



MIDWEST STOCK EXCHANGE, INCORPORATED

120 South LaSalle Street Chicago, Illinois 60603

Telephone: (312) 368-2222

August 7, 1979

Mr. Andrew M. Klein, Director
Division of Market Regulation
Securities and Exchange Commission
500 North Capitol St. N.W.
Washington, D. C. 20549

Dear Mr. Klein:

In your letter of July 12, 1979, addressed to Mr. Richard B. Walbert, President of the Exchange, you requested a report on the progress that has been made in responding to the Commission's recommendations (the so-called Category 1 items), as outlined in SEC Act Release 15575.

Midwest Stock Exchange expects to file with the Commission sometime around the middle of August its rule changes that were incorporated in the Task Force's first package that was presented to the Staff under cover letter of April 16, 1979 and subsequently discussed with the Staff in meetings in Washington. At that time we will also submit appropriate undertakings in response to recommendations IB1b, IB1c, IB1d, IB1e, IB1f, IB1g, IB1h, IB1j, IB1k, IB1l, as well as IB2a and IB2b. We also expect to submit a uniform circular on front running in response to recommendation IA1g which would supersede a similar MSE circular previously issued to members.

As you know, your staff has been furnished with the Statement of Minimum Compliance Programs which was drafted by the Self Regulatory Conference and submitted by the Task Force in response to recommendation IB2c.

In September we expect to make a 19b4 filing of the second package of rule proposals which was transmitted to the Staff under cover letter of June 19, 1979 and also discussed at a meeting with the Staff in July. The Self Regulatory Task Force is working on responding to recommendation IB2f and, if possible, a uniform response will be submitted also in September.

We believe this covers each Category 1 item which applies to the Midwest Stock Exchange except for the following:

IB2g - Central File of Member and Employee Information

Conceptually, the Task Force has agreed to create a circular registry for customer compliance. However, there remains some substantive and procedural problems that need to be worked out and which we assume will be worked out by the Self Regulatory Conference, along with representatives of the SEC staff. In our judgement, the spirit of cooperation between the SRO bodies, with respect to interchanging regulatory information, is excellent and provides the basis for continually improving regulatory systems.

IB2h - Position and Transaction Reporting

Our understanding is that position reporting standards are, in fact, uniform at the present time and we believe they should be and will be uniform in the future. In this connection, we anticipate that the Commission will approve proposed rule changes increasing the reporting requirement from 100 to 200 contracts and that the Commission will enact similar option reporting requirements for SECO broker dealers.

With respect to transaction reporting, Midwest requires options market makers to report to the Exchange, on a daily basis, their activity in any stock underlying an MSE listed option. With respect to other member transactions, as a result of surveillance activities, requests are periodically made to members requiring transaction reports for underlying securities. Furthermore, as you know, as a result of our agreement with the CBOE, the extensive surveillance reports and data base of the CBOE is also available to the Midwest Stock Exchange in its surveillance activity.

With respect to the recommendation regarding standardized inquiry forms, we see no current need for each Exchange to utilize the same form for seeking information. The key, of course, is that there be a meaningful exchange of information to ensure that each SRO is receiving information that it may need for its investigations and that there is no duplication of effort.

IB2i - Capture Time of Trade Execution

Since we expect to be out of the options business at the time that the moratorium is lifted, it does not appear to us that this is an area upon which we should focus substantial resources.

Additionally, we refer you to pages 3 through 5 of the CBOE's response to your letter dated July 31, 1979, for discussion of this area. As you know, our system is substantially the same as that of the CBOE and their comments would obviously cover trading in former MSE options subsequent to the effectiveness of the combination.

IB2j - Identify Proprietary and Customer Stock Orders and Trades

As of this date, we have not received the SIAC report on the feasibility of distinguishing between proprietary and customer transactions during the stock clearing process. Consequently, no response to this recommendation is possible at this time.

IE2k - Integrated SRO Trading Data Base

As mentioned previously, the sharing of surveillance information among SRO's has improved considerably over the past few years. Midwest will continue to work with other organizations in developing an integrated data base. We believe, as do other SRO's, that this should be pursued in the framework of the Self-Regulatory Conference.

Finally, in Chapter 4 of the Options Study, a recommendation was made with respect to the Commission reviewing the Midwest Stock Exchange's options surveillance program. Subsequent to Release No. 15575, Staff of the Commission inspected Midwest's surveillance program. They noted substantial improvements from the time of the Options Study visit and made useful recommendations for further improvement in our program. We responded to the examination report in a letter dated June 26, 1979, and we continue to work closely with your staff. We are confident that whatever concerns the Options Study might have had have now been met.

We believe that the information provided in this letter is fully responsive to your letter of July 12, 1979. If you have any further questions or need additional information, please feel free to call me (312/368-2577).

Sincerely,



Kenneth I. Rosenblum
Senior Vice President
General Counsel

/dl

cc: Chairman Harold Williams
Commissioner Evans
Commissioner Karmel
Commissioner Loomis
Commissioner Pollack
Douglas Scarff
Thomas Loughran
Richard Teberg
Gene Carasick