

THE FLOOR DEPARTMENT  
Memorandum

December 27, 1961

Today, Mr. Milton Cohen, head of the Market Study Group at the SEC in Washington, D. C., visited the Exchange.

Mr. Cohen was to have been accompanied by Mr. Richard Paul, counsel to the Market Study Group, but he was unable to make it.

The visit commenced with a brief meeting in the President's office. Mr. Cohen, accompanied by W. K. Vanderbeck and A. B. Chapman, then visited the Trading Floor. He was shown the general operation, including functions of the various types of members on the Floor, the flow of orders and reports, the assembling of information by the Recorders, the reporting of transactions to the ticker room and the insertion of the bid and asked prices into the Quotation System.

We then visited the Bond Crowd, the automatic quotation department and the ticker room. Following this, luncheon was held in the President's Dining Room at which the following were present:

Mr. Cohen  
G. Keith Funston  
J. Truman Bidwell  
Henry M. Watts, Jr.  
Edward C. Gray  
Frank J. Coyle  
Phillip L. West  
Willard K. Vanderbeck  
Alger B. Chapman

After luncheon, Mr. Cohen, accompanied by W. K. Vanderbeck and A. B. Chapman, visited on the Floor with Governor Benjamin Einhorn so that Mr. Cohen could observe the work of the specialist and receive explanations in connection therewith.

Mr. Einhorn did an excellent job of explaining the functions of the specialist.

I also showed Mr. Cohen how the floor traders post floor trading slips with respect to their purchases on "plus" and "zero plus" ticks above the previous close. We then returned to my office and I explained the procedures we follow in policing the specialists and showed him examples of the Form 81, a sequence sheet, market studies and summaries from our "Black Book."

I also showed him how we police floor trading.

Several times Mr. Cohen asked of different people the question, “What does it take to make a good specialist?” Replies: “Guts” – “Experience” – “Willingness to take risk positions.”

In connection with the question of risk, he asked Mr. Einhorn whether he takes such risks purely out of his desire to be of service to the public or whether it is done for his own personal gain. Mr. Einhorn explained that specialists, like any other businessmen, are in business to make a profit, but that there are many times when he is called upon to take or supply stock when he really does not want to do so, but he does it because he is charged with maintaining a fair and orderly market in the stock. He further explained that if he does not maintain good markets the commission brokers will not want to leave orders with him, that he might lose his registration, and that new stocks would not be assigned to him by the Board.

Mr. Cohen asked me whether I would consider it to be a “red flag” if I were to see a specialist with a very high %TTV of, say, 35%. I said that this would depend on the circumstances. I explained that we would look at the stabilization percentage to see whether the specialist was “trading” the stock, as opposed to acting as a dealer. I explained, too, that it would depend on the normal activity in the stock. However, I made it clear that if the stock were a “dealer stock”, i.e., the type of stock requiring active participation by the specialist because of lack of public bids and offers, such a %TTV would be considered very desirable.

Mr. Cohen went into the question as to who does the policing. He was informed that it is the Staff which performs this function. He asked about the Floor Governors and Floor Officials and it was explained that they supervise the minute-to-minute trading on the Floor and that they assist the Staff when requested in obtaining information concerning floor trading or the performance of the specialist functions. Then I explained to him that in any instance where the Staff felt that further information is required, we take testimony, examine records, etc. and prepare reports of our findings.

He asked me to whom I am responsible and I informed him that I am responsible to the Executive Vice President and the President.

He also asked me if I felt that the “Saperstein Interpretations” (which are the basic functions of the specialist, including the agency as well as the dealer functions, as set forth in our rules) should be amended, either by additions or deletions. I told him “off the cuff” that I had no such feelings since the specialist system had been operating successfully for a long time under these basic rules.

Mr. Cohen and I then visited with Frank Coyle and John Schwieger who explained to him the activities of the Department of Member Firms, particularly with respect to the work of the Examiners, the Stock Watch Division and the group which works on the registration and training of registered representatives.

I wanted to have Mr. Cohen meet with Rud Lawrence so that he could learn something about the surveillance of market letters and members' advertising, but there was insufficient time left in Mr. Cohen's program and he was unable to do this.

Before leaving, Mr. Cohen visited again with the President.

W. K. Vanderbeck

cc: G. K. Funston  
E. C. Gray  
A. B. Chapman