

In connection with limiting Specialist Stock Credit to an equivalent share amount, market maker accounts containing stock and options positions should be required to show the maximum amount of stock that could be financed with Specialist Stock Credit to permit easy review of these accounts to assure compliance with the rule.

Limiting Specialist Stock Credit to no more than the equivalent share position required to provide a neutral hedge in an options position will avoid Specialist Stock Credit being used to finance stock holdings which are not required to offset risk positions in options obtained in the course of maintaining a market. With this rule, there would be no reason to permit market makers to engage in free riding to finance their stock transactions or to establish a 25 percent margin requirement for stocks underlying all options listed on an exchange.

Accordingly, the Options Study recommends:

THE COMMISSION SHOULD CONSIDER RECOMMENDING TO THE FRB THAT THE CLEARING FIRMS FOR MARKET MAKERS BE PERMITTED TO FINANCE POSITIONS IN A STOCK UNDERLYING A MARKET MAKER'S OPTIONS POSITION ON A GOOD FAITH BASIS PROVIDED THE MARKET MAKER'S SPECIALIST ACCOUNT CONTAINS ONLY THOSE SHARES NECESSARY TO HEDGE AN OPTIONS POSITION, AS DETERMINED IN ACCORDANCE WITH AN APPROPRIATE OPTIONS PRICING FORMULA. 46/

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46/ The FRB, however, has taken a different view with respect to the use of an options pricing formula for this purpose. See Attachment 7.

5. LIMIT ON STOCK QUALIFYING FOR SPECIALIST STOCK CREDIT

All market makers are currently subject to the same credit rules with respect to stock underlying any class of options listed on the exchange where they are registered as a specialist. This permits a market maker, in effect, to trade in any of these stocks on a more favorable basis than public customers.

The Options Study recognizes that the competitive market maker systems were designed to allow flexibility in order to permit competing market makers to move their activities and capital into different classes of options as market conditions required. For that reason the Options Study is not recommending any change in the margin rules applicable to market makers for options transactions. The Options Study believes, however, that good faith credit should be restricted to finance options market maker stock hedge transactions in a limited number of options classes in which the market maker can be expected to participate actively.

To recommend a possible limit on the number of stock hedge positions which should be permitted to be financed with Specialist Stock Credit without unduly interfering with the options market, the Options Study reviewed the accounts of 786 CBOE competitive market makers for the second quarter of 1978 to determine the extent to which market makers used stock to hedge options positions. Of the 786 market makers which held stock positions during the second quarter of 1978, only 156 held stock positions in more than 20

different options classes at one time or another during the period. Accordingly, the Options Study believes that market makers can be limited to Specialist Stock Credit for stock underlying no more than 20 classes of options without unduly interfering with market making activity, provided Specialist Stock Credit is available to a market maker called upon by exchange officials to add market making capacity to an options class when required by short term market conditions.

Although the Options Study does not believe that limiting Specialist Stock Credit to stock underlying only 20 options classes would unduly interfere with the competitive nature of the options market making systems, this limit should be periodically reviewed to assure that Specialist Stock Credit is being used properly and that this limit does not unduly interfere with the market making process. The market maker should be required to register in those options in which he expects to be eligible for Specialist Stock Credit in advance of his obtaining this credit, except in cases of specific exchange approval.

Accordingly, the Options Study recommends:

THE OPTIONS EXCHANGES SHOULD REVISE THEIR RULES TO RESTRICT THE ABILITY OF MARKET MAKERS TO OBTAIN SPECIALIST STOCK CREDIT TO STOCK UNDERLYING NO MORE THAN 20 OPTIONS CLASSES, WITHOUT SPECIFIC EXCHANGE APPROVAL.

EXHIBITS TO CHAPTER VII

Exhibit 1

Certain pages of this exhibit have been deleted from the final Report to conserve space. This form, in its entirety, is publicly available through the Commission's Public Reference Room, 1100 L Street, N.W., Washington, D.C.

**FORM  
X-17A-5**

**FOCUS REPORT**  
(Financial and Operational Combined Uniform Single Report)  
**PART II** 11

SEC 1695 (7-78) 3/78

(Please read instructions before preparing form.)

This report is being filed pursuant to (Check Applicable Block(s):

1) Rule 17a-5(a) 16      2) Rule 17a-5(b) 17      3) Rule 17a-11 18

4) Special request by designated examining authority 19      5) Other 26

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NAME OF BROKER-DEALER \_\_\_\_\_ SEC FILE NO. \_\_\_\_\_ 14

FIRM ID. NO. \_\_\_\_\_ 15

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.) \_\_\_\_\_ 13

FOR PERIOD BEGINNING (MM/DD/YY, \_\_\_\_\_ 24

(No. and Street) \_\_\_\_\_ 20 AND ENDING (MM/DD/YY) \_\_\_\_\_ 25

(City) 21 (State) 22 (Zip Code) 23

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NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT \_\_\_\_\_ (Area Code)—Telephone No. \_\_\_\_\_ 30 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT: \_\_\_\_\_ 32 OFFICIAL USE \_\_\_\_\_ 33

\_\_\_\_\_ 34 \_\_\_\_\_ 35

\_\_\_\_\_ 36 \_\_\_\_\_ 37

\_\_\_\_\_ 38 \_\_\_\_\_ 39

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DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES 40 NO 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT 42

WORKING COPY →

**EXECUTION:**

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_\_  
Manual signatures of:

- 1) \_\_\_\_\_  
Principal Executive Officer or Managing Partner
- 2) \_\_\_\_\_  
Principal Financial Officer or Partner
- 3) \_\_\_\_\_  
Principal Operations Officer or Partner

**ATTENTION**—Intentional misstatements or omissions of facts constitute Federal Criminal Violations (See 18 U.S.C. 1001 and 15 U.S.C. 78f(a))

**FORM  
X-17A-5**

**FOCUS REPORT**  
(Financial and Operational Combined Uniform Single Report)  
**PART IIA** 12

SEC 1696 (7-78) 3/78

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s):

- 1) Rule 17a-5(a) 16      2) Rule 17a-5(b) 17      3) Rule 17a-11 18  
4) Special request by designated examining authority 19      5) Other 26

NAME OF BROKER-DEALER	SEC FILE NO. <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">14</span></span>
ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.) <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">13</span></span>	FIRM ID. NO. <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">15</span></span>
(No. and Street) <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">20</span></span>	FOR PERIOD BEGINNING (MM/DD/YY) <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">24</span></span>
(City) <span style="border: 1px solid black; padding: 0 2px;">21</span> (State) <span style="border: 1px solid black; padding: 0 2px;">22</span> (Zip Code) <span style="border: 1px solid black; padding: 0 2px;">23</span>	AND ENDING (MM/DD/YY) <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">25</span></span>
NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT	(Area Code)—Telephone No.
NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT: <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">30</span></span>	OFFICIAL USE <span style="float: right;"><span style="border: 1px solid black; padding: 0 2px;">31</span></span>
<span style="border: 1px solid black; padding: 0 2px;">32</span>	<span style="border: 1px solid black; padding: 0 2px;">33</span>
<span style="border: 1px solid black; padding: 0 2px;">34</span>	<span style="border: 1px solid black; padding: 0 2px;">35</span>
<span style="border: 1px solid black; padding: 0 2px;">36</span>	<span style="border: 1px solid black; padding: 0 2px;">37</span>
<span style="border: 1px solid black; padding: 0 2px;">38</span>	<span style="border: 1px solid black; padding: 0 2px;">39</span>

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES 40 NO 41  
CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT 42

**EXECUTION:**

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

WORKING COPY

Dated the \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_\_  
Manual signatures of:

- 1) \_\_\_\_\_  
Principal Executive Officer or Managing Partner
- 2) \_\_\_\_\_  
Principal Financial Officer or Partner
- 3) \_\_\_\_\_  
Principal Operations Officer or Partner

**ATTENTION**—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78.(a))

May 5, 1978

Mr. Wayne P. Luthringshausen  
President  
The Options Clearing Corporation  
5950 Sears Tower  
Chicago, Illinois 60606

Dear Mr. Luthringshausen:

In order to assist in our investigation of the standardized options markets, the Special Study of the Options Markets ("Options Study") is requesting information, documents, and other data from you 1/ concerning the operations of the Options Clearing Corporation ("OCC"). 2/ While we understand that, in certain instances, part of the information which we are now requesting may have been submitted previously to other divisions or offices of the Commission, it is necessary, in order to insure the completeness of the Options Study's own working files, for you to submit duplicate copies of such documents to us. In addition, if such previous submissions are not currently accurate, please amend or update them and continue to inform the the Options Study staff when further material changes, if any, are made in the procedures and practices described in your submissions.

We appreciate that our requests may be somewhat detailed and may require significant effort on the part of the staff of the OCC. However, to facilitate the progress of the Options Study we ask your cooperation in this information gathering process, and request that you transmit the information requested in the enclosed list not later than May 29, 1978. If, however, responses to certain requests would be materially more complete if based on documentation being compiled for the OCC's fiscal 1978 (ending June 30, 1978), or

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1/ The authority for this request is granted to the Commission pursuant to Sections 17 and 21 of the Securities Exchange Act of 1934. The Commission is soliciting this information to aid in: (1) the enforcement of the Securities Exchange Act and the rules and regulations thereunder; (2) the possible adoption of rules and regulations under the Securities Exchange Act; and (3) the establishment of an information base from which the Commission may recommend further legislation concerning matters to which the Securities Exchange Act relates.

2/ For purposes of this letter, OCC is meant to include its predecessor, the CBOE Clearing Corporation.

Mr. Wayne P. Luthringshausen  
Page Two

should any particular request pose undue difficulty or should there be questions regarding any request, please call Ray J. Grzebielski at (202) 755-1296 or the undersigned at (202) 755-1285.

The Options Study shares the desire of the self-regulatory organizations that the activities of the Options Study be completed in a thorough and timely fashion. Accordingly, while we have requested that the data and information requested in the enclosed list be supplied by May 29, 1978, this shared objective would be facilitated if constituent elements of the attached list are forwarded promptly to the Options Study before that deadline.

Your cooperation is appreciated.

Sincerely,

Robert L. Smith  
Financial Responsibility and  
Credit Specialist

Enclosure

Attachment to letter to Wayne P. Luthringshausen  
Dated May 5, 1978

Surveillance/Compliance/Clearing Operations

Please submit the following information to: Special Study of the Options Markets, Attn: Robert L. Smith, Securities and Exchange Commission, 500 North Capitol Street, Washington, D. C. 20549.

In addition, please respond according to the format provided, and clearly identify in each case the particular outline item to which your answer is addressed. If particular documents submitted pursuant to one item are also germane to other item(s), it is necessary only to identify such documents in your answer(s) in relation to such other item(s). Please type or stamp the name "Options Clearing Corporation" and the transmittal date of your submission on each form, brochure, pamphlet or other document submitted in response to this request.

Please submit your response in duplicate (including exhibits).

I. Facilities

(A) Annual reports. Provide copies of each annual report issued by the OCC.

(B) Number of people. List the number, names, and titles of all staff personnel currently employed full-time or part-time and their length of service with the OCC. Also provide employee turnover statistics from the inception of the OCC. Provide an historical description of the growth or cutback of the staff and the reasons for any such changes.

(C) Organization. Describe, by means of an organization chart, if possible, the lines of authority between and among all personnel.

(D) Supervision. Describe the nature and character of the supervision of all of the personnel identified in Item I.(B) above.

(E) Branch offices. List each OCC branch office, its address, the number of supervisory and clerical employees in each such office and the functions performed at each office.

(F) Training and experience. Describe each type of training given to OCC personnel (excluding clerical and secretarial personnel) and include copies of all materials used in such training. In addition, describe the educational levels and relevant prior experience of all supervisory personnel.

(G) Budget. Provide the internal operating budget of the OCC, including a budget for each organizational unit, if available, for fiscal 1977 and the current fiscal year and the record of the actual expenditures made pursuant to such budget during 1977. Provide any reports prepared by the OCC's outside auditors with respect to the adequacy or efficiency of the OCC's internal controls or procedures.

(H) Contracts. List each contract with respect to the processing or supplying of options-related data to which the OCC is a party and identify the other party to the contract by name and address, the services which the OCC performs or receives, and the fees which the OCC has paid or received or will pay or receive pursuant to the contract or any predecessors thereof.

(I) Computer facilities. List all computer facilities operated or used by the OCC and identify the suppliers thereof by name and address. Submit summary descriptions of all software programs used by OCC, together with an indication of whether such software was developed by the OCC staff or by an external source. Identify each such external source by name and address.

(J) Sources of data processing plans and equipment. Provide copies of any computer manuals or other documents which describe the operational capabilities of your past, current or planned computer facilities. State whether your computer programs have been the subject of a professional systems analysis, and, if so, provide the name and current business address, if known, of the analyst firm and submit copies of the resulting report.

(K) Agreements. Provide sample copies of all agreements, contracts, etc. that OCC users are required by the OCC to execute.

(L) Other support services. Describe any other material support services.

## II. Operations

(A) Summary. Provide a summary description of the clearing and exercise procedures followed by the OCC on a daily basis. List separately those other procedures employed periodically or under special circumstances and the frequency with which they are employed. In this connection, provide copies of the OCC Operations Manual.

(B) Critical path charts and documents. Provide a complete list and sample of each report or document, together with a brief description of its function, used in connection with the OCC's options-related processing (whether inputted to OCC or originated by OCC); state to whom any such documents or reports are distributed by OCC and the frequency of such distribution. Provide a flow chart for the OCC's processing of documents.

(C) Data availability. Provide a complete list of all categories of information, and the time periods for which each is available, relating to standardized options and the participants in the market for standardized options, which are maintained and retrievable by or for OCC. Indicate retention schedules established for such information.

(D) Exercises (rules and applications). Describe in detail the procedure the OCC uses to effect an exercise and the manner in which the OCC assigns exercise notices. Include a description of any modifications in the procedure since the creation of the OCC. Please provide copies of all studies conducted by or on behalf of OCC with respect to assignments of exercises. Describe any special procedures used in connection with expiration dates.

(E) Adjusted positions. Describe the means by which clearing members may adjust their positions with OCC and, to the extent known, the reasons therefor. Also indicate whether, from the data collected by OCC, the reasons for adjustments may be determined. State the time limits imposed by the OCC on clearing firm members for the submission of any adjusted position reports. State the information provided to other self-regulatory organizations concerning adjusted positions. Describe any contemplated changes in the procedures discussed above. For each month for which an OCC statistical report is submitted pursuant to

Item III.(C) which provides data with respect to adjustments, also provide monthly adjustment figures by type of account for each clearing firm and totals by type of account.

(F) Inspections. Provide a description of all reports prepared in connection with any inspections of clearing member firms made by or on behalf of the OCC prior to admission to membership. Also describe whether, to what extent, and on what basis the OCC conducts inspections or audits of clearing member firms after admission to membership. Provide copies of all agreements between other self-regulatory organizations and the OCC with respect to surveillance or compliance inspections. Provide copies of any check lists or manuals used in such inspections and copies of the last ten pre-admission and, if applicable, post-admission inspection reports conducted by OCC as of the date of this letter (particularly, reports for any such inspections conducted which included the trading in April, 1978).

(G) Special circumstances studies. Provide copies of any special studies or contingency planning done by or for the OCC to meet extraordinary circumstances, disasters, etc.

(H) Suspended trading in an underlying stock. Describe the criteria which have been and/or will be used to fix the values of exercised contracts on underlying securities, the trading of which has been suspended, when either the writer (in the case of a call) or the holder (in case of a put) does not own such underlying security. Briefly describe the circumstances of each time, if any, Article VI, Section 17 of the OCC By-Laws has been invoked.

(I) OCC periodicals. Provide copies of every OCC Newsletter, OCC Bulletin, member firm educational circulars and member firm information memoranda.

(J) Operational and financial examination. Provide copies of the operational and financial examination given to operational employees of member firms.

III. Specific Data Maintained by, or Reported to, the OCC

(A) Clearing members. Provide a list of all clearing members from the inception of the OCC until the date of this letter, listed in the order in which each became a member, and provide the date each became an OCC member. Identify any such member which has withdrawn from membership in OCC and describe the circumstances (failure, voluntary withdrawal from business, merger, etc.)

(B) Market information by clearing member. Provide copies of the monthly clearing member ranking report since OCC began tabulating such report, including the report for April, 1978.

(C) Market information by exchange and by account type. Provide copies of the OCC statistical report for each month for which the OCC has compiled such report, including the report for April, 1978. Provide any figures OCC may have compiled which indicate the amount and porportion of monthly cleared trades (i.e., "records") by type of account and by type of account on each options exchange.

(D) Transactions in restricted options. State whether OCC records indicate whether opening transactions in restricted options entered for non-specialist-market maker accounts are covered or spread transactions.

(E) Duration of positions. Please provide any data OCC may have which indicates average lengths of time that open positions are held by types of account.

(F) CMTA's, Provide a list of each clearing member firm which has entered into a clearing member trade assignment authorization, indicating the options exchange memberships of each party to such authorizations. Provide a monthly aggregate of volume cleared through such CMTA's by type of account by options exchange since the service was initiated.

(G) "As of" trades. For each month from July, 1975, to date, provide the monthly totals of "as of" trades for each exchange.

#### IV. OCC Margin

(A) Margin report. Provide copies of the OCC margin report for the trading days of April 12-14, 17-21 and 24, 1978, summarized by class by clearing firm if possible.

(B) Customer v. market maker account treatment. OCC Rule 601 requires different treatment of customer and, to the extent they may exist, firm non-lien accounts than of firm lien and market makers' accounts. This difference is principally in the calculation of excess long values and the permissible offset of such long contract values against short contract values. Provide a concise rationale for this distinction in treatment, particularly from the point of view of the OCC's risk position.

(C) Margin. Provide, for the end of each calendar quarter for the years 1973 (beginning with the calendar quarter ending June, 1973), 1974, 1975, 1976 and 1977, the total margin required of clearing firms, the total margin deposited and the types of margin utilized by amount and percentage of the following:

- i. Cash
- ii. Government securities
- iii. Letters of credit
- iv. Escrow receipts

(D) Changes in margin requirements. Provide a chronology of any changes in OCC's margin requirements and brief descriptions of the relevant considerations.

(E) Letters of credit.

(i) State the number of times, dates and circumstances that OCC has demanded immediate payment on the face amount of either a secured or unsecured letter of credit;

(ii) State the number of times, dates and circumstances that OCC has not exercised its right to receive immediate payment on either a secured or unsecured letter of credit upon obtaining a written agreement from the issuing bank or trust company extending such letter of credit providing a further assurance of the irrevocability of its commitment;

(iii) Provide representative copies of letters of credit, both secured and unsecured, from all issuing banks and trust companies; and

(iv) Provide the names of the banks or trust companies approved by OCC to issue letters of credit and the criteria by which the approved banks and trust companies are selected and any underlying rationales for such criteria.

(F) Escrow receipts.

(i) Provide representative copies of escrow receipts from all issuing banks and trust companies;

(ii) Provide the names of the banks or trust companies approved by OCC to issue escrow receipts and the criteria by which the approved banks and trust companies are selected and any underlying rationales for such criteria; and

(iii) State the number of times, date and customers that OCC has demanded delivery of securities pursuant to OCC Rule 610(h) which were not delivered by the issuer of the escrow receipt.

(G) Depository agreements. Provide a sample copy of a depository agreement for a member firm; indicate whether any material modifications in the stated terms of such sample are acceptable to, or have been accepted by, OCC and the underlying rationales for such modifications.

(H) Clearing fund. Provide the total amount in the clearing fund at the end of each calendar quarter since the inception of standardized options trading. State whether the OCC's clearing fund has ever been utilized as indemnity for a clearing firm member which failed to meet its contractual obligations to the OCC, and, if so, describe the circumstances.

(I) Early warning notices. Provide a copy of each early warning notice received by OCC pursuant to OCC rule 303. State whether OCC is provided with notice of member firms being placed on the special surveillance list of the Securities Investor Protection Corporation (SIPC Form 5A). If not, would such information be useful to OCC? Explain.

(J) Variation margin. Explain the criteria used to determine, under what circumstances, when and for how much, to issue a variation margin call pursuant to OCC rule 609. Provide a list of each occasion that variation margin calls have been made and briefly describe the circumstances, including any failure by a clearing member to make such calls. State with particularity the variation margin calls made during the period April 12-14, 17-21 and 24, 1978; what the circumstances were prompting such calls; and whether any difficulties were encountered either in the procedures used to make such calls or in member firm satisfaction of such calls.

V. Disciplinary Proceedings

(A) Number of proceedings. Provide, by category (briefly defining each category), the number of disciplinary proceedings by the OCC since 1973.

(B) Sanctions. List, by respondent, the violations of OCC rules for which a fine or other sanction was imposed since 1973.

(C) Investigative and disciplinary procedures. Describe generally the procedures which the OCC follows to investigate any potential violations of its rules and the steps taken in formal or informal proceedings once an apparent violation of the rules is discovered.

(D) Customer complaints. Submit copies of all customer complaints or inquiries received by OCC, and describe OCC's response to each, providing copies of relevant documents.

June 7, 1978

Mr. William J. Brodsky  
Vice President  
Trading & Markets  
American Stock Exchange, Inc.  
86 Trinity Place  
New York, New York 10006

Dear Mr. Brodsky:

In order to conduct its investigation and study of the options markets, it is necessary that the Special Study of the Options Markets ("Options Study") request that you obtain from your records the financial data and other information described in the attachment to this letter relating to your members which are also members of the Options Clearing Corporation ("OCC") or which conduct a business solely or primarily in standardized options and utilize the facilities of a clearing member. 1/

While we understand that, in certain instances, part of the information which we are now requesting may have been submitted previously to other divisions or offices of the Commission, we would appreciate it if you would submit duplicate copies of such documents to us in order to assure the completeness of the Options Study's own working files. In addition, if such previous submissions are not currently accurate, please amend or update them and continue to inform the Options Study staff when further changes, if any, are made in the procedures and practices described in your submissions. If materials requested by this letter have been previously submitted to the Options Study, in a form substantially as that requested hereby, it is not necessary to resubmit such materials. However, please state the transmittal date and the addressee of such prior submissions.

We appreciate that this request may seek detailed information which may take time and significant effort on the part of your staff to compile. However, the Options Study shares the desire of the

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1/ The authority for this request is granted to the Commission pursuant to Sections 17 and 21 of the Securities Exchange Act of 1934. The Commission is soliciting this information to aid in: (1) the enforcement of the Securities Exchange Act and the rules and regulations thereunder; (2) the possible adoption of rules and regulations under the Securities Exchange Act; and (3) the establishment of an information base from which the Commission may recommend further legislation concerning matters to which the Securities Exchange Act relates.

Mr. William J. Brodsky  
Page Two

various self-regulators that the activities of the Options Study be completed in a thorough and timely fashion. Accordingly, while we have requested that the data and information requested in the enclosed attachment be supplied by July 7, 1976, this shared objective would be facilitated if constituent elements of the attachment are promptly forwarded to the Options Study before that deadline. Should there be questions regarding this request, please call the undersigned at (202) 755-1285.

Your cooperation is appreciated.

Sincerely,

Robert L. Smith  
Financial Responsibility and  
Credit Specialist

Enclosures

American Stock Exchange

Attachment to letter to  
Dated June 7, 1978

Please submit the following information to: Special Study of the Options Markets, Attn: Robert L. Smith, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549.

In addition, we request that you respond according to the format and on the forms provided, clearly identifying in each case the particular outline item to which your answer is addressed. Please type or stamp the name of your exchange and the transmittal date of your submission on each document submitted in response to this request.

Please submit your response in duplicate (excluding Forms A and B).

I. Membership Information

A. Provide a list and the SEC file number, current as of March 31, 1978, of all members of your organization, which were also members of the Options Clearing Corporation, and specify for each such member its designated examining authority pursuant to 17 CFR 240.17d-1.

B. For each person or organization identified in Item I.A. above for which your organization is the designated examining authority pursuant to 17 CFR 240.17d-1, complete Form A.

C. Provide, by clearing member, a list, current as of March 31, 1978, of all persons or organizations registered as broker-dealers for which each of those clearing members identified in Item I.B. above clears options transactions, distinguishing between those broker-dealers carried in the specialist-market maker origin with the OCC from those carried in the customer origin. For each such carried broker-dealer which is carried in the specialist-market maker origin with OCC, state all its affiliations with self-regulatory organizations and the capacities in which it is registered to act with such self-regulatory organizations including your organization.

D. With respect to each joint account trading in options of which any participant is a registered broker-dealer, carried by a clearing member identified in Item I.B., identify all participants in the account (including their SEC file number, if registered as a broker-dealer) and, to the extent known, any other account in which such participants maintain an interest, whether with that clearing member, another member of your organization or otherwise.

E. Provide a list, current as of March 31, 1978, of all persons or organizations registered as brokers or dealers which conduct a business in options on the floor of your exchange noting the capacity in which such persons or organizations act (e.g., specialist, market maker, registered option trader, floor broker, independent board broker, etc.) and whether such persons or organizations lease or own their memberships. For each person or organization acting in a dealer capacity on your options exchange and whose account was or is carried by an OCC member pursuant to 17 CFR 240.15c3-1(a)(6) or (c)(2)(x) on, or after, December 31, 1975, please complete Form B.

F. Provide the total aggregate equity, total deductions required by 17 CFR 240.15c3-1 and total net equity for all specialist-market makers in options and registered options traders registered to do business on your exchange floor as of December 31, 1975, January 15, and 30, 1976, the end of each calendar quarter of 1976 and 1977, the end of the first calendar quarter of 1978 and for each of the trading days of April 12-14, 17-21 and 24, 1978.

G. Provide a list of all option specialist-market makers, registered option traders, floor or board brokers and order book officials which, since the inception of your standardized options program, have withdrawn their registration as such, and, to the extent your files so reflect, provide a brief summary of the circumstances.

## II. Financial Responsibility Monitoring

A. Provide sample copies of all reports that your organization receives to monitor the financial condition of the OCC members for which your organization is the designated examining authority pursuant to 17 CFR 240.17d-1 which clear and finance the accounts of options specialist-market makers and/or registered option traders or brokers, and state the authority pursuant to which such reports are required to be filed and the frequency of such reports. If any such designated OCC clearing members are exempt from such reporting requirements, are subject to a more frequent reporting cycle, or are subject to closer than normal surveillance, state the firm and the reason.

B. Provide sample copies of all reports that your organization receives to monitor the financial condition of option specialist-market makers, registered option traders, option floor brokers, board brokers or order book officials registered to act in such capacity on your exchange. Note the authority pursuant to which such reports are required to be filed, who files the report and the frequency of such reports. If any such floor participants are exempt from any reporting requirements generally applicable to floor participants operating in a similar manner or are subject to a more frequent reporting cycle than generally required, state the person or firm and the reason.

### III. Exchange Revenues

A. Provide, from the inception of standardized options trading on your exchange, the schedule of all fees and dues levied by the exchange its affiliations or subsidiaries applicable to options business. Note each change in any item of such schedule and the date of such revision. Also state the total amount received or receivable for each item in such schedule, for each calendar year in which your exchange has had a standardized options trading program and for the first calendar quarter of 1978.

B. Provide, from the inception of standardized options trading on your exchange, for each calendar year, the total expenses and revenues applicable to such options trading. Break down revenues by fees, options memberships, provision of communications devices and sale of market information.

C. Provide for the periods noted in B. above option related revenue as a percentage of total revenue and net option income as a percentage of total net income.

### IV. Unmatched Trades

A. Provide from the inception of standardized options trading on your exchange, on a monthly basis, the following average daily trade comparison system statistics:

1. The total number of (1) contracts, and (2) sides, entered for comparison;
2. The total number of (1) contracts, and (2) sides, which remained unmatched after the second trade matching pass;

3. If the final trade matching pass occurs subsequent to the second trade matching pass, the total number of (1) contracts, and (2) sides, which remained unmatched after the final trade matching pass;

4. The total number of (1) contracts, and (2) sides, which are matched in a matching cycle subsequent to the final matching pass for the particular days transactions; and

5. The percentage relationships the statistics provided under 2, 3, and 4, bear to 1.

Also, provide an explanation of the procedures followed to match trades that remained unmatched after the second trade matching pass, and separately, for the final trade matching pass. In addition, provide separately, the most common reasons why these trades remained unmatched after the second trade matching pass and the final trade matching pass. In connection with these explanations describe any studies that may have been conducted in this regard and any conclusions that might be drawn therefrom.

B. Describe whether, in computing their compliance with the provisions of 17 CFR 240.15c3-1(a)(6) and 17 CFR 240.15c3-1(c)(2)(x), OCC members which carry broker-dealer accounts in the market maker origin with the OCC, included in I.B., determine their requirements pursuant to the above sections on the basis of trades entered into the clearance system by such specialist-market makers and registered traders or on the basis of trades which have been matched by the second pass on the day on which the trade was executed.

C. If the clearing firms requirements are determined by trades entered, provide a description of each clearing member's procedures for adjusting an account for trades that remain unmatched by the final pass. Additionally, if such adjustments would have increased the clearing firm's charges to net worth or a specialist-market maker's or registered trader's equity requirement, as of the day on which the trade was entered, what is the clearing member's procedure or policy for reflecting such additional deduction in its net capital computation and for obtaining such additional deposits.

D. Provide a list of your organization's rules, and a summary of each that govern the above procedures.

V. Commencement of Trading

Provide the date that actual trading commenced in each option class which has been approved for trading on your exchange. Provide the date on which an option class trading on your exchange was withdrawn from trading, and briefly describe the reasons why.

VI. Special Studies

Provide a copy or describe the results of any special study or surveillance program undertaken by your organization with regard to the impact, both operational or financial, of the April 14-21, 1978 volume and price increases. If you have initiated such a study or program which has not been completed, please provide a description of your undertaking and its anticipated completion date.

June 7, 1973

Mr. James E. Dowd  
President  
Boston Stock Exchange, Inc.  
53 State Street  
Boston, Massachusetts 02109

Dear Mr. Dowd:

In order to conduct its investigation and study of the options markets, it is necessary that the Special Study of the Options Markets ("Options Study") request that you obtain from your records the financial data and other information described in the attachment to this letter relating to your members which are also members of the Options Clearing Corporation ("OCC") or which conduct a business solely or primarily in standardized options and utilize the facilities of a clearing member. 1/

While we understand that, in certain instances, part of the information which we are now requesting may have been submitted previously to other divisions or offices of the Commission, we would appreciate it if you would submit duplicate copies of such documents to us in order to assure the completeness of the Options Study's own working files. In addition, if such previous submissions are not currently accurate, please amend or update them and continue to inform the Options Study staff when further changes, if any, are made in the procedures and practices described in your submissions. If materials requested by this letter have been previously submitted to the Options Study, in a form substantially as that requested hereby, it is not necessary to resubmit such materials. However, please state the transmittal date and the addressee of such prior submissions.

We appreciate that this request may seek detailed information which may take time and significant effort on the part of your staff to compile. However, the Options Study shares the desire of the

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1/ The authority for this request is granted to the Commission pursuant to Sections 17 and 21 of the Securities Exchange Act of 1934. The Commission is soliciting this information to aid in: (1) the enforcement of the Securities Exchange Act and the rules and regulations thereunder; (2) the possible adoption of rules and regulations under the Securities Exchange Act; and (3) the establishment of an information base from which the Commission may recommend further legislation concerning matters to which the Securities Exchange Act relates.

Mr. James E. Dowd  
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various self-regulators that the activities of the Options Study be completed in a thorough and timely fashion. Accordingly, while we have requested that the data and information requested in the enclosed attachment be supplied by July 7, 1978, this shared objective would be facilitated if constituent elements of the attachment are promptly forwarded to the Options Study before that deadline. Should there be questions regarding this request, please call the undersigned at (202) 755-1235.

Your cooperation is appreciated.

Sincerely,

Robert L. Smith  
Financial Responsibility and  
Credit Specialist

Enclosures

Boston Stock Exchange

Attachment to letter  
Dated June 7, 1978

Please submit the following information to: Special Study of the Options Markets, Attn: Robert L. Smith, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549.

In addition, we request that you respond according to the format and on the forms provided, clearly identifying in each case the particular outline item to which your answer is addressed. Please type or stamp the name of your exchange and the transmittal date of your submission on each document submitted in response to this request.

Please submit your response in duplicate (excluding Forms A and B).

I. Membership Information

A. Provide a list and the SEC file number, current as of March 31, 1978, of all members of your organization, which were also members of the Options Clearing Corporation, and specify for each such member its designated examining authority pursuant to 17 CFR 240.17d-1.

B. For each person or organization identified in Item I.A. above for which your organization is the designated examining authority pursuant to 17 CFR 240.17d-1, complete Form A.

C. Provide, by clearing member, a list, current as of March 31, 1978, of all persons or organizations registered as broker-dealers for which each of those clearing members identified in Item I.B. above clears options transactions, distinguishing between those broker-dealers carried in the specialist-market maker origin with the OCC from those carried in the customer origin. For each such carried broker-dealer which is carried in the specialist-market maker origin with OCC, state all its affiliations with self-regulatory organizations and the capacities in which it is registered to act with such self-regulatory organizations including your organization.