

## PRICE REPORTING AND DISSEMINATION: THE PLACEMENT AND EXECUTION OF ORDERS

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**T**HE Board of Trade of the City of Chicago is an association whose objects are: "To maintain a commercial Exchange; to promote uniformity in the customs and usages of merchants; to inculcate principles of justice and equity in trade; to facilitate the speedy adjustment of business disputes; to acquire and to disseminate valuable commercial and economic information; and generally, to secure to its members the benefits of cooperation in the furtherance of their legitimate pursuits."<sup>1</sup>

### Price Reporting and Dissemination

The Chicago Board of Trade is a meeting place where its member brokers transact business for their customers. Let us, first, describe the mechanics of price reporting and dissemination.

All futures orders received by member firms are transmitted to the Exchange Floor for execution and are filled according to bids and offers in the respective pits "by open outcry in the open market in the Exchange Hall during the hours of regular trading."<sup>2</sup>

The futures broker in a particular commodity is responsible

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<sup>1</sup> Preamble of Exchange Rules and Regulations.

<sup>2</sup> Rule 202A.

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for the "flashing" of a quotation to the "pit recorder." In actual practice this may be accomplished by either a hand signal or by calling out the price at which a transaction has taken place in a futures contract. Chicago Board of Trade Regulation 1843 (g) states — "The following acts are detrimental to the welfare of the Association (Rule 145): for parties to a transaction (and only such parties) to fail to see immediately that the pit recorder has made proper record of the price at which trades have been consumated." However, Ruling 1030 specifically provides "That, the reported in each pit be the judge of what constitutes a proper range of quotations to be sent out, subject to the supervision of the Quotation Committee in the respective pits.

That, quotations sent out must be based on transactions made in the open market, and by the term "open market" is meant a bid or an offer openly and audibly made by a public outcry and in such manner as to be open to all members in the pit at the time.

That, whenever price fluctuations of the commodities dealt in on the Exchange are rapid and the volume of business is large, it is of common occurrence that different prices are bid and offered for the same delivery in the different parts of the pit at the same time. The normal result of such conditions is, at times, the execution by members of orders at prices not officially quoted, or the inability of a member to execute an order at a limited price. This is unavoidable, but is in nowise the fault of anyone; and it is not permissible for members to readjust the price at which orders have been filled, nor to report as filled orders that have not been filled. To do so is a grave offense."

### The Ticker

The Chicago Board of Trade ticker is a fast, efficient ma-

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chine. Immediately after each transaction in a "Round lot" of any commodity traded on the Exchange or of any multiple thereof, the pit recorder, who is an employee of the Exchange stationed in the quotations box, writes out a record of this transaction. This report is written on a small pad which is time-stamped by the pit recorder. The report includes the futures month traded, the price of the transaction and the time of the sale. It does not include the volume of the sale. Experience has indicated that the time consumed in reporting the volume of each transaction would importantly affect the speedy execution of orders and the liquidity of the market. Too, it should be noted that in an extremely active market as many as 300 brokers and employees of member firms may be moving about in a single futures pit. In general, each broker stations himself in one particular spot in the pit so that the messengers who carry orders from the telephones on the Exchange Floor to him can readily locate him. It is apparent, therefore, that it would not be physically possible for a broker after each transaction to move to the quotations box to report the volume of each transaction. The pit recorder's assistant sitting in the quotations box is then given the slip with the information noted above. The assistant pit recorder then types the information on a tape which is fed into a transmitter and each combination of impulses is sent to a central electrical quotations room. The price is then transmitted by Western Union Telegraph Company facilities to other approved member and non-member offices located throughout the country and sent by audible Morse code to board markers on the trading floor. The entire operation from the time of execution in the pit to the actual transmission to the off-Floor offices requires but a few seconds in a normal market. The

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\* 5,000 bushels of wheat, corn, oats, rye, soybeans or 1 contract of soybean meal, soybean oil, or beef.

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ticker abbreviations begin with the symbol for the particular commodity reported such as "W" for wheat followed by the futures month reported such as "K" for the month of May and finally the price at which the trade is made. A transaction would in such an instance appear on the tape as follows: "WK — 150 $\frac{1}{8}$ ." If an error in a report is not caught in the central electrical operations room and it appears on the tape, a correction is made on the tape. Such a correction would appear as follows: "Cancel Last WK 150 $\frac{1}{8}$ ." Subsequently, a new report on the tape might state: "At 11:30:30 WK 152 $\frac{1}{8}$ ."

### Communications

In the modern brokerage office, a variety of new equipment has made its appearance during this age of electronics. The so-called "fast tape" of the Chicago Board of Trade is still the stand-by, but such innovations as "Telequote III" on which commodity quotations and prices are displayed on a screen or printed on tape after certain symbols on the machine are punched are in evidence. The basic data are continually processed and stored by high-speed computers. The broker queries the computer from a desk unit and the information appears on the video screen as it is printed out on paper tape.

Many firms that maintain private wire systems of their own transmit market quotations and information to their offices throughout the United States and to foreign branches.

In addition, the Dow-Jones Company leases a combination "Broad Tape" which services both commodities and securities customers. The Journal of Commerce, through its subsidiary The Commodity News Service, Inc., also operates a commodity broad tape on a rental basis.

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### Quotations

The Chicago Board of Trade Quotations Department provides a very important service. After the sales are recorded on the quote pad by the pit reporter and relayed by the assistant pit reporter to the electronic data control center, another Exchange employee of the Quotations Department collects the quote pad slips and records them in a permanent book. The importance of this operation might be best explained by example. A customer, after receiving a report on an execution, might request the member firm to check the time and sales price on the order, if the report does not seem to coincide with the corresponding sales as reported on the tape. This is particularly true on days when the traffic on the wires is heavy and the tape is late. Although errors do occur, they are very rare. An employee of the member firm will contact the Quotations Department for a record of the transactions at a given interval to see if the customer's complaint is justified. If the complaint is valid and an error has occurred and with the written permission of a customer, a request in writing is made to the Exchange for permission to adjust the price of the transaction. If written approval is granted by the Rules Committee, an adjustment is made by a cash debit or credit to the customer's account based upon the information supplied by the Quotations Department and by the records of the member firm. Prices of all executions of orders are binding unless reported in error.

The Quotations Department of the Exchange does not supply a current "bid and asked." This service is supplied to the customer by the member firm through their private wire system and their Exchange Floor brokers. Such service is merely a convenience to the customer. The member firm is prohibited from guaranteeing a price of execution because no member may act as principal and agent in a futures trans-

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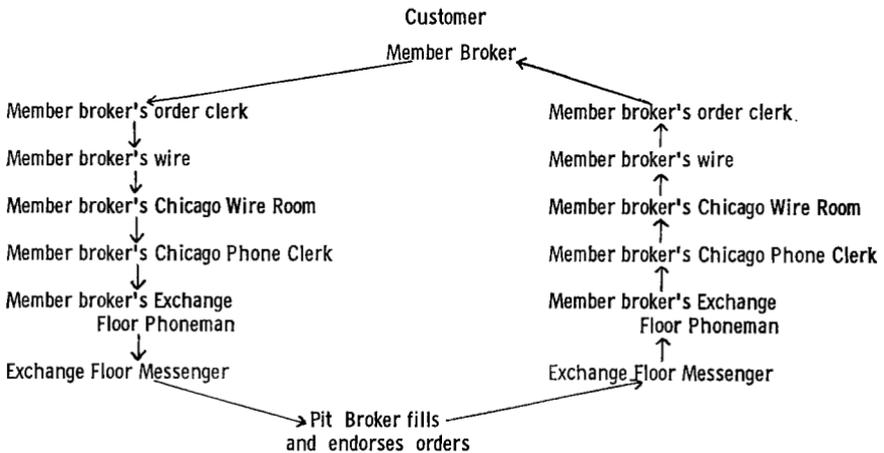
action. As stated previously, all futures transactions must be consummated in the pit by public outcry. This alone determines the price at which a futures purchase or sale is executed. Truly, it is an auction market.

The Market Report Committee of the Chicago Board of Trade has jurisdiction over the price reporting and dissemination functions of the Exchange.

### Placement and Execution of Orders

Because the subject matter of the first and second sections of this papers overlap and in view of the time limitation, it seems appropriate to graphically explain the placement and execution of orders:

**Chart B**  
Sequence in Processing an Order Through a Commission House



### Types of Orders

The order represents the customer's instructions to the brokerage house with respect to purchases or sales. "Buy" order slips are frequently printed in blue and "sell" order slips are frequently printed in red. The order specifies the number of bushels or the number of contracts to be bought or sold.

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The classification of orders commonly used on the Chicago Board of Trade are described as follows:

(1) Round-lot or odd-lot:

The units of trading in grain are round-lots and odd-lots. Five thousand bushels represents a round-lot contract while odd-lot contracts are traded in units of 1,000 bushels. Soybean meal and soybean oil are traded only in round-lots of one contract each.

(2) Buy or sell:

Buy or sell orders need little explanation — they simply represent the customer's instructions.

(3) Price limits:

(a) *Market order*: A market order is an order to be executed at the best possible price at the time the order reaches the Exchange Floor.

(b) *Limit order*: A limit order is an order which contains a price limitation decided by the customer at the time he enters the order. It may be executed only at the limit price or better.

(4) Time Limits:

(a) *Day order*: A Day order is an order that expires automatically at the end of the session each day.

(b) *Open order or GTC order*: An open order or GTC order is an order that remains in force until the customer explicitly cancels the order or until the futures contracts expire.

(c) *Off at specific time (day order with time contingent)*: Off at a specific time order is an order that remains in force until the specified time during the session is reached. At such time, the order is automatically cancelled.

(5) Special orders:

(a) *Stop order*: A stop-loss order is an order that be-

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comes a market order when a particular price above or below the market is reached.

- (b) *Stop limit order*: A stop limit order is an order that goes into force as soon as there is a sale at the specified price. The order, however, can only be filled at the stop limit price or better.
  - (c) *Quick order or Fill or kill order*: A quick order or fill or kill order is an order that must be executed at once at a specified price or it is cancelled.
  - (d) *Cancellation order*:
    - (1) *Straight cancel order*: A straight cancel order represents instructions from the customer to cancel a previous order.
    - (2) *Cancel former order (CFO with specific instructions)*: A CFO order is an order that will cancel a former order and replace it with new instructions. Normally, these instructions are a change in price.
  - (e) *Special contingent (discretionary orders)*: Discretionary orders are orders in which the customer gives a partner or officer of a member firm power of attorney. These orders are seldom used.
- (6) Spread orders:
- (a) *Intra-market*: An intra market spread order is an order to buy one particular future and sell another particular future within the same commodity.
  - (b) *Inter-market*: An inter-market spread order is an order for the purchase or sale of one commodity versus the purchase or sale of another commodity. These orders may involve commodities within one exchange or between exchanges.

### Placement and Execution of Orders

The improvement in communications and the electronic

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techniques that have been developed during the past few years will likely have far-reaching effects on the placement and execution of orders. One of the most significant factors that should be stressed in a discussion of this sort is the human element in the execution of orders. While we appreciate the technological advances that have been made, we wish to make it eminently plain that the most important plus factor that the customer has working in his behalf is the faculty of the human mind. The broker must be rational and informed. He can and does exercise his best judgment in how a particular order should be filled relative to market conditions at any given point and time. While all brokers are prohibited from acting as principal and agent in any portion of any transactions under the provisions of Rule 202A of the Exchange, a knowledgeable and experienced broker will while acting as agent for the customer sometimes enter an order for his own account and risk in order to steady the market before filling an opposite order for the customer. The position of the Floor broker is a competitive one. Within each pit, brokers compete for the business of industry accounts. Their integrity, ability and experience are the wares they have to sell.

### Summary

As stated in the preamble of the Chicago Board of Trade Rules and Regulations, one of the objects of the Exchange is "to acquire and to disseminate valuable commercial and economic information." The prices of transactions on this Exchange reflect the opinion of all of the people in the trade. Price, serving its purpose in our nation's economic system, tends to equate supply with demand. The dissemination of information acts as a catalyst in the expansion of trade, both here and abroad.

The efficiency of the United States grain marketing system

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can be directly attributed to the ease with which price information and price protection can be obtained through the facilities of a commodity futures market.

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#### *DISCUSSION*

**CHAIRMAN PEDERSON:** Thank you, Mr. Powers, I am sure we have time for a few questions.

**WILT:** Is there any specific reason as to why the audible telegraph is used for reporting to the board markers?

**POWERS:** Yes, there is, and the answer is relatively simple. As you will notice on the west wall of the Exchange floor, one reporter wears an earphone, and of course, he has a long telephone cord. If there were three or four reporters with cords, the reporters could tangle them or trip over them. It's to facilitate movement in a real active market.

The reporters, by virtue of the fact that they use the audible Morse signals, can run back and forth to corn, oats, rye and soybeans. If they had on ear sets, they wouldn't have been able to move around as fast, because of the cable.

I know there are probably some questions on your mind that I didn't discuss. One might be: Why don't brokers match orders?

This isn't exactly the discussion that I have been assigned here, but I feel it should be covered. I have been asked why don't the brokers say to each other, "You've got 50 to buy and 150 to sell. Let's just cross the orders."

This is illegal on this Exchange. Some commission houses have suggested it be done because there are price spreads on opening and closings, but the broker is competing with every other broker on the Exchange for business — if the brokers matched these orders, they would arbitrarily be deciding

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what wheat, corn or soybeans were worth on any particular opening.

And I doubt sincerely that they have the ability to do so. This is the function of the market.

If I recall correctly, at a Chicago Commodity Club meeting in about 1961, a former assistant Secretary of Agriculture made the statement that there were seven directors of the Commodity Credit Corporation, and that at any given time, these seven men could probably give you a relatively accurate idea of what wheat, corn, oats or rye were worth. But he said that if you took the seven most intelligent men in the grain industry and put them all together they couldn't tell you what any grain would be worth tomorrow morning.

And I think that aptly describes why orders shouldn't be matched. The marketplace will tell you the price.

I mentioned that a broker could possibly offer corn for his own account and risk when he has a buy order. The broker is, however, prohibited by law from bidding for corn for his account when he has a buy order. That order has to be filled first. He cannot buy for his own account at that price, until all orders at that price are completed.

For this reason, most brokers do not trade to any great extent for their own account, because they are at a disadvantage.

SCHNEIDAU: Would you mind discussing closing prices briefly and what they reflect in terms of the day's trading?

POWERS: They're determined by the market at that moment. Now, that is not begging the question. No broker knows what another broker has to do at any given time during the day.

Each broker has a tremendous amount of pride in his ability to fill an order. I know when I was filling orders, I wanted to be the best broker on the floor. There is an ego factor to

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be satisfied in filling an order, and I don't want the broker standing next to me to know what I have to do. I want to fill my order at the best possible price.

I remember one day, when the close was two minutes long — not a very long period of time — and I had a huge amount of wheat to buy. Unfortunately, there were about five other brokers with an equal amount to buy. I think I bought about one million or one and a half million bushels of wheat. I still had about eight hundred wheat to buy and the one minute bell had rung. I kept bidding up the market.

The broker next to me bid  $\frac{5}{8}$  higher than the up limit, which is illegal, but he didn't realize it was above the limit. His bid did not stand. Some brokers didn't get all of their wheat bought, because once that final bell rings, that's all. No more trades can be made.

You may see people writing on cards on the Exchange floor after the final bell rings, but they have made the transactions prior to that final bell. They may check their closing transactions after the bell. After all, if I have one million wheat to buy and I have approximately one minute to do it, I might buy it from fifteen people. I am lucky if all of the transactions check properly.

**BAKKEN:** In a case where you have a tremendously big order, you can tell the pit reporter that that is your closing order?

**POWERS:** Hold the close.

**BAKKEN:** And that for you becomes a long close then?

**POWERS:** That's right, but they do not hold the close past 1:15. When the bell rings three times, that is the end of trading. Brokers check trades after that, and they write down on the trading cards what they have done.

For example, when I was that busy, I would never card the trades at that moment on an actual trading card. I would

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write the opposite member's name on the order, and transcribe the information on a trading card later. I have to buy what I have to buy and sell what I have to sell by the final bell.

SCHNEIDAU: Is this the best thing indicative of the day's trading: Closing prices?

POWERS: That is difficult to answer. Maybe Dr. Gray can answer that one for you, a little later. To me, I would say no. You may arrive at a point in time on a given day when the public or the pit crowd may be overly short or overly long, and if sizable orders come in to buy or sell opposite to their position, you may get a distorted close and it may not reflect the true value.

I think in the instance I pointed out to you, it did reflect the true value at the time, because in that particular year a sizable amount of soft red wheat export business was done unexpectedly late, and it just exhausted the Chicago stocks of wheat. The short supplies resulted in a higher price.

