

MEMORANDUM

DATE October 30, 1936

TO: Mr. Katz

FROM: Mr. Saperstein

SUBJECT: Report to National Emergency Council

I refer to your memorandum dated October 23, 1936 in which you request that we compile certain data for inclusion in the report of the Commission to the National Emergency Council. Enclosed you will find a page dealing with the developments in regard to unlisted trading on exchanges; a page dealing with the new developments in regard to over-the-counter regulation; and a page setting forth progress to date in the matter of segregation. I trust that you will find this material helpful.

A. DEVELOPMENTS IN REGARD TO UNLISTED
TRADING ON EXCHANGES

On July 23, 1936, the Commission amended Rules JF1, JF2, JF3, JF4, JF5 and JF7 governing unlisted trading privileges to conform with the amendment to the Securities Exchange Act of 1934, approved on May 27, 1936.

Since the amendment was approved, the Commission has received 4 applications by dealers for the termination of unlisted trading privileges in securities on the New York Curb Exchange, and one application by an issuer for the termination of unlisted trading privileges in its security on the San Francisco Curb Exchange. Proceedings are now pending with respect to such applications. The Commission has on its own motion initiated a proceeding to remove from unlisted trading on the New York Curb Exchange a security which had been withdrawn by the issuer from registration and listing on the Detroit Stock Exchange, pursuant to Rule UB2. This proceeding is also pending.

Clause 2 of Section 12(f), as amended, gave the Commission authority, subject to certain conditions and upon application by an exchange, to extend unlisted trading privileges to any security duly listed and registered on another national securities exchange. This clause became effective August 26, 1936 and since that date the Commission has received applications for unlisted trading privileges in 31 securities (25 on the Pittsburgh Stock Exchange, 5 on the San Francisco Curb Exchange and 1 on the New York Curb Exchange). No decisions have been rendered as yet on these applications.

As of September 30, 1936, there were 2,522 securities admitted to unlisted trading privileges on 14 registered national securities exchanges. This total, which shows duplicated issues, is made up of 1,749 stocks and 773 bond issues. Total of unduplicated issues is 2,145, comprising 1,311 stock and 834 bond issues. 1/

1/ With respect to securities admitted to unlisted trading privileges on exchanges the total number of shares of stock and the total par value of bonds authorized and outstanding are not available for the reason that the issuers of such securities are under no obligation to furnish such totals to the exchanges.

C. SEGREGATION OF THE FUNCTIONS OF DEALER AND BROKER.

Section 11 (e) of the Securities Exchange Act of 1934 directs the Commission to make a study of the feasibility and advisability of the complete segregation of the functions of dealer and broker and to report the results of its study and its recommendations to the Congress. Under date of June 20, 1936 the Commission transmitted to the Congress the results of its study of the subject.

Since that date representatives of the Commission and of various exchanges have been conferring on the recommendations contained in the report. Committees have been appointed by the major exchanges to study the problem.

As part of its proposed program the Commission recommended that current figures be made public at periodic intervals setting forth the volume of specialists' trading and the volume of all other members' trading on and off the floor. On October 24, 1936 the Commission made public figures showing the weekly volume of stock transactions for the account of all members of the New York Stock Exchange and the New York Curb Exchange between March 30, 1936 and September 26, 1936. The data published represented recapitulations made by the exchanges of the daily transactions set forth in 28,002 reports filed with the New York Stock Exchange by its members and in 21,955 reports filed with the New York Curb Exchange by its members. At the same time the Commission announced that statistics on transactions for the account of members of the New York Stock Exchange and New York Curb Exchange would be published weekly in the future showing the daily transactions for their own account of specialists, odd-lot dealers and other members on and off the floor.

In the course of its study of transactions by exchange members, the Commission ascertained that a considerable differential exists between the volume of trading reported by the ticker of the New York Stock and New York Curb Exchanges and the total volume of trading actually effected on those exchanges, for the reason that the ticker volume does not include "stopped" sales or transactions which, due to error or other circumstance, fail to appear on the ticker. In order to make possible the publication of the actual total volume of trading and the calculation on a daily basis of the percentage of members' transactions to total transactions, the Commission requested the New York Stock Exchange and the New York Curb Exchange to compile figures representing the volume of all round-lot transactions in stock effected upon those exchanges each day. These figures will be published weekly by the Commission and will for the first time reflect the daily volume of all round-lot transactions actually effected on the exchanges. The compilation of these figures is in accordance with the recommendation made by the Commission in its segregation report that effort be directed toward the perfection of statistics with regard to the volume of members' transactions.