	9.1
16	12,712,730	1,386,340	1,204,270	2,590,610	10.2
23	18,913,437	1,784,600	1,774,570	3,559,170	9.4
30	10,404,305	958,135	962,385	1,920,520	9.2
Dec. 7	12,358,221	1,309,680	1,139,010	2,448,690	9.9
14	<u>11,671,123</u>	<u>1,187,740</u>	<u>1,178,560</u>	<u>2,316,300</u>	9.9
Totals	240,269,802	22,980,234	22,008,565	44,988,799	

Average of weekly percentages 9.3%

Percentage of members' purchases and sales to total reported purchases and sales for entire period 9.4%

a/ Volume reported by New York Stock Exchange ticker.

b/ Total reported purchases and sales are equivalent to twice the reported volumes.

APPENDIX C-2

NEW YORK CURB EXCHANGE

Round lot transactions for own account initiated on the floor by members (other than specialists in securities in which they are registered) in all stocks, between July 8, 1935, and December 14, 1935.

<u>Week Ended</u> (1935)	<u>Reported</u> <u>Volume a/</u> (Shares)	<u>Members' Round Lot Transactions</u>			<u>Percentage of</u> <u>Members' Purchases</u> <u>and Sales to Total</u> <u>Reported Purchases</u> <u>and Sales b/</u> (%)
		<u>Bought</u> (Shares)	<u>Sold</u> (Shares)	<u>Total</u> (Shares)	
July 13	1,150,000	48,270	44,045	92,315	4.0
20	1,069,000	37,305	48,395	85,700	4.0
27	1,140,000	53,155	42,105	95,260	4.2
Aug. 3	1,579,000	87,100	88,985	176,085	5.6
10	2,222,000	166,560	118,320	284,880	6.4
17	2,975,000	188,720	184,125	372,845	6.3
24	2,614,000	170,600	193,675	364,275	7.0
31	1,528,000	108,135	115,970	224,105	7.3
Sept. 7	1,346,000	86,000	65,190	151,190	5.6
14	1,618,000	69,050	59,610	128,660	4.0
21	1,553,000	89,940	91,945	181,885	5.9
28	1,285,000	89,700	64,670	154,370	6.0
Oct. 5	1,404,000	74,615	94,245	168,860	6.0
12	1,465,000	77,525	69,235	146,760	5.0
19	1,818,000	72,570	62,735	135,305	5.7
26	2,740,000	195,175	162,440	358,615	6.5
Nov. 2	2,552,000	176,985	189,270	366,255	7.2
9	3,047,000	134,500	150,925	285,425	4.7
16	2,152,000	117,795	101,905	219,700	5.1
23	3,129,000	161,250	161,635	322,885	5.2
30	1,817,000	87,850	94,335	182,185	5.0
Dec. 7	2,255,000	133,350	113,975	247,325	5.5
14	<u>2,554,000</u>	<u>109,855</u>	<u>135,325</u>	<u>245,180</u>	4.8
Totals	45,012,000	2,537,005	2,453,060	4,990,065	

Average of weekly percentages 5.4%

Percentage of members' purchases and sales to total reported purchases and sales for entire period 5.5%

a/ Volume reported by New York Curb Exchange ticker (approximated to nearest thousand shares).

b/ Total reported purchases and sales are equivalent to twice the reported volume.

APPENDIX E-1

NEW YORK STOCK EXCHANGE

Comparison between round lot transactions for own account initiated on the floor by members (other than specialists and odd lot dealers in the securities in which they are registered) in 20 active stocks a/ and in all other stocks, between June 27, 1935, and December 18, 1935.

Week Ended		Total Reported Volume b/	Purchases and Sales by Members on Floor c/		Percentage of Members' Purchases and Sales to Total Reported Purchases and Sales d/			
			20 Stocks	All Other Stocks	20 Stocks	All Other Stocks		
(1935)		(Shares)	(Shares)	(Shares)	(Shares)	(%)	(%)	
July	3	717,300	3,627,508	194,600	583,815	13.66	8.05	
	10	802,900	4,393,340	187,550	656,110	11.68	7.47	
	17	805,600	4,936,190	257,000	744,035	15.95	7.54	
	24	1,010,600	6,571,357	235,600	898,598	11.66	6.84	
	31	1,247,400	7,147,490	312,700	1,009,870	12.53	7.06	
Aug.	7	1,181,400	8,123,930	310,600	1,227,870	13.15	7.56	
	14	1,585,300	9,980,100	314,200	1,515,960	9.91	7.60	
	21	1,278,800	8,888,910	397,500	1,442,130	15.54	8.11	
	28	1,211,900	8,443,590	361,300	1,544,290	14.90	9.15	
Sept.	4	457,100	3,673,370	95,400	622,090	10.44	8.47	
	11	1,729,600	10,175,250	480,300	1,796,151	13.66	8.83	
	18	1,267,900	7,740,590	371,100	1,430,900	14.63	9.25	
	25	1,083,200	6,834,910	260,500	1,107,440	12.02	8.10	
Oct.	2	977,100	6,625,380	282,500	1,148,220	14.46	8.67	
	9	947,800	5,663,477	330,800	1,016,610	17.45	8.98	
	16	1,407,500	8,915,243	461,600	1,783,220	16.40	10.00	
	23	1,440,700	11,078,880	512,075	2,171,755	17.77	9.80	
	30	1,362,500	10,415,188	431,025	1,850,870	15.81	8.89	
Nov.	6	1,255,100	8,695,330	420,300	1,388,140	16.74	8.99	
	13	1,672,900	9,817,923	482,700	1,623,070	14.43	8.27	
	20	2,734,160	15,687,097	916,850	2,793,000	16.76	8.90	
	27	2,111,600	14,468,875	612,650	2,433,060	14.52	8.41	
Dec.	4	1,388,100	7,862,871	421,100	1,371,420	15.17	8.72	
	11	1,559,449	11,364,150	464,600	2,180,790	14.90	9.60	
	18	1,505,964	7,674,175	549,500	1,192,050	18.24	7.77	
Totals		32,741,873	208,795,124	9,664,050	35,531,354			
						Average of weekly percentages	14.50%	8.44%
						Percentage of members' purchases and sales to total reported purchases and sales.	14.76%	8.51%

a/ See Appendix B-3, footnote a/ for names of stocks.

b/ Volume reported by New York Stock Exchange Ticker.

c/ Volume reported in 2-H Reports (see Appendix A-2).

d/ Total purchases and sales are equivalent to twice the reported volume.

APPENDIX E-2

NEW YORK CURB EXCHANGE

Comparison between Round Lot Transactions for own account initiated on the Floor by Members (other than Specialists in the securities in which they are registered) in 8 active stocks a/ and in all other stocks between July 8, 1935 and December 14, 1935.

Week Ended (1935)	Total Reported Volume b/		Purchases and Sales by Members on Floor c/		Percentage of Members' Purchases and Sales to Total reported Purchases and Sales d/	
	8 Stocks (Shares)	All Other Stocks (Shares)	8 Stocks (Shares)	All Other Stocks (Shares)	8 Stocks (%)	All Other Stocks (%)
July 13	195,600	954,400	29,500	62,815	7.54	3.29
20	118,500	950,500	12,050	73,650	5.08	3.87
27	185,200	954,800	45,800	49,460	12.37	2.59
Aug. 3	360,200	1,218,800	123,100	52,985	17.08	2.17
10	469,000	1,753,000	149,100	135,780	15.90	3.87
17	532,000	2,443,000	179,500	193,345	16.87	3.96
24	620,900	1,993,100	229,300	134,975	18.46	3.39
31	364,300	1,163,700	165,500	58,605	22.71	2.52
Sept. 7	240,000	1,106,000	90,300	60,890	18.81	2.75
14	237,700	1,380,300	80,200	48,460	16.87	1.76
21	221,200	1,331,800	68,500	113,385	15.48	4.26
28	170,800	1,114,200	35,800	118,570	10.48	5.32
Oct. 5	226,300	1,177,700	66,700	102,160	14.73	4.34
12	214,900	1,250,100	63,900	82,860	14.86	3.31
19	206,100	1,611,900	43,600	91,705	10.58	2.84
26	486,800	2,253,200	194,800	163,815	20.01	3.64
Nov. 2	398,300	2,153,700	174,200	192,055	21.86	4.46
9	455,700	2,591,300	147,100	138,325	16.14	2.67
16	271,600	1,880,400	108,600	111,100	19.99	2.95
23	323,300	2,805,700	122,500	200,385	18.95	3.57
30	241,100	1,575,900	74,700	107,485	15.49	3.41
Dec. 7	227,700	2,027,300	75,400	171,925	16.56	4.24
14	247,700	2,306,300	85,300	159,880	17.22	3.47
Totals	7,014,900	37,997,100	2,365,450	2,624,615		
			Average of weekly percentages		15.83%	3.42%
			Percentage of members' purchases and sales to total reported purchases and sales for entire period		16.86%	3.45%

a/ See Appendix B-4, footnote a/ for names of stocks.

b/ Volume reported by New York Curb Exchange ticker.

c/ Volume reported in 2-H reports (See Appendix A-2)

d/ Total reported purchases and sales are equivalent to twice the reported volume.