

1284  
CHAL. BOARD'S OFFICE  
MAILED

JUN 22 1977

Signed by: \_\_\_\_\_

Mr. Joseph W. Sullivan  
President  
Chicago Board Options Exchange, Incorporated  
LaSalle at Jackson  
Chicago, IL 60604

Dear Mr. Sullivan:

The Commission appreciates the cooperative spirit which the Chicago Board Options Exchange, Incorporated and other self-regulatory organizations have demonstrated by continued voluntary compliance with the Commission's July 18, 1977 request for a moratorium on further expansions of standardized options trading. As you know, however, in October of last year the Commission proposed to formalize the moratorium by adopting Securities Exchange Act Rule 9b-1(T), so that we could proceed in an orderly manner to complete our current investigation and study of the standardized options markets and develop the data necessary to evaluate, in light of the purposes of the Act, self-regulatory organizations rule proposals to expand existing, or initiate new programs for trading standardized options. Although the Commission is prepared to take final action on proposed Rule 9b-1(T) on the basis of the record compiled in our recent rulemaking proceeding, and to conclude the pending consolidated disapproval proceeding with respect to twenty-six expansionary options rule change proposals initiated at the time the rule was proposed, 1/ we believe that it would be preferable, and more consonant with the spirit of cooperative self-regulation embodied in the Securities Exchange Act, if voluntary action by the self-regulatory organizations could make such formal Commission action unnecessary.

---

1/ See Securities Exchange Act Release No. 14057 (October 17, 1977), 42 FR 56711 (October 27, 1977).

Mr. Joseph W. Sullivan  
Page Two

Accordingly, I am writing to you, and to each of the other self-regulatory organizations which presently trade standardized options or which have proposed to initiate new programs for the trading of such options, to request that you continue to adhere to the moratorium, on a voluntary basis, until the Commission has had an opportunity to receive and consider a report from the Special Study of the Options Markets (so long as that report is received prior to year-end) and to review whether continuation, modification or termination of the voluntary moratorium is warranted, a review which the Commission will undertake in any event no later than January 2, 1979. 2/ The Commission also is requesting that the self-regulatory organizations agree to withdraw all rule change proposals now pending before the Commission which would have the effect of expanding or materially altering existing pilot programs for the trading of standardized options or otherwise would initiate new programs for the trading of such options. 3/ Should all the affected self-regulatory

---

2/ In this connection, as more fully described on the Points of Agreement attached to this letter, the self-regulatory organizations are requested not to list any new options classes not listed and traded on July 15, 1977 (including previously authorized but unfilled classes), except in connection with the replacement of involuntarily delisted classes.

3/ These proposals include:

SR-Amex-76-12	SR-MSE-77-28
SR-Amex-76-28	SR-NASD-77-2
SR-Amex-77-8	SR-NYSE-77-17
SR-Amex-77-9	SR-NYSE-77-21
SR-Amex-77-23	SR-PHLX-76-5
SR-CBOE-76-16	SR-PHLX-76-18

(Footnote continued)

Mr. Joseph W. Sullivan  
Page Three

organizations agree to these requests, the Commission intends to defer taking final action on our proposal to adopt Rule 9b-1(T) and to dismiss our consolidated disapproval proceeding with respect to twenty-six expansionary options-related rule change proposals which was commenced in October, 1977, promptly after withdrawal of those and the related proposals listed above.

If any self-regulatory organization becomes dissatisfied with our rate of progress in reevaluating the continued need for the moratorium after the first of next year, it may, after providing the Commission and the other affected self-regulatory organizations with sixty days advance notice, begin to file rule change proposals to expand or materially alter existing pilot programs, or to initiate new programs, for the trading of standardized options. In the event such notice should be provided by any self-regulatory organization, all other self-regulatory

---

(Continued footnote)

SR-CBOE-76-27	SR-PHLX-77-5
SR-CBOE-77-5	SR-PHLX-77-6
SR-CBOE-77-14	SR-PHLX-78-3
SR-CBOE-77-15	SR-PSE-76-11
SR-CBOE-77-16	SR-PSE-76-17
SR-MSE-77-2	SR-PSE-76-40
SR-MSE-77-4	SR-PSE-77-9
SR-MSE-77-6	SR-PSE-77-13
	SR-PSE-77-15
	SR-PSE-77-17
	SR-PSE-77-31

Withdrawals should be made in writing, on or before August 1, 1978, and made effective as of that date. Withdrawals may, of course, be conditioned upon the agreement by all other affected self-regulatory organizations to withdraw the rule proposals listed above which they have filed with the Commission.

Mr. Joseph W. Sullivan  
Page Four

organizations participating in the voluntary moratorium also may begin to file expansionary rule proposals with the Commission at the end of the notice period. In the interim, however, the Commission will expect the self-regulatory organizations to abide by the Commission's determination as to whether a particular options-related rule proposal is expansionary, and to refrain from filing any such proposals with the Commission.

In addition, in order to preserve the status quo with respect to the total number of classes traded by each existing options exchange during the pendency of the voluntary moratorium, those exchanges which currently trade standardized options will be permitted to replace involuntarily delisted options classes upon application approved by the Commission. <sup>4/</sup> During the period while the voluntary moratorium is in effect, the Commission expects the self-regulatory organizations to continue the cooperation they have demonstrated thus far, both with respect to the efforts of the Options Study to gather information and in the implementation of improvements in the regulatory systems applicable to the standardized options markets.

I would appreciate your advising the Commission, in writing, as promptly as possible, but no later than July 31, 1978, whether the Chicago Board Options Exchange, Incorporated will agree to continue the voluntary moratorium on the terms specified in this letter and in the appended Points of Agreement. Failure to express a commitment to agree to the terms specified in this letter and in the appended Points of Agreement by July 31, 1978,

---

<sup>4/</sup> The Commission's proposed guidelines for making such applications and for commencing trading in a replacement class will be sent to each self-regulatory organization during the week of June 26, 1978.

Mr. Joseph W. Sullivan  
Page Five

will necessitate prompt Commission action with respect to proposed Rule 9b-1(T) and the consolidated disapproval proceeding. Your response may, of course, be conditioned upon receipt of similar written agreements from all other affected self-regulatory organizations.

Sincerely,

Harold M. Williams  
Chairman

*KRM*  
KMCGRATH *KBM*  
GCARASICK/flb/6/22/78 *QC*

APPENDIX**Points of Agreement**

- A. All pending expansionary rule proposals of each self-regulatory organization must be withdrawn, in writing, on or before August 1, 1978. Withdrawals will become effective on August 1, 1978, only if each other self-regulatory organization has withdrawn all of its expansionary proposals.
1. All proposals subject to consolidated disapproval proceeding.
 

SR-Amex-76-12	SR-MSE-77-28
SR-Amex-76-28	SR-NASD-77-2
SR-Amex-77-8	SR-NYSE-77-17
SR-Amex-77-9	SR-NYSE-77-21
SR-CBOE-76-16	SR-PHLX-76-18
SR-CBOE-76-27	SR-PHLX-77-5
SR-CBOE-77-5	SR-PHLX-77-6
SR-CBOE-77-14	SR-PSE-76-17
SR-CBOE-77-15	SR-PSE-76-40
SR-CBOE-77-16	SR-PSE-77-9
SR-MSE-77-2	SR-PSE-77-13
SR-MSE-77-4	SR-PSE-77-15
SR-MSE-77-6	SR-PSE-77-17
  2. Expansionary Proposals not included in consolidated disapproval proceeding
 

SR-Amex-77-23
SR-PHLX-76-5
SR-PSE-76-11
SR-PSE-77-31
  3. SR-PHLX-78-3 to trade "index" options
- B. The Commission will, promptly after the withdrawal of the above-mentioned expansionary options rule change proposals, dismiss its consolidated disapproval.
- C. The Commission expects to receive a report from the Options Study before the end of this year and undertakes to revisit the subject of the moratorium

promptly thereafter, with a view to determining whether the moratorium should be continued, either voluntarily or through adoption of Rule 9b-1(T), or whether the moratorium should be terminated, in whole or in part; in no event will the Commission's review of the status of the moratorium commence later than January 2, 1979.

- D. The Commission will advise interested self-regulatory organizations and the public of the results of its moratorium review as promptly as possible after commencement of that review. If, after January 2, 1979, any self-regulatory organization is dissatisfied with the rate of progress of the Commission's review, or the conclusions the Commission has reached with respect to the continued need for the moratorium, the self-regulatory organization may, after providing sixty days advance notice to the Commission and to the other self-regulatory organizations subject to this agreement, file rule change proposals to expand an existing pilot program for the trading of standardized options or to initiate new pilot programs for trading standardized options. If such sixty day notice is given by any self-regulatory organization, all self-regulatory organizations subject to this agreement will be deemed to have given such notice and may begin to file expansionary rule proposals upon expiration of the notice period. Until sixty days after any such notice, all self-regulatory organizations agree to refrain from filing any expansionary proposals and from filling any authorized but unfilled classes of options, and to withdraw any proposal which may be filed prior to that time if the Commission determines that such proposal is expansionary. All such self-regulatory organizations agree to abide by the Commission's determination as to whether particular proposals should be deemed expansionary for purposes of the moratorium.
- E. No exchange may list any new options classes (including previously authorized but unfilled classes) not listed and traded by that exchange on July 15, 1977, except in connection with the replacement of involuntarily delisted classes.

- 3 -

- F. During the period while the voluntary moratorium is in effect, involuntarily delisted options classes may be replaced upon application approved by the Commission, provided, however, that involuntarily delisted classes may not be replaced with a class of options already listed on another exchange. The Commission will send a letter to each self-regulatory organization during the week of June 26, 1978 setting forth proposed guidelines for making such applications and for commencing trading in replacement classes. The Commission will consider making modifications to those guidelines which the affected self-regulatory organizations mutually agree are appropriate.
- G. The Commission will defer consideration of its proposal to adopt Rule 9b-1(T), pending completion of its moratorium review, unless earlier consideration becomes necessary, as a result of breach of this agreement by one or more of the self-regulatory organizations, receipt of notice of intent to file any expansionary rule proposal or some other unforeseen development. In such an event, the Commission is prepared to adopt the rule immediately.
- H. During the effectiveness of the voluntary moratorium the self-regulatory organizations will cooperate with the Commission to advance the efforts of the Options Study and implement improvements in the regulatory systems applicable to the standardized options markets.
- I. Each self-regulatory organization must agree, in writing, to the above terms.

NARA-CP

26266 UD-UP Entry 1

Subj Files 34-81

Box 23, Packet "Chicago Board Options Exchange, Inc."