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October 21, 1977

Mr. George A. Fitzsimmons
Secretary
Securities and Exchange Commission
500 North Capitol Street, NW
Washington, D.C. 20549

RE: Release Nos. 14056 and
14057 File No. S7-722

Dear Mr. Fitzsimmons:

We have received copies of the above captioned releases which: (1) announce commencement of an investigative proceeding concerning trading of standardized options and regulation of such trading, (2) invite public comments concerning proposed Temporary Rule 19b-1(T) (the "Rule"), and (3) announce commencement of disapproval proceedings with respect to various self-regulatory organizations' proposed rule changes. Comments on the Rule and the investigative proceeding are requested by November 30, 1977, and comments relating to the mass disapproval proceeding are requested by November 16, 1977.

It is our intention to file detailed comments on all aspects of these matters at a later date. However, because of the importance of these proposals to the securities industry generally, and to the Midwest Stock Exchange in particular, we thought it appropriate to notify the Commission at the earliest possible date of our strong opposition to the administrative procedures being employed in connection with these matters. We believe that these procedures are inconsistent with the requirements of the Securities Exchange Act of 1934, as amended by the Securities Acts Amendments of 1975 (the "Act"), and do not rectify the unjustified and illegal manner in which various proposed rule changes of the Midwest Stock Exchange have been heretofore handled.

With respect to the substance of the actions proposed by the Commission, we find nothing in the release which appears to us to justify this extreme and potentially hurtful thrust. Indeed, assuming the reasons given in the release for a formal moratorium on the expansion of options programs were the basis for the Commission's "informal" moratorium, it appears to us that the "informal" moratorium should not have been requested in the first instance. More

specifically, in attempting to justify the extreme action it is taking, the Commission refers generally to old problems, most of which have been or are being satisfactorily addressed. Furthermore, most of the "problems" appear to us to be no more than potential difficulties, rather than specific and identifiable instances of inappropriate conduct or inadequate self-regulatory supervision.

Unquestionably, because of the volatile nature of options trading, self-regulators and the Commission should be ever vigilant in assuring that this market operates in a fair and orderly manner. We believe, however, that these concerns can be met and our mutual responsibilities fulfilled within the framework of the Act and without resort to the ad hoc and drastic procedures being proposed.

With respect to the procedures proposed for the disapproval proceeding, we believe that the Commission is acting in a manner contrary to the requirements of the Act and general standards of procedural fairness. We will, of course, be more specific in our forthcoming submissions. At this point, we wish only to indicate that the mass disapproval proceeding as described in Release No. 34-14057:

1. Does not provide sufficient specificity to apprise us of the particular provisions of the Act with which our rules may be inconsistent.
2. The Commission has misstated its obligation under the Act.
3. The Commission has not provided for an opportunity for hearing as required by the Act.

Finally, with respect to proposed Rule 19b-1(T), we believe it is wrongly conceived and it appears to us to be an attempt to by-pass the procedures provided for in Section 19(b) of the Act for review of self-regulatory rule proposals. The Rule would result in "expansion" proposals being rejected irrespective of whether they may be beneficial on their merits and without the protections afforded to self-regulatory determinations under Section 19(b). Thus, there would be no weighing of the benefits of any particular rule proposal and no readily useable exception to the blanket prohibition. We also emphatically disagree with inclusion of the addition of new series within the definition of "expansion proposals".

In order that we may adequately respond to the Commission's proposed disapproval of our pending rule changes, we request a specification from the Commission, at the earliest possible date, as to the particular grounds for the disapproval on a rule by rule basis. We assume, of course, that the Commission will adhere to the 240 day time limit for completion of

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the disapproval proceeding which period, in the case of at least one of our proposed rule changes, will end shortly.

Sincerely,

Michael E. Tobin
President

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Copy to: Chairman Harold M. Williams
Commissioner Philip A. Loomis, Jr.
Commissioner John R. Evans
Commissioner Irving M. Pollack
Commissioner Roberta S. Karmel
Mr. Andrew M. Klein