

7 had been halted at 1:55 P.M. because of the heavy influx of orders following a news release that merger negotiations between C&NW and Essex Wire Corporation had been terminated.)

In the course of its inquiry, the Commission staff interviewed the specialists and Exchange Officials² directly concerned with this opening. Upon our request, the NYSE submitted a detailed report of its investigation into this situation. The Commission staff acquired copies of all market order slips left with the specialists on August 8, and a copy of the specialists' book at the time of the opening showing all limit orders left with the specialists for execution. (A limit order is an order to buy or sell a stated amount of a security at a specified price, or at a better price, if obtainable after the order is represented in the trading crowd.) There are no records of the condition of the specialists' book at any time other than 2:00 P.M.

ANALYSIS OF ORDERS AT THE DELAYED OPENING, AUGUST 8, 1967

Analysis of orders and the specialists' book shows that at the time of the 2:00 P.M. opening, the specialists had market orders to buy 21,400 shares and to sell 14,900 shares of common stock. In addition, the book showed that, up to a price of 150, limit orders to sell totaled 77,400 shares of common. Most of the limit orders to sell (58,800) were at 130 and above. Limit orders to buy on the book totaled 65,200 shares (common) down to a price of 108. The majority of the limit orders to buy, however, (49,800) were at 119 $\frac{1}{4}$ and below. Therefore, in order to utilize the limit buy orders on the book to support the price, the specialists would have had to open the stock below 120. If the stock had opened at 130 or above, the specialists could have been obligated to buy slightly more than 50,000 shares (net). Between the prices of 120 and 130, limit orders to buy at 120 and above totaled 15,400 shares, 6,600 of which were at 120. Limit orders to sell below 130 totaled 18,600, 12,200 of which were at a 125 limit. Thus, this placement of limit buy and sell orders indicates that the specialists would have been encouraged to open the stock below 125 in order to match as many buy and sell orders as possible, and to avoid the last of the large limit sell orders on the book (i.e., 12,200 at 125). Adding to the difficult situation in the common stock was a great imbalance in the limit orders in the convertible preferred (17,700 to sell; 100 to buy). The opening price of the preferred would be approximately the same as that of the common due to the share for share conversion ratio.

Exchange rules do not require any particular rate of specialist participation; specialists, however, are expected to maintain a fair and orderly market and not to participate when this would be detrimental to the market. The placement of the buy and sell limit orders, outlined above, created price levels which would have demanded an extraordinary investment by the specialists should they have opened above any of these levels. For example, the staff estimates that the specialists would have had to buy (market and limit orders of common and preferred combined) the following approximate amounts at the following prices: 125—approximately 23,000 shares (\$2,875,000); 130—approximately 60,000 shares (\$7,800,000); 135—approximately 72,000 shares (\$9,720,000). Therefore, barring such an extraordinary investment on the part of the specialists, the placement of these orders indicates the probability of an opening below 125 and above 115. At these levels, the specialists could expect to more nearly match buy and sell orders and to participate as buyers for between 8,000 and 10,000 net, requiring an investment of approximately \$1 million.

About a half-hour before the opening, a price range of 110 to 125 was circulated to the trading crowd; at this range, the specialists were to have been estimated buyers of up to approximately 10,000 shares. In response to this circulated price range, a great number of new orders was received (especially orders to buy), and some existing orders were altered (in particular a 10,700 share market order to sell was changed to a limit order at 130—in the confusion no one handling the book was aware of this change until *after* the opening had taken place). In other words, following the circulation of the price indications, the character of the market began changing rapidly from one with an excess of sell orders to one where buy orders predominated. Due to the confusion, however, no one in charge of the book was aware of the changing character of the market. It does not appear

² Although Floor Officials are responsible under NYSE rules for supervising Floor procedures, in practice Floor Governors participate in serious situations. The term "Exchange Officials" in this report refers both to Floor Officials and Floor Governors.