

THE ABC'S OF THE

ABS*

* Automated Bond System of the New York Stock Exchange

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INTRODUCTION

Although corporate stocks have long accounted for most of the securities business transacted on the New York Stock Exchange, the very first issues traded by the Exchange's founders were, in fact, government and bank bonds -- and, later, bonds issued by America's growing corporate enterprises.

With the introduction and acceptance of equities as an effective means of financing corporate development and expansion, however, the market for stocks soon outpaced the market for bonds. And for many decades, innovation in the marketplace focused almost entirely on improving stock trading facilities.

To be sure, the NYSE Bond Market continued to be a significant factor in corporate bond trading over the years -- even though much of the bond business gravitated to dealers away from the Exchange.

However, new competitive urgencies throughout the securities industry, combined with a dramatic upsurge in bond-trading activity in recent years, underscored the inadequacy -- indeed, the antiquity-- of existing NYSE facilities and made clear an important need for thorough redesign and modernization of the Exchange's bond trading system.

The AUTOMATED BOND SYSTEM described in this booklet fulfills that need by replacing the costly, tedious, time-consuming manual procedures of the past with the most sophisticated modern computer technology. ABS is, in the truest sense, a total bond quotation and trading system that can be summed up in three words:

Speed...Precision...Economy.

We believe the AUTOMATED BOND SYSTEM heralds the start of an exciting new era in the NYSE Bond Market. And we believe that after reading this brief description of how ABS is geared to serve institutional and individual investors, listed corporations and NYSE member firms, you will share our enthusiasm.

/s/ WILLIAM M. BATTEN
Chairman

Except for a relative handful of more active convertible issues handled by the "free crowd," trading in corporate bonds has traditionally been a tedious, time-consuming and mostly manual operation that involved nine different steps and hour-long searches through cabinet files for possible matches on bonds, prices, quantities.

Now, thanks to ABS, the magic of electronics, computer banks, and video terminals, all the information vital to trading any bond in a universe of more than 3,000 different issues can be flashed before you in a matter of seconds. Current quotes, size, volume, interest rates, yields, maturities, last sale -- even late news bulletins concerning companies behind the bonds.

And actually placing an order has become as simple as a single phone call or pressing a few buttons.

We expect, of course, that ABS will revolutionize bond trading.

In terms of total transactions and the size of blocks traded on the Exchange. In terms of dollar volume, depth, and liquidity. In terms of a steadily growing number of new listings that will continue to underscore the New York Stock Exchange as the paramount marketplace for bonds.

FOR INDIVIDUAL INVESTORS the Automated Bond System means immediate entry of any bids or offers they care to make into the ABS computer bank -- and maximum potential for execution at the best prevailing prices.

FOR MEMBER FIRMS it guarantees faster, better quotes and a "best execution" capability for all of their customers trading listed bonds; provides instant access through their bond correspondent or their own subscriber display units to a complete range of information on any specific issue; creates an error-free system of order entry, execution, and detailed documentation of every transaction, every working day; and permits dramatic savings in time, paper work, bond personnel -- and money.

FOR INSTITUTIONS, ABS should herald the advent of a brand new market -- a market thoroughly competitive with any other bond dealer markets in scope, size and liquidity. A market they can check, enter and use with a single phone call to any member firm that subscribes to ABS.

AND FOR LISTED COMPANIES, ABS initiates much broader, more comprehensive exposure of their bond issues; provides instantaneous video screen rundowns for bond traders and investors in member firm offices across the land on maturities, yields, interest rates, pay-

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ment dates -- even late news bulletins concerning specific companies and their securities for bond traders and investors.

There's more to the Automated Bond System, of course. Much more.

So the following pages and diagrams were designed to tell you just how it works; how individual investors, member firms, institutions and listed companies might use it to best advantage. And how to become a subscriber.

Fundamentally, ABS is an electronic routing system for feeding quotes, trades and other essential information on corporate bonds into -- and out of -- a central, computer bank.

ABS subscribers are provided with video display units that can instantly transmit -- or receive -- all the facts and information necessary for making the bond floor on the New York Stock Exchange the fastest, most efficient, error-free and economical market for corporate bonds anywhere in the world.

For example, these illustrations:

Quotation Service

Generates instantaneous quotes for any Bond issue listed on the NYSE. Provides a panoramic view of the latest information with on-screen updating.

The Quote Display provides: Bond Symbol, current yield, interest rate and maturity date information; price and time of opening trade; high and low; last trade and tick information along with the tick, price and date of the previous last sale; volume figures; news indicators; date of last interest payment; and interest accrued to settlement date, if any.

Under certain conditions, no quotes are shown. For example, when trading is halted, the market isn't open -- or for any other reason, as indicated by the Quote Display.

Individual bond orders previously entered into the System can be recalled at any time for examination simply by keying in the Bond Symbol and Order Identification Number.

Order Entry

Press a button and the "Order Ticket" format appears on the screen. Then use the keyboard to enter order data.

Once the completed order appears on the screen, validate it and push another button to enter it into the ABS data bank for automatic editing and processing.

Orders may be entered prior to the 10:00 A.M. Bond Market opening. ABS currently processes any limit orders for non-convertible bonds under any of the following conditions: Day Order; Good-Till-Cancelled; Immediate or Cancel; All or None; Sell Short, Cash; and Next Day Delivery.

Order Execution

Enter an order into the System, and ABS automatically generates responses depending on the action dictated by the entry. Orders may be accepted, matched, part matched, referred to the supervisor for action, verified or rejected.

If an entered order is partially executed, the option is provided to either cancel the remainder or leave it in the ABS computer file for subsequent execution.

Execution reports are printed on the Floor of the Bond Room for each matched trade. These suggested matches are made available to participating brokers for final approval.

Transaction Report

Shows all orders matched by the system. Provides print-out records of all transactions.

The NYSE retains one copy of this report; the remaining copy goes to the appropriate brokers for signature.

Activity Report

Summarizes every subscriber firm's ABS bond activity at the end of each day for record keeping purposes.

Each subscriber receives a computerized listing, alphabetically by bond, containing the following information:

Trade Activity - a listing of the match details for each trade.

Order Activity - a listing of all new orders entered during the day including those cancelled and replaced.

Bond Activity - for each bond listed, a price activity summary and any status changes.

A similar report is provided for each member organization that clears its own bond trade or for which it is the clearing broker.

Cabinet Display

Push a button and every order on file for a particular bond issue appears. All individual orders are listed in sequence by price, beginning with the highest bid and the lowest offer.

Orders are easily identifiable in this display to insure efficient monitoring. Each order has the firm name and given member, along with the Order Number, next to it. Only a firm that issues an order knows where it originated.

To cancel or adjust an order, simply key in the Bond Symbol and Order Number obtained from the Cabinet Display and make the change.

Trade History Display

Chronologically tabulates all the trades that have taken place in a particular bond by subscribing members, up to any point in the trading day.

Keying in the Transaction Sequence Number (TSN) permits review of any matched trades participated in. Quantity, names and clearing numbers for all contra side participants in the trade appear.

Profile Display

Provides quick assessment of current market for a particular bond. Presents a composite of the number of bonds wanted or offered, showing as many as 13 different prices. Information automatically updated to reflect a bond's current status.

Bond Issue Directory

Shows all Bonds listed on the New York Stock Exchange.
Alphabetically, by corporate name, along with corre-
sponding bond symbols and other identifying information.

Newsletter Display

Push a button for any news developments concerning a company with listed bonds outstanding.

The display starts with the most recent news message entered into the system and works backwards to include all the news messages for the day.

Whenever a quote is requested, the system automatically indicates whether any current news items have been entered for reference.