

traders, odd-lot brokers, and processes all complaints, requests for information and general correspondence relating to any of these areas.

The period since 1961 has witnessed the introduction of the most modern automated data processing techniques and a nearly three-fold increase in The Floor Department's personnel devoted to its surveillance work. The procedures, policies and rules of The Floor Department have undergone certain significant innovations and modifications in order to keep abreast of expanding economic and market conditions. It is felt that the representative new procedures outlined below, which have been enacted in accordance with our policy of continually endeavoring to upgrade the quality of the market, have been of substantial benefit to the investor and greatly strengthened the protection afforded to him.

To ensure the financial responsibility of all specialist units in today's larger markets, each unit must now be able to assume a position of 2,000 shares in each specialty stock. Each unit's financial condition is checked regularly as well as after any significant market decline. Greater financial flexibility has been provided for in the event of unusual market situations. An emergency committee has been established and is authorized immediately to reallocate stocks should the necessity arise.

In seeking to maintain, insofar as reasonably practicable, a fair and orderly, as well as the most liquid securities auction market, modifications have been made with respect to the general criteria for market maintenance by the specialist. Specialists' dealings and stabilization rates have been subjected to higher standards. In addition, standards of depth and price continuity have been substantially increased. New amendments to our rules now set forth more clearly that specialists' actions in establishing, increasing, liquidating or reducing positions must be consistent with their market making function. Moreover, a comprehensive written examination is now required of all applicants for specialists' registration.

One of our most significant advances made in the area of surveillance utilizes a computer to produce a monthly market study which flags for possible review a specialist's actual market performance in each 100 share unit common stock. Also, real-time automated price surveillance is now a fact, and price movements outside certain pre-set limits are automatically printed-out by the computer, thus alerting us to unusual situations as they develop. Exchange automation has made possible the daily printing of a Transaction Journal, which now provides the time, tick and price variations of all transactions and quotations reported in the Market Data System. This provides quick, complete, and immediately accessible data for review and surveillance on an overnight basis. Through these surveillance and review procedures, we are able to note quickly abnormal price movements or possible rule infractions.

In 1966, the odd-lot differential schedule was amended in favor of the "small investor" who places orders for less than 100 shares. The differential is now $\frac{1}{8}$ of a point on issues selling up to \$55 per share as compared with the previous "cut off" level which was \$40 per share. A differential of $\frac{1}{4}$ of a point is applicable for issues priced at \$55 or above.

Although investigative activities have always been conducted by the Floor Department, a formal Investigation Division has been created to enable the Exchange to provide complete and prompt investigation into any questionable activities occurring on the Floor. In carrying out its self-regulatory role, any indication of a rule infraction—whether it is brought to our attention through our extensive surveillance procedures, by a Governor or member on the Floor, or through a public customer—is thoroughly investigated. When the facts disclose an actual violation, the case is carried to a conclusion under the applicable disciplinary procedures of the Exchange. If a public letter contains a complaint or inquiry, a complete answer is given and an investigation conducted, if the facts so warrant.

In 1963, our accountant-examiners began conducting annual surprise reviews of the back office records of specialists and registered traders. They also engage in any special investigative projects which may seem appropriate in the light of overall surveillance objectives.

Conclusion

I realize this letter is lengthy, and I ask your forbearance. However I am proud of our efforts to make certain that the public can invest in our market with