

The Chicago Board of Trade

October 11, 1971

TO THE BOARD OF DIRECTORS:

For more than three years, the Securities Committee has been engaged in evaluating plans for introducing to the securities field a market place built on commodity futures trading and clearing principles. Since February, 1969, these efforts have been concentrated on the formation of an exchange on which the instruments dealt in would be options of the type now generally known as puts and calls.

Development of a comprehensive set of plans for the operation of such an exchange has been a demanding assignment, as demanding as any that a committee of the Board has assumed in many years. The planning effort has involved the formulation of basic policies for an options exchange that are compatible with both securities industry standards and the traditional standards of the Board of Trade. It has involved the meshing of commodity futures trading and clearing procedures with the characteristics of the securities option instrument in which the new exchange will deal. It has involved the design of suitable trading floor facilities, the development of price reporting and clearing data processing systems and the specification of other operational requirements. It has involved the development of a commission structure and an exchange revenue structure, along with an analysis of the costs of doing business, both for members and the exchange itself. Finally, it has involved a judgment that the potential benefits, from the standpoint of the membership and of the investing public, justify the costs of implementing and operating the exchange.

The Securities Committee and its Floor Procedures and Clearing subcommittees have held approximately 30 meetings during 1971 alone to deal with all of these matters. In the course of these meetings, a comprehensive set of bylaws and rules has been drafted for both an Options Exchange and an Options Clearing Corp. These drafts, which are subject to the review of counsel, run to several hundred pages. Copies are available to any member of the Board of Directors who wishes to review them and attached to this report (Attachment # 5) is a summary of the rules applicable to members and to the various forms of member participation in the options market. Also attached (Attachment

#6) is a set of floor facilities and equipment plans applicable to an initial, pilot phase of operation. Protection of proprietary rights dictates against distribution of a set of data processing specifications for clearing, but a copy of the Options Clearing Manual on which these specs are based is available for the review of any Board member. The Securities Committee believes these operational plans are sound and is assured by staff that, exclusive of regulatory considerations, an options exchange based on these plans can be operational within an eight month period.

The Committee recognizes that creation of this new exchange is a complex and expensive undertaking and that success is not assured. The options market concept we are introducing is a novel one; the operational procedures involved are also innovative. Hence, an intensive educational effort will be required to build familiarity with the workings of this new market and if the market proves successful, there is always the possibility of imitation by others who may be in a position to compete effectively.

Nonetheless, the Committee believes that the enormous potential of this undertaking fully justifies assumption of the costs and risks involved. This is not just another market; it is a distinct new investment medium that we will be creating. Recognition of its prospective benefits, both for investors and for the securities industry, extends throughout the investment community. The direct and indirect benefits to the membership of the Board of Trade, including both participants and non-participants, have been listed many times before and do not need to be repeated here. The stature of the Board of Trade as an institution should be enhanced as well.

It is, therefore, the strong recommendation of the Securities Committee that the Board of Trade proceed with implementation of a securities options exchange as soon as an affirmative expression is obtained from the Securities and Exchange Commission and appropriate organizational and financing plans can be developed.

Respectfully submitted,

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SPECIAL SECURITIES COMMITTEE