

# NEW YORK STOCK EXCHANGE

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April 21, 1967

Mr. Irving M. Pollack, Director  
Division of Trading and Markets  
Securities and Exchange Commission  
500 North Capitol Street  
Washington, D. C. 20549

Dear Mr. Pollack:

The purpose of this letter is to present to you, in some detail, the steps we have taken in attempting to automate the surveillance of Floor Trading activities.

In 1956 we attempted to have the reporters verbally report sales information into a radio transmitter system but found it impractical as the reporter could not listen to and transmit sales information simultaneously. Therefore, there would be no possibility of using such a system in conjunction with automated surveillance.

Our present Market Data System, operational since 1965, employs a "mark-sense" card for input, and any immediate solution to automated surveillance must include the use of such a card. In this context, I believe you are familiar with the opinion of Dr. Richard Hirsch, an IBM Consultant Psychologist, that even the simplest additional task assigned to a reporter could interfere with his concentration to the extent of impairing the accuracy and speed with which he must report sales.

Prior to the introduction of "mark-sense" cards, reporters wrote out sales slips and as many as five sales could be recorded on one slip. This, of course, was very advantageous in busy stocks since it did not require the rewriting of the stock symbol or the full price. With "mark-sense" cards, however, it is possible to report only three sales on a card.

The identification of a Registered Trader's transaction at the time of the trade is imperative for effective surveillance. To insure identification, the participation of the reporter is required. He may either record sales information that he hears or receive information on an IBM card from someone else. In the latter case, the Registered Trader or his agent would give the reporter an identification card at the time of the trade--the so-called "calling card" method. After the close of the market; another IBM card would put all the details of the trade into the computer. This second card would "marry" the identification card and we would have all the information required for effective surveillance.

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The "calling card" method appeared to us to offer the best possibility for solving the problem. At the time of the discussions held between the SEC and the Exchange regarding the new Floor Trading Rules, we stated we would test such a "calling card" system. In the first half of 1965, as previously reported, we conducted two tests. The objective of these tests was to simulate as closely as possible the planned Floor procedures for capturing data as to Registered Traders' transactions as they were effected on the Floor. While the second test was far more successful than the first, the results were still unsatisfactory. In this test, we were able to obtain complete data on 87.7% of trades executed by Registered Traders or by "\$2 Brokers" for Registered Traders. But only 64.8% of trades executed for Registered Traders by specialists were recorded. With respect to the specialists, a basic difficulty is that in a busy stock, all specialists are not able to operate with a "book" in hand and, therefore, do not know at the moment that they are acting for a Trader. By the time the specialist was ready to give an identification card to the reporter, the sale may have already been reported.

In view of the limitations exposed by the "calling card" tests, we decided to try the only other method known to us--the "mark-sense" card system. This consisted of the reporter listening for sales information as it transpired on the Floor and placing additional markings on the sales card. A test of this method was conducted but the results were substantially less than the percentage obtained by the "calling card" system. In light of the poor results, it is felt that there would be no value in attempting the second part of the test, the purpose of which was to identify the particular Trader involved. Therefore, every future test using the "mark-sense" card will probably incorporate some modification of the "calling card" method.

As you know, at the present time, we are attempting to capture data relating to specialists' dealer transactions. We are not conducting any Floor tests with respect to Registered Traders' surveillance at this time.

Sincerely yours,