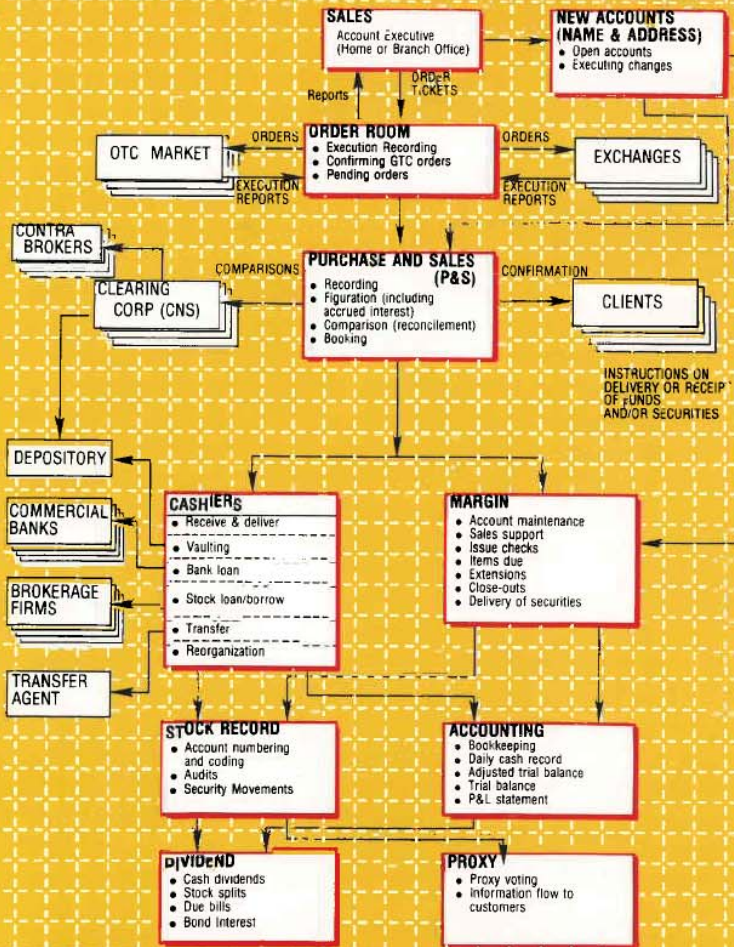


Second Edition

AFTER THE TRADE IS MADE

Processing Securities Transactions



DAVID M. WEISS

Library of Congress Cataloging-in-Publication Data

Weiss, David M.

After the trade is made : processing securities transactions /
David M. Weiss.—2nd ed.

p. cm.

Includes index.

ISBN 0-13-177601-0

1. Stock-exchange—United States. 2. Securities—United States.
3. Commodity exchanges—United States. I. Title.

HG4910.W365 1993

93-25716

332.64'273—dc20

CIP

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Printed in the United States of America

10 9 8 7 6

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—From the Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations

ISBN 0-13-177601-0

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NEW YORK INSTITUTE OF FINANCE
Paramus, NJ 07652

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Editora Prentice-Hall do Brasil, Ltda., Rio de Janeiro

executes because of priority, C executes because of precedence, and B executes before D because of time advantage.

Parity. When two brokers can both fill the order and both enter their intentions at the same time, there isn't any logical way of awarding the trade. This is parity. In this case, either the brokers agree to an equitable distribution, or they flip a coin and the winner takes the trade.

Example: The quote is 22-1/2, and the bids are:

Broker M: 100 shares, 10:14

Broker N: 100 shares, 10:15

Broker O: 100 shares, 10:15

If Broker Z enters the crowd with a sell market order for 100 shares, Broker M executes. If Broker Z enters the crowd with a sell market order for 200 shares, M executes 100 shares. Since Brokers N and O can fill or best fill the order and neither has a time advantage, they have parity. So Brokers N and O either agree to one of these two taking the 100 shares or toss a coin, and the winner of the toss executes 100 shares.

When an execution takes place, *the floor is cleared*, all remaining bids or offers at that price must be resubmitted. This procedure keeps quotes updated while reaffirming all orders.

The Specialist's Book

Specialists enter public orders, that are away from the market, in their books by price and in the order they are received.

Example: See Figure 4-2. If this specialist's book represents the highest bid and lowest offer of the crowd, the quote is 22 1/4-5/8. The highest bid is 22 1/4, the lowest offer, 22 5/8. If these orders are the only shares comprising the quote, the size is 5 by 9. The largest order for a buy at 22 1/4 is for 500 shares (200 by Broker D and 300 by Broker E). The largest order for sale at 22 5/8 is 900 shares (300 by Broker F and 600 by Broker G).

Specialists execute orders from their books by price on a first-in/first-out (FIFO) basis. The first order in is the first order out.

Example: If Broker Z enters the crowd with a 200-share buy order at the market, the specialist executes 200 of Broker F's 300-share order at 22 5/8.

because of precedence, and B tags.

both fill the order and both are, there isn't any logical way to determine. In this case, either the order with the earliest time of entry, or they flip a coin and the order with the earliest time of entry wins.

orders are:

If a market order for 100 shares, and a sell market order for 100 shares, once Brokers N and O can fill or execute, they have parity. So if these two taking the 100 shares, the order with the earliest time of entry executes 100 shares.

When the floor is cleared, all remaining orders must be resubmitted. This process is called affirming all orders.

Orders are away from the market, in the order they are received.

The specialist's book represents the highest bid quote is 22 1/4-5/8. The highest bid orders are the only shares that can be bought. The largest order for a buy at 22 1/4 is 300 by Broker E). The largest order for a sell at 22 7/8 is 400 by Broker S and 600 by Broker G.

Orders in their books by price on a first order in is the first order to be filled.

For example, if a 200-share buy order at the 22 1/4 price and a 300-share order at 22 5/8.

FIGURE 4-2. A page in the specialist's book.

BUY		SELL
BKR R - 100	22	
BKR L - 300	1/8	
BKR A - 500		
BKR D - 200	1/4	
BKR E - 300		
	3/8	
	1/2	
	5/8	BKR F - 300
		BKR G - 600
	3/4	BKR B - 100
		BKR M - 200
	7/8	BKR S - 400

The NYSE specialist's book is maintained on a CRT and referred to as *display book*. This electronic book sorts all orders coming to the specialist in time and price sequence; it also keeps track of executed orders, so that inquiries from member firms may be quickly researched.

Display book is part of a larger system, known as DOT (*designated order turnaround*). DOT orders are executed by the specialist either against other DOT orders (orders entered by member firms into the DOT system), or against brokers in the "crowd" or against the specialist's own position.

THE AMERICAN STOCK EXCHANGE (AMEX)

The Amex membership is basically like the NYSE's. On the floor are commission house brokers, two-dollar brokers, specialists, and traders. Their functions are very similar to those of their counterparts on the NYSE.

One notable difference from the NYSE is the way the member firms communicate with their employees. Conversations regarding security, shares, price, and the like are carried on through a system of hand signals. The individuals actually discuss quote, size, and other terms without speaking or writing a word.

The Amex trading floor also operates differently than the NYSE. Its procedure for awarding trades is known as *priority prorata*. Under this system, one broker may have priority, as on the NYSE. After priority, however, shares are allocated in round lots among the other participating brokers. Precedence and parity do not play a part in the Amex procedure.

Example: Three brokers enter bids for ABC at 26, as follows:

Broker A: 100 shares, 10:14

Broker B: 200 shares, 10:15

Broker C: 300 shares, 10:15

Broker X enters the crowd with a 400-share sell market order. Broker A executes a trade for 100 shares (priority). Broker B then buys 100 shares, and Broker C takes 200 shares. In other words, the remaining 300 shares are distributed "prorata."