

MEMORANDUM

November 19, 1981

To: George G. Kundahl
Executive Director

From: David Morf *D.M.*
Management Analyst

Subject: Risk and MOSS

I don't know if Wayne conveyed the gist of this note to you earlier, but I think you should be made aware of a special concern Wayne had. He says that although Chairman Shad wishes not to expand MOSS, his real agenda is not to find himself in the uncomfortable position of explaining publicly why the SEC failed to detect market problems after Congress gave the Commission a charter and money to create MOSS. Wayne suspects the Chairman may not nominate himself alone in explanations for such a situation.

This note is a sincere effort on my part to give you all possible information that might facilitate your balancing all the major factors involved on the MOSS program, both currently and over the next 12-24 months. In the near term, Doug Scarff may want some input from this office as he addresses how to write the third six-month MOSS report to Congress, considering the direction established in the first two reports. That may be the first real test of the Chairman's new course.

Attachment

MOSS Requirements - Comments on ISM Analysis of 11/16/81

Project Activity	Staff Weeks (Est)		Remarks
	MOSS	ISM	
1. Stock/Option Expansion	3	None	FY 82 equipment costs of \$56K to \$235K are indicated as needed for expansion to support MOSS, even though some \$310K of controllers and disk modules are already on order as part of the basic IPL system acquired to support this task and other MOSS tasks. Also, the IPL computer already is Model 2 as measured by 8 megabytes of memory; the upgrade of processing speed from the Model 1 level to Model 2 is not an FY 82 problem. Other than the controller in FY 82 money, it is not clear why the equipment purchased for MOSS would be inadequate for all scheduled MOSS tasks if the equipment were applied to MOSS as planned.
2. News Data and Integration	10	12	We need to talk with vendors at a senior level, so that sales-level personnel do not stop our inquiry with routine answers. A senior Monchik analyst formerly with Bunker-Ramo said that the proposed news activity was both technically and contractually feasible if handled properly. For a fee, Monchik-Weber would certainly make good their assessment.
3. NASD Data	12	12	Original plan included some NASD compilation; SEC data handling may reduce costs to NASD while adding to SEC tasks.
4. Data Retention	4	6	All necessary disk space for MOSS was ordered as part of IPL computer configuration, as noted in the remarks for point 1 above.
5. Minimanipulation Capping and Pegging	6	15	Options only, but equity data are also involved.
6. Marking Close	4	8	Equities and options.

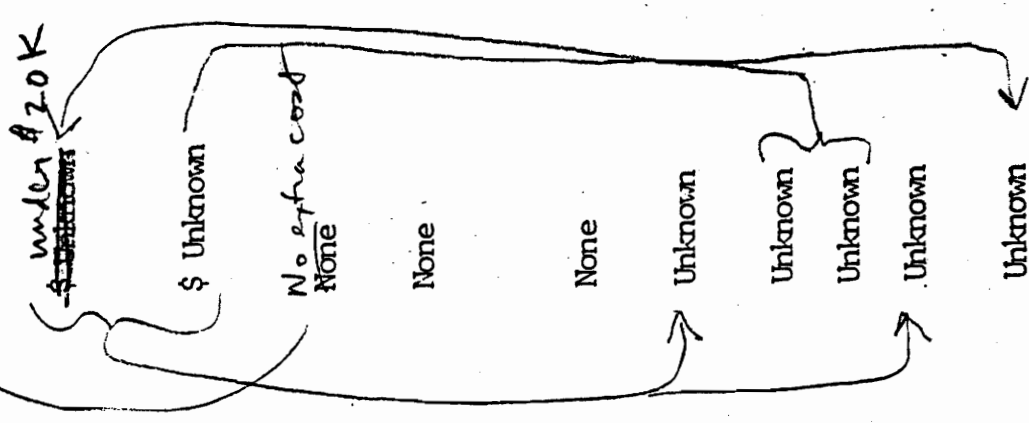
Project Activity	Staff Weeks (Est)		Remarks
	MOSS	ISM	
7. Insider Trading for NASDAQ and Equities	12	24	ISM separated insider trading into two 12-hour segments, but the NASDAQ report is designed to exploit the programming for the equity report, so it should not take nearly as long as ISM estimates to do the task.
8. Equity Volume Concentration	8	20	The staff-weeks estimate made by MOSS also included time to code the security volume alert into the existing price alert report, where it belongs rather than on the clearing alert report. See also news remarks below.
9. NASDAQ Volume Concentration	8	12	The news service is <u>not</u> needed to trigger this analysis; news data are <u>furnished</u> to users in this alert only as <u>background</u> information if the algorithm flags a questionable concentration situation.
10. OTC Bid Analysis	6	12	This report actively detects price manipulations, while NASD as an SRO uses such data only passively to confirm price manipulations detected in less direct fashion.
Week Totals	73	121	ISM staff-week estimates are some 66% over prior MOSS planning estimates.

Unevaluated MOSS requirements included four vital areas:

- o On-line SEC inquiry to MOSS data specified in the 9/30 Enforcement memorandum (pg. 4), particularly equity and option clearing, ticker, and alert histories for 8 staff-weeks of work; 3 more weeks would be needed for regional MOSS inquiry for the specified data, plus NQB information outlined below.
- o Equity price analysis report, including long-term price and security volume algorithms, historical data, and news and corporate data. This report should take less than 8 staff-weeks to design and code the programs.
- o Although the option volume concentration report itself is not needed and has been proposed for deletion, it is urgent to Enforcement that the option clearing data used by the report be retained for on-line inquiry, as noted in the first point above.
- o Quotation and marketmaker data for NQB (non-NASDAQ) securities to support convenient staff inquiry. The interface should take about 4 staff-weeks to design and code.

v \$56K, no wait, acceptable staff

Activity	Staff Weeks	Other Costs	Remarks
1. Stock/Option Expansion	None	\$ 235,000 (56,000) ²	Expansion to accommodate the complete universe of stocks/options will require one disk controller (\$25K), 12 disk packs (\$110K) and an upgrade of the IPL to Model 2 (\$100K). This data is not currently available. A contract for a specialized news service would have to be negotiated.
2. News Interface/Integration	12	\$ Unknown	This data is not currently available. We will have an estimated cost for the data within a week or two.
3. NASD Interface	12	\$ Unknown	Dependent upon availability of additional disk space. <i>5 days / 60 days proposed now -- not held on line</i>
4. Expanded Retention	6	No extra cost None	All data necessary is available except AMEX Market Maker data. Changes could be made with AMEX data being incorporated once it becomes available.
5. Mini-manipulation, capping, pegging (redesign of current alerts).	15	None	Same comment as 5, above.
6. Marking the close (new alert).	8	None	This cannot be done without NASDAQ data and News Service.
7. Insider Trading (NASDAQ)	12	Unknown	Dependent upon obtaining News Service.
8. Insider Trading (Equities)	12	Unknown	Dependent upon obtaining News Service.
9. Equity Volume Concentration	20	Unknown	Dependent upon obtaining NASD data and News Service.
10. NASDAQ Volume Concentration	12	Unknown	Dependent upon obtaining NASD data.
11. NASDAQ OTC Bid Analysis	12	Unknown	Dependent upon obtaining NASD data.



- Included in the 3 staff years to be devoted to maintenance and production.
- Disks and Controller could be leased at an approximate cost of \$56K for FY 82. IPL upgrade would not be needed before FY 83.