THE
PACIFIC
STOCK EXCHANGE
INCORPORATED

San Francisco
July 14, 1978

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

Dear Mr. Klein:

Thank you for the opportunity to comment on the proposed "Guidelines for the Replacement of Involuntarily Delisted Options Classes" which was enclosed as an Appendix to your letter of June 30, 1978, to Charles Henry of this Exchange. The Pacific Stock Exchange, Inc. ("PSE") strongly endorses the Commission's decision to permit replacement of involuntarily delisted options classes and, in connection with this matter, has joined with other exchanges in proposing certain modifications to the Commission's proposed guidelines. The modifications proposed by agreement of these exchanges[1] reflect an earnest effort to develop fair and equitable standards for such replacements during the moratorium and properly provide for the circumstances of all options exchanges, whether immediately affected or not. Accordingly, this letter is written to urge Commission approval of the modifications sought by the exchanges.

Nevertheless, in view of the short period within which the Commission wishes to act to adopt standards for allowing replacement of involuntarily delisted options classes, the PSE believes that its individual views on modifications to the Commission's proposed guidelines also must be expressed at this time in the event that the Commission rejects the proposals embodied in the agreement of July 13, 1978. These views relate to the determination of which delistings are "involuntary" and the order in which the Commission will consider applications for replacement of involuntarily delisted options.

In connection with the definitional question of what constitutes an "involuntary" delisting, I must urge that the Commission judge the nature of delistings in light of important conversations and events occurring between the Commission, its staff, and this Exchange prior to July 15, 1977, the moratorium's effective date. The significance of this period for our Exchange should not be overlooked by the Commission because the Exchange acted at the time in the belief that the Commission was aware of, and tacitly approved, its actions. Thus, the Exchange, in the period

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1 Agreement of the Chicago Board Options Exchange, Pacific Stock Exchange, and Philadelphia Stock Exchange of July 13, 1978, a copy of which is attached. The Midwest Stock Exchange, not now entitled to, or anticipating, such replacements, has considered the agreement and does not oppose it.

prior to July 15, 1977, reduced the number of its multiple-listed options classes, a financial burden to the Exchange as a result of lack of public interest in them, in order to facilitate the non-expansionary listing of other, exclusively-listed options classes. The plan anticipated a "one-for-one" replacement of multiple-listed, with exclusive, classes so that our number of exclusive classes would be increased without expanding the number of classes we were authorized to trade. We believed this program would strengthen the Exchange's ability to serve the public in its various securities-related needs.

To reiterate, the Commission's staff, at least, was aware, as a result of discussions and correspondence between the staff and the Exchange, of the Exchange's intentions in following a course of delisting multiple-listed classes. Moreover, it appeared to the Exchange that the Commission, by its actions authorizing numerous such delistings[2] and replacements, accepted the Exchange's plan. Thus, on July 14, 1977, the Exchange gave notice to the Commission and the Options Clearing Corporation ("OCC"), as had been done previously, of its intention to commence trading in call options on Texas Oil & Gas Corporation (an exclusive class). Trading in such options commenced on July 18, 1977, and it was not until approximately three hours after the market opened that a member of the Commission's staff telephoned the Exchange and directed that trading in this class be halted. Not until this abrupt termination of trading had the Commission acted in a manner inconsistent with the Exchange's belief that the Commission knew of, and did not disapprove, our plan.

To conclude this background material, another significant fact must be related. This fact is that the Exchange pursued the non-expansionary course described above, in part, because the Commission, as a result of its budgetary travel limitations at the time, we were told, had been unable to travel to San Francisco to make the inspection and inquiry deemed necessary before acting on our request for authorization to trade additional classes.[3] As a result, the costly burden to this Exchange of multiple-listed options classes continued unabated for some time and would have endangered the Exchange's ability to serve the public had the replacement plan not been developed and implemented. The geographic distance between the Exchange and Commission

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2 PSE applications to strike the multiple-listed call options on common stock of the following issuers were granted by the Commission on the dates indicated:

NCR Corporation	3/31/77
U. S. Steel Corporation	3/31/77
Clorox Company	4/18/77
BankAmerica Corporation	4/18/77
Merrill Lynch & Co., Inc.	5/23/77
N. L. Industries, Inc.	7/15/77
RCA Corporation	7/15/77

3 We were authorized to trade 30 classes and were trading that number until we commenced delisting multiple-listed classes pursuant to our "replacement plan."

headquarters, thus, and attendant financial constraints, seems to have impaired Commission action which may have allowed the Exchange to overcome, by another, more timely means, the financial detriment caused by the multiple-listed options classes.

Initiation of the moratorium, however, halted completion of our replacement plan and put the Exchange at a competitive disadvantage vis-à-vis other exchanges by not allowing a return to the normally traded number of classes. When the moratorium commenced, the Exchange was trading 29 options classes and was choosing, pursuant to our plan, one replacement class to return our number of classes to 30. As a result of the moratorium, the number of classes we currently trade has been reduced to 25.[4]

In view of these facts, I believe you will understand why this Exchange feels "victimized," albeit unintentionally, by the moratorium. To correct the situation, I would ask that the Exchange be permitted to return to trading in 28 classes if the Commission rejects the proposals of the July 13, 1978, agreement. Such authority would mean that we would be allowed three replacement options classes in order to regain the status quo at the time of commencement of the moratorium.[5]

Commission approval to return to trading in 28 classes would not be "expansionary" in view of the transitional nature of the Exchange's options program at the commencement of the moratorium. The moratorium was instituted at a time when the Exchange was nearing the completion of a well-intended and –designed, non-expansionary plan for improving its options program. The Commission had knowledge of and facilitated the plan, and the operation of the Commission's determination on July 18, 1977, to review standardized options and pilot options programs should not be permitted to unjustly stay the conclusion of the Exchange's program any longer. To continue such a restraint against this Exchange disregards our plan for maintaining market stability and liquidity and its implied acceptance by the Commission.

Accordingly, in the event that the Commission rejects the proposals embodied in the agreement of July 13, 1978, I would urge that the Commission make an appropriate exception to its proposed guidelines for the replacement of involuntarily delisted options classes which would permit the Pacific Stock Exchange to conclude its replacement plan. In particular, the Exchange

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4 One of the 29 classes traded on July 18, 1977, was lost as a result of the retroactive application to July 15; one class was lost as a result of a merger by the issuer of the options' underlying security into another company; two classes, both exclusives, had been "noticed" with the Commission and the OCC for delisting prior to commencement of the moratorium and subsequently were delisted.

5 This request acknowledges the Exchange's delisting of two exclusive classes (see note 3) after commencement of the moratorium. The Exchange does not contend that it is entitled to replacements on these voluntary delistings.

should be permitted to replace Texas Oil and Gas Corporation call options which were delisted by the retroactive effectiveness of the moratorium,[6] the options class which was delisted in furtherance of the above described plan, and the class which was delisted as a result of a merger by the issuer of the underlying security into another company.

In addition, as I stated earlier, if the proposals of the July agreement are rejected, I also would ask that the Commission use a means other than that suggested by the Commission's proposed guidelines for determining the order in which it will consider applications for replacement of involuntarily delisted options classes. The means I propose follows:

1. Applications for replacement of delisted options classes will be considered by the Commission according to the "replacement priority date." The "replacement priority date" shall be the expiration date of the last series of an involuntarily delisted options class.

2. If the replacement priority date is the same for two or more exchanges and if such an exchange desires to list the same options class, the following provisions shall apply:

(a) A replacement application to relist a previously involuntarily delisted, solely listed options class shall have replacement priority over other replacement applications; provided, however, that such exchange makes a declaration of its intention to relist the class prior to the random selection process described hereafter; and

(b) In all other instances, the replacement priority date shall be resolved among the respective exchanges through a random selection process as described hereafter in paragraph 3.

3. Pursuant to the provisions of paragraph 2 (b) hereof, the following random selection process shall be employed in determining the replacement priority ranking of the respective exchanges:

(a) A representative from or for each exchange party to the random selection shall be present and minutes of such proceedings recorded and made available to each participating exchange.

(b) The time and place of each meeting shall be as mutually agreed upon by the participating parties. The recording of the minutes may be taken by any of the participating parties or their representatives. The meeting may be chaired by any of the participating parties or their representatives.

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6 Call options on Texas Oil and Gas Corporation traded on July 18, 1977, on our Exchange for approximately three hours before a member of the Commission's staff telephoned the Exchange to direct that such trading be terminated.

(c) The random selection process shall employ an identification system which will identify the respective ranking of each participating exchange (i.e., first place, second place, etc.) within a single selection cycle.

(d) In the event one or more exchanges have two or more replacement applications, the random selection process shall be repeated for each of the remaining participating parties by employing one or more selection cycles.

Example:	Number of Applications	First Cycle Ranking	Second Cycle Ranking
ASE	2	1	6
CBOE	2	4	7
MSE	1	3	
PHLX	1	2	
PSE	1	5	

The first cycle would give each participating party an equal opportunity for priority ranking; if more than one cycle is required, each subsequent cycle will have an inferior overall ranking to the last rank.

This means for determining the order in which replacement applications are considered by the Commission improves, I believe, upon the Commission's suggested guidelines on the subject because it provides for action by the Commission at the time a replacement may be made, rather than at some time, possibly many months, before an exchange is able to effect the replacement.

The order I propose for consideration of replacement applications, thus, assures that an exchange's choice of a replacement class will not be approved significantly prior to the exchange's opportunity to effect the replacement and commence trading in it. Such consideration would deal in a fair manner with the present circumstances of each exchange seeking approval for its selection of a replacement class. To approve a selection for a replacement at any time significantly prior to the time when the replacement class may be traded unjustly forecloses other exchanges that might be able to replace a class at an earlier date from selecting the class approved as a replacement for some future time.

If you or any members of the staff or the Commission have any questions relating to the terms of the July 13, 1978, agreement or the contingent suggestions of this letter, I am available at your convenience to discuss such questions and other matters relating to our options program. In

addition, the Exchange remains hopeful that the Commission will accept the proposals of the July agreement.

Thank you for your consideration of these matters.

Very truly yours,

cc: Chairman Harold M. Williams
Commissioners Loomis, Evans, Pollack and Karmel
Kathryn McGrath, Esq.
William J. Brodsky, American Stock Exchange
Joseph W. Sullivan, Chicago Board Option Exchange
Dennis Bell, Midwest Stock Exchange
Nicholas Giordano, Philadelphia Stock Exchange