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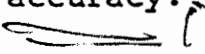
To : Douglas Scarff  
From : Dennis Shea  
Subject: NYSE Audit Trail  
Date : October 6, 1981



On October 5, 1981, representatives of the NYSE, CBOE, and AMEX met in Washington to brief the Commission staff on the progress to date in responding to the Chairman's initiative that SROs develop an effective inter-market surveillance capability which might provide an alternative to the full development of MOSS. Since, as the SROs noted in their August 14, 1981 letter, "an audit trail for equity securities is a prerequisite to perfecting intra-market and inter-market surveillance," the NYSE also provided a status report on its plans to develop the audit trail promised in John Phelan's August 14, 1981 letter. This memorandum will summarize the NYSE audit trail report, which was given by Stuart Monchik and Donald Kittell.

First, the NYSE reaffirmed its commitment to "the long term solution", the development of a complete audit trail in connection with the ongoing business plan of the exchange. This is the program previously described to us by the NYSE on September 9, 1980, December 16, 1980, and June 17, 1981. The exchange gave us only a vague time frame - "about five years" - as a completion date for this plan.

Second, the exchange described what it plans to do to fulfill Mr. Phelan's promise of a audit trail pilot this year, complete for all option stocks next year. The exchange first redefined the term audit trail as "faster access to more accurate trading information". It then stated that it planned to require by rule that all brokers on the floor capture time and contra broker on their execution tickets. It will then require that the brokers leave a copy of each ticket in a collection bin on the floor. These tickets will be collected regularly, sorted by security and stored by the exchange for use in surveillance or investigation as needed. The information will not be entered into any automated system, nor will it be routinely checked for accuracy.

  
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The characterization of this plan as an audit trail is inconsistent with the term "audit trail" as we have used it. The plan would have practically no impact on current surveillance activities of the exchange, and would only slightly expedite certain investigative procedures at the NYSE. Moreover, it would have, at best, a minimal impact on inter-market surveillance because it would not routinely identify the parties to each NYSE trade. Essentially, it leaves us exactly where we were on May 8, 1980 when we wrote Mr. Batten. In order to determine whether trading is sufficiently suspicious to warrant a surveillance inquiry, a major trade reconstruction effort is necessary. Thus most suspicious trading would never be observed, and would never be investigated.

For these reasons, the proposed "audit trail" by the NYSE cannot be accepted as a basis for pulling back on MOSS.

cc: Wayne Ginion