

D R A F T

The Chicago Board
Options
Exchange

LaSalle at Jackson
Chicago, Illinois 60604

October 27, 1977

TO: The Membership
FROM: The Board of Directors
SUBJECT: SEC Options Proceedings

The SEC's release of October 17 questioning the regulation of the options market and restricting its expansion clearly calls for a resounding reaffirmation on our part of the purposefulness and soundness of the major new investment medium that CBOE created.

The Board of Directors has today given its direction to staff and counsel for the preparation of a thoroughgoing response to all of the questions and concerns expressed in the SEC release and has also set in motion other steps to build recognition of the many investment purposes served by options, the health and strength of our trading system that serves as a model for the rest of the securities industry and our commitment to effective regulation of the market.

In setting these directions, the Board has acted with recognition of the deep resentment of our members over the many inaccurate impressions created by the SEC release, its inappropriate reference to our market as a "pilot" and, worst of all, its wrongful implication that the problems of ongoing regulation of the options market have not been diligently addressed by this Exchange. Our submission to the SEC will address itself to all of these points and will also strive to be constructive in relating to the Commission's difficulties in dealing with the complexities of our market and its interactions with the market for underlying stocks.

The SEC's proposal for a blanket moratorium on and/or temporary disapproval of all forms of options expansion appears to reflect these difficulties. While certain pending expansion proposals raise wholly new issues that clearly call for a great deal of scrutiny, we do not believe a blanket moratorium on all forms of expansion is warranted, and we intend to oppose the SEC's proposed rule effecting such a moratorium. In our view, each particular expansion step should be judged on its individual merits and in relation to the regulatory capabilities of the various exchanges. On this basis, we see no reason why CBOE, in particular, should not be permitted to continue to extend the benefits of options trading, and especially trading in puts, to a broader list of stocks, and we will continue to press for permission to do so.