

Options Study
Recommendations

MEMORANDUM

February 2, 1979

TO : The Commission
FROM : Division of Market Regulation
SUBJECT : (1) Tentative plan for ending the "Options Moratorium," and

Mark S.R.
QC

(2) Recommendations of the Options Study which the Division believes can and should be implemented within the next six months, and before the "options moratorium" is lifted.

Don't understand why the suggested rule filing need to take 6 months - level of review may be too detailed

The Division believes that the self-regulatory organizations ("SRO's") should be asked to implement as many of the Study's recommendations as possible, and to give the Commission firm commitments to implement certain of the remaining recommendations, before further expansion of the standardized options markets is permitted. We believe that substantial progress could be made toward this goal, and that the Commission could be in a position to lift the "moratorium" within the next six months, if the Commission were to take the following steps:

- (1) Identify which of the Study recommendations the Commission believes should be implemented by the SRO's or the Commission itself, and distinguish between recommendations which can and should be implemented within the next six months and those which will require additional time to implement; 1/

Should be published & comment

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1/ Attached is a list of the Options Study's recommendations (Exhibit A). We have broken them down into categories which reflect the type of action which the Division believes will be required to implement each recommendation, and our estimate of the time in which those actions reasonably could be taken.

The Division believes that each recommendation must be separately and carefully considered by the Commission, in light of the Study's findings, so that any questions concerning particular recommendations with which the Commission disagrees, or which the Commission believes should be placed in a different "action category," can be resolved before the SRO's are asked to implement them.

Ask Name self-reg'ry conference

- (2) Publish the Options Study Report, together with a release identifying those Study recommendations which the Commission believes should be implemented by the SRO's, or which the SRO's should make commitments to implement, before further expansion of options trading is permitted; 2/
- (3) Ask the SRO's to agree to continue the voluntary moratorium for approximately six months following the release of the Study Report;
- (4) Request the SRO's immediately to begin to work together to develop and file with the Commission uniform rule proposals to implement all of the Study's recommendations which can be implemented by SRO rule changes. Where some lead time is necessary to provide the SRO's or their members time to comply with the new rules, the Commission should ask the SRO's to reflect that lead time in delayed effective dates of the rule proposals submitted to us;
- (5) Strongly urge that the SRO's develop and submit to the Commission identical rule proposals to implement each of the Study's recommendations, with uniform effective dates in those cases where immediate effectiveness is not practical. We believe that uniformity is important and appropriate in this context because most of the problems identified by the Options Study which can be corrected by SRO rule changes, are industry wide, bear little or no relationship to differences among the exchanges, and, to a large extent, SRO rulemaking will serve as an alternative to the adoption of Commission rules. In addition, uniform SRO rule proposals will substantially reduce the amount of staff and Commission time required to review the proposals, and are essential if the Division is to process the proposals promptly and efficiently;

2/ If, however, the Commission is prepared to publish the Options Study Report before we are able to prepare a release for the Commission's consideration, we would recommend that the Report be published immediately in order to permit the SRO's to begin reviewing it.

How will they decide unless we promulgate
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The problem is
are much too
Detailed -
e.g. Substantive

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- (6) Request that all SRO's file those uniform rule proposals which relate to a particular Study recommendation(s) at the same time. Simultaneous filings will enable the Division to publish a consolidated notice of all SRO rule proposals on any given topic and a consolidated order disposing of those proposals. This will substantially reduce the reviewing and paperwork burden on the Division's professional and secretarial staff, and save significant Federal Register publication costs;
 - (7) Ask the SRO's to complete the filing of these rule change proposals within 90 days after the release of the Study Report, but to begin to make rule filings as promptly as possible and to stagger the filings throughout the 90 day period in a manner agreed upon mutually by the SRO's;
 - (8) Advise the SRO's that the Division staff will make every effort to act upon these filings within 90 days after receipt, and that the Division believes that it will be possible to do so, but, given our existing resources, only if the filings are uniform, are submitted to us by all SRO's at the same time, are responsive to the Study's recommendations and make sense, are carefully drafted, and are submitted in the proper format. Emphasize that uniformity and careful drafting are essential; point out that the Division will not be able to engage in extended negotiations with each SRO about six or seven different rule proposals on each Study recommendation ^{3/} or to perform its customary service of cleaning up carelessly drafted SRO rule proposals; and make clear to the SRO's that successful and prompt implementation of the Study's

^{3/} On the other hand, once the SRO's have agreed among themselves upon uniform rule proposals it may be equally difficult for the Division to negotiate with them as a group to amend their proposals. This may impair our ability to fashion rules which best realize the objectives of the Study recommendations.

Study's recommendations will require them to coordinate with one another and with us. 4/

- (9) Authorize the Division to make liberal use of its authority to approve, by delegated authority, all rule proposals which appear to be consistent

4/ The Division believes that the present staff of the Division should be able to process, within six months, the SRO rule proposals necessary to implement the Study's recommendations, provided that these proposals (1) are uniform, (2) are submitted to us within the 90 days following publication of the Study, (3) are staggered throughout that 90 day period, (4) are carefully drafted by the SRO's and (5) are reasonable proposals realizing the objectives sought by each recommendation. We have developed tentative plans to assign these proposals to various units in the Division, principally the Office of Self-Regulatory Oversight. The bulk of the work will be handled by the Options Branch (the Options Branch consists of three attorneys, a branch chief and one secretary) together with the Options Special Counsel and the Assistant Director responsible for options. The Branches of Exchange Regulation, Municipal Securities and Over-the-Counter Regulation will provide part-time assistance on rules relating to particular Study recommendations, as will the Office of Compliance and Financial Responsibility. The new inspections unit will review the modifications made by the SRO's in their compliance and surveillance procedures, practices and policies, will also provide comments on certain of the SRO rule proposals and will attempt to ensure that a common understanding of how each proposal would work exists among the SRO's and between them and the Division staff.

In an emergency, of course, we could seek help from other staff members in the Division and/or some of our alumni in other offices and Divisions of the Commission who previously have had experience with SRO rule filings (i.e., Messrs. Roiter, Ketels, Thompson and Horn of the Office of the General Counsel, Commissioner Karmel's Office, and the Divisions of Investment Management and Enforcement, respectively). We would prefer not to have to seek outside help to meet our six-month deadline, but wish to emphasize that outside help may become necessary if the SRO's do not cooperate on our requests for uniformity and simultaneous filings.

with the Study's recommendations and which do not raise novel or unique policy or legal questions. ^{5/} The Commission also should encourage the Division, if and when it becomes necessary to seek Commission action on a particular group of rule proposals, to use very short written memoranda or outlines to communicate with the Commission, to make liberal use of emergency calendar procedures if necessary, and, in some instances, to dispense with written memoranda and discuss matters orally with the Commission;

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until 1984*

(10) Request those members of the Study staff who were responsible for particular recommendations and who are still employed by the Commission, either in this Division or elsewhere, to cooperate with us by reviewing filings submitted to implement those recommendations promptly after they are received, and to help the Division ascertain whether the rule proposals are consistent with, and fulfill the purposes of, the Study's recommendations. We do not expect to ask former Study staffers (other than those now with the Division of Market Regulation) for assistance in the preparation of notices, orders, or memoranda to the Commission;

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(11) As to those Study recommendations which call for modifications in existing SRO procedures, practices or policies, or which will require some lead time for the SRO's to develop, the Commission should ask the SRO's to submit letters or other written documentation sufficient to demonstrate that those changes have been made, or where immediate implementation of the recommendations is not called for, to submit detailed plans and commitments or undertakings, specifying how and when these recommendations will be implemented. These submissions should be made within 120 days from the release of the Study Report. The Division staff, principally our new inspection unit, will review those plans and

^{5/} We have indicated on the attached list those recommendations which we hope will result in rule filings that we can approve by delegated authority.

undertakings, conduct inspections of each options exchange to confirm that they have complied with the recommendations in the surveillance chapter of the report and be prepared to advise the Commission whether these plans, undertakings and procedural changes appear satisfactory by the end of the six-month period. It may be difficult to insist upon uniformity in implementing all of these recommendations, however, both because of the variations in the systems employed by the existing options exchanges and because some of these recommendations are directed at specific problems at particular SRO's. 6/ Nonetheless, the SRO's should be asked to provide uniformity wherever possible; 7/

- (12) Ask that the SRO's not refile any of the "expansionary" options rule proposals which were withdrawn last summer pursuant to the voluntary moratorium, or any new expansionary proposals, until implementation of the Study recommendations has been completed as outlined above. Although we believe that the Division's existing resources should be sufficient to enable us to respond to actions taken by the SRO's to implement the Study recommendations, provided that they are submitted to us in accordance with the above-outlined conditions, we do not have sufficient resources also to deal with all the complex market structure and other issues involved in expansionary proposals. The Commission should recognize that this course of action may prove very upsetting to certain SRO's, particularly the New York Stock Exchange ("NYSE") and the National Association of Securities Dealers ("NASD"), who may believe that they are being unfairly prevented from moving forward with their proposed options programs, while the existing options exchanges are being given an

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agree*

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- 6/ E.g., the recommendations concerning the American Stock Exchange audit trail, the need for documentation by the Philadelphia Stock Exchange of the surveillance functions it performs, and the recommendation for an investigation of the Midwest Stock Exchange.
- 7/ For example, most of the Study's recommendations for changes in SRO procedures for oversight of retail firms could and should be uniform.

opportunity to correct deficiencies in their regulatory programs so that they can begin to expand as soon as the six-month period ends. The NYSE and the NASD may be right. Nonetheless, the difficult questions raised by the NYSE and NASD proposed options programs, together with the heavy workload we expect to receive when the options exchanges begin implementing the Study recommendations will make it impossible to deal with those proposals at an earlier time;

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- (13) Advise the SRO's that, at the end of the six-month period following release of the Study Report, if they have completed the implementation of those Study recommendations on which the Commission requested immediate action (including, in the case of rule proposals, receipt of Commission approval) and have submitted acceptable plans and commitments for implementing the remaining recommendations, they will be permitted to fill previously authorized but unfilled options classes and to begin filing expansionary rule proposals (e.g., the NYSE and NASD plans, requests for the listing of additional put options classes, proposals for multiple strike price intervals and alternative cycles, and the like). Both the Commission and the SRO's should recognize, however, that even when expansionary proposals are permitted to be filed, the Division will not necessarily be able to act upon them all within the time frames established by the Securities Exchange Act. Accordingly, the SRO's should be told that when expansionary proposals are filed, the Commission may act first on the simpler ones and take additional time with those involving the more complex market structure issues which are discussed, but not resolved, in the Options Study Report. The Division will not have the resources to consider, in a timely fashion, all the expansionary proposals we expect to receive;
- (14) Make clear that if an SRO fails to take the above-out lined steps necessary to implement the Study recommendations within the six-month period, the Commission will not consider proposals which that

SRO may file to expand its options trading program, and, if necessary, may take steps to revoke that SRO's authority to fill previously authorized but unfilled classes, or take other appropriate remedial action. Make clear to the American Stock Exchange ("Amex"), the Midwest Stock Exchange ("MSE"), and the Philadelphia Stock Exchange ("Phlx") that they must satisfy the Study recommendations directed at deficiencies in, or lack of documentation concerning, their particular surveillance and compliance capabilities in addition to implementing the Study recommendations which are generally applicable to all SRO's;

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- (15) Ask the NASD to work together with the options exchanges during this six-month period, to develop uniform rules and procedures to implement the Study's recommendations, and to file its rule changes, if possible, together with the options exchanges' filings. This will help bring the NASD's rules governing so-called "access" firms (that is, NASD member firms which deal in options but which do not belong to an options exchange) into conformity with the rules of the options exchanges, will ease the compliance burdens on dual NASD-option exchange members, and will assure that so-called "access" firms are subject to the higher standards contemplated by the Options Study's recommendations. It will also facilitate the Commission's consideration of the NASD's proposed options trading program, if and when that proposal is resubmitted to the Commission. For similar reasons, the NYSE should be asked to work together with the options exchanges in this effort. However, if the NASD and/or the NYSE decline to cooperate, we believe that the options exchanges should be encouraged to go forward without them. ^{8/} The Commission will, in any event, be required to address the NASD's and the NYSE's rules at a later time should they choose to trade options;

^{8/} The NASD and the NYSE may be reluctant to work with the options exchanges to develop "regulatory" rules to implement the Study's recommendations without some assurances that the Commission will act favorably on their proposals to establish their own options trading programs. The Division does not believe that any such assurances can or should be given.

- (16) As to those recommendations which call for Commission action, the Commission should advise the SRO's that the Commission's staff will implement immediately those recommendations which call for changes in our inspection procedures, will continue to work closely with the "Self-Regulatory Conference," will schedule inspections of the NYSE and MSE ^{9/} as soon as possible and will promptly begin considering the remaining recommendations, most of which call for Commission rulemaking action. With the few exceptions noted above and in the attached outline, we do not believe that these recommendations must be completed before the SRO's are permitted to expand their existing options trading programs or to initiate new options trading programs;
- (17) Should the SRO's decline to agree to the foregoing arrangement, they should be advised that the Commission does not believe it will be able to make the affirmative findings necessary to approve any expansionary options rule change proposals until a substantial portion of the self-regulatory deficiencies and other problems found by the Study have been corrected, through implementation of the Study's recommendations or by other means. In addition, the Commission should advise the SRO's that it will direct the Division of Market Regulation to devote all available resources to adoption of proposed Rule 9b-1(T), and, when that rule is in place, the Commission will begin to implement the Study's recommendations through direct Commission rulemaking and by instituting Section 19(c) proceedings against the SRO's.

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^{9/} The Commission should be aware, however, that the Division may not be able to conduct a complete inspection of the NYSE surveillance system within the next six months. In addition, the Options Study staff advises that deficiencies in the regulatory programs of the MSE may be so serious that they cannot be corrected within six months.

The above-outlined points will not, of course, provide any guidance to the SRO's as to what will occur with respect to multiple or dual trading of options. We simply do not have an answer to that question at this time. We, therefore, recommend that the Commission advise the SRO's that it will study this issue during the six-month period, and that it expects to provide them with an answer before expansion is permitted. This task will be undertaken jointly by the options staff of the Division's Offices of Self-Regulatory Oversight, Market Structure, and the Chief Counsel. We will, of course, work closely with the General Counsel's office. 10/

Must be solved

The question whether additional puts trading should be permitted also will have to be considered during the six-month period, so that the Commission will be able to act upon SRO proposals to trade additional puts when those proposals are permitted to be filed. Finally, the Commission will have to consider separately during this six-month period the questions presented by the proposed CBOE/MSE merger, including whether the merger should be permitted to take place before the moratorium is lifted and, if some limits are placed on multiple trading, whether the CBOE should be entitled to keep all of the MSE's "exclusive" options classes. The Commission should recognize, however, that given the pending merger proposal, the MSE may not wish to incur the expenses involved in implementing the Study recommendations. Similarly, the Commission may not wish to devote its own staff time to inspecting the MSE's options surveillance activities. On the other hand, the Options Study staff has advised us that, in light of the current state of the MSE's regulatory capabilities, the MSE cannot be permitted to expand until the situation has been remedied, and that it may not be possible for the MSE to remedy its deficiencies within six months.

10/ While the Division is not prepared to submit a written analysis of the multiple trading question to the Commission at this time, we are inclined to believe, on the basis of the Options Study's revelations, that the benefits of multiple trading outweigh the difficulties (both theoretical and observed) associated with it. In this regard, we note that, for example, the Options Study has been unable to detect and document any unique tendency for multiply traded options classes to be involved in manipulative activities. Similarly, while multiple trading ostensibly generates difficulties for brokers seeking best execution of their customers' orders, a problem the Commission has not yet successfully dealt with in connection with stocks, it appears that the quality of the markets as a whole for options, measured in terms of depth and spreads, may well be improved by multiple trading.

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The foregoing plan for implementing the Study's recommendations and lifting the moratorium is premised upon the assumption that the SRO's will agree to continue to abide by the moratorium for some additional period of time and to use that time to implement the Study's recommendations. The six-month period was selected simply because that was the figure Chairman Williams suggested to us during a meeting on January 11, 1979. The period could be shortened slightly, but only if the Commission decided to seek implementation of a smaller portion of the Study's recommendations before lifting the moratorium. The period also could be lengthened, and that may in fact occur if the SRO's fail to cooperate fully with each other and with us.

In our judgment, the six-month period (or some longer period) should provide sufficient time for all SRO's, including the smaller options exchanges, to get themselves in a position to expand their options trading programs at approximately the same time. On the other hand, it may work to the detriment of other SRO's, such as the Chicago Board Options Exchange ("CBOE"), which have larger staff and other resources, which may have fewer deficiencies to correct, and which could implement all of the Study's recommendations in less than six months. These exchanges may argue that they are being unfairly prevented from expanding solely because of problems faced by their brother SRO's. Nonetheless, regardless of whether the Commission determines to limit in some fashion further multiple or dual trading until certain elements of a national market system for standardized options are in place, or to permit multiple trading to expand without such elements, it will be easier to do so if all existing options trading programs begin to expand at the same time. A uniform extension of the moratorium for a period such as six months should help to preserve the Commission's flexibility while it resolves the multiple trading question.

This plan also is based upon the assumption that the Commission is willing to permit some further expansion of the options markets before the SRO's can demonstrate to the Commission's satisfaction that all the changes in SRO rules, policies and practices adopted pursuant to the Study's recommendations are working effectively, are being complied

with by the SRO's and their members, and are being enforced by the SRO's. Similarly, this plan assumes that the Commission is willing to rely upon the representations of the SRO's that other Study recommendations, which cannot be implemented immediately, will be implemented in accordance with the SRO plans, commitments and timetables submitted to the Commission during the six months following release of the Study Report, and that the Commission is willing to permit expansion before those commitments have been fulfilled. 11/

Finally, we must emphasize again that our conclusion that the Division will have sufficient resources to respond promptly to SRO actions to implement the Study recommendations is premised on the conditions outlined earlier in this memorandum. If those conditions are not met, we cannot meet this schedule.

If the Commission elects to proceed along the lines outlined above, it may be desirable to invite senior officers of all the SRO's to come to Washington to meet with the Chairman and the Division staff so that we can spell out for them the details of this plan, emphasize the importance of their cooperation with each other and with us, and respond to any questions they may have.

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As an alternative to the foregoing approach, it may be advisable for the Commission to publish for comment the Study Report together with its plan for implementing the Study's recommendations and lifting the moratorium. The Commission then could give the SRO's and other interested members of the public a brief opportunity (not more than 45 days) to comment upon the Study Report, its recommendations and to bring to the Commission's attention any aspect of the Commission's plan for implementing those recommendations

11/ Should the SRO's fail to fulfill these commitments, the Commission may be forced to take some sort of remedial action against them or to find other methods of persuading them to complete the work of implementing the Study's recommendations.

and lifting the moratorium which are unworkable or could be improved. This procedure would have the advantage of permitting the Commission to consider valid arguments which may be raised against certain aspects of the Study recommendations and the "moratorium lifting plan" before it makes a final decision on those matters, and would be fairer to the SRO's and those in the securities industry who may be able to point out reasons, not considered by the Study or the Division, that certain of these recommendations or certain aspects of the "moratorium lifting plan" are not workable.

On the other hand, this alternative approach has certain disadvantages. These include further delays in implementing the Study recommendations and the end of the moratorium and the possibility that the SRO's and/or their members could abuse the comment process by raising unnecessary and numerous objections to the Study recommendations and the plan for lifting the moratorium. If this occurred, and our past experience working with the SRO's suggests that there is a substantial risk that it would occur, large amounts of Commission and SRO time and resources could be spent in negotiations over the Study recommendations as well as details of the plan for lifting the moratorium. Thus, adoption of this alternative approach would likely add 90 days or more to the six months we believe will be required to implement the Study's recommendation and to lift the moratorium. In addition, adoption of this approach would delay SRO efforts to begin implementing any Study recommendations, including non-controversial ones, and would make it impossible for the Commission to announce a definitive plan and timetable for lifting the moratorium until later this spring.

Certain members of the Division and the Study staff tend to favor this alternative approach, however, principally because, without the benefit of outside comments, they do not believe the Commission can be certain that all of the Study's recommendations and all aspects of our plan for lifting the moratorium are sound and workable. The Division also would be inclined to favor this approach if we did not believe that it would encourage dilatory posturing by the SRO's and risk a further lengthy extension of the moratorium. The Division believes that, regardless of whether comment is invited, the SRO's will not hesitate to let us know of any substantial problems they perceive in the Study report, its recommendations, or the Commission's

INTRODUCTION

Attached is a list of the Options Study's recommendations. We have broken them down into categories which reflect the type of action which the Division believes will be required to implement each recommendation, and our estimate of the time in which those actions reasonably could be taken. Within each category, we have attempted to list first those recommendations which appear to us to be most important. Only the first few recommendations listed in each category reflect genuine priorities. Except for a few recommendations that we ranked last, it was not possible to assign the remaining recommendations meaningful rankings because most of them seemed to be of relatively equal importance.

CATEGORY OUTLINE

- I. The Division believes that implementation of or, in some cases, an undertaking to implement, the Options Study recommendations in this category can and must be submitted to the Commission by the self-regulatory organizations ("SROs"), and acted on by the Commission before expansion of the standardized options markets is permitted.
 - A. SRO Rules
 1. SRO rules which can and should be filed with the Commission within 90 days of publication of the release announcing the plan for ending the moratorium ("moratorium release") and which can and should be acted upon by the Commission and implemented by the SROs within 90 days following the date of filing.
 2. SRO rules which can and should be filed with the Commission within 90 days of publication of the moratorium release and acted upon within 90 days from filing, but which will require additional implementation time by the SROs or their members (by no later than the end of the year).
 - B. Modifications and improvements in SRO surveillance and compliance procedures.
 1. Modifications which should and can be proposed by the SROs within 90 days of publication of the moratorium release and which can be implemented within 90 days thereafter.
 2. Modifications which cannot be implemented within 180 days but for which undertakings by the SROs should be required prior to expansion. The SROs should be required to supply target dates for implementation.
 3. Recommendations which require Commission inspections and possible SRO action prior to expansion.

(ii)

- C. Reports to be submitted by the SROs within 90 days for determination of possible further remedial action prior to expansion.
- II. Recommendations which need not be implemented prior to expansion, but which the SROs should be encouraged, after the moratorium is ended, to implement.
- A. SRO Rules
 - B. SRO Reports
- III. Options Study recommendations which require action by the Commission, but not prior to permitting expansion.

SUBSTANTIVE OUTLINE

- I. The Division believes that implementation of or, in some cases, an undertaking to implement the following Options Study recommendations can and must be submitted to the Commission by the self-regulatory organizations ("SROs"), and acted on by the Commission before expansion of the standardized options markets is permitted.

A. SRO Rules

The SROs would be required to submit for Commission approval 27 rule proposals (in the case of the frontrunning recommendations, a rule interpretation would be required) within 90 days, of which we believe 20 could be implemented by the SROs immediately (§ A1 below), while 7 (§ A2 below) would require additional implementation time (hopefully implementation could be accomplished by the end of the year). We believe that we should be able to handle the majority of the rule proposals by delegated authority or through the use of brief advice memoranda to the Commission. We anticipate sending an action memorandum to the Commission at least with regard to the suitability recommendations (§ A1a-f). Of course, if some rules submitted by the SROs are such that we cannot recommend approval or if the SROs refuse to submit rules to implement certain recommendations, additional Commission memoranda may be necessary.

1. SRO rules which can and should be filed with the Commission within 90 days of publication of the release announcing the plan for ending the moratorium ("moratorium release") and which can and should be acted upon by the Commission and implemented by the SROs within 90 days following the date of filing.

OK a. The SROs should amend their options rules (1) to provide a standard options information form which requires that broker-dealers obtain and record sufficient data, as specified by the rules, to support a suitability determination; and (2) to require firms to adopt procedures to insure that all the information on which account approval is based is properly recorded and reflected in the firm's records. (Ch. V, p. 66).

OK b. The SROs should amend their options account opening rules to require that (1) the management of each firm send to every new options customer for his verification a copy of the form containing the customer's suitability information; and (2) the source(s) of customer suitability information, including the basis for any estimated figures, be recorded on the customer information forms. (Ch. V, p. 62).

OK. c. The SROs should amend their rules to require that member firms semi-annually confirm the currency of customer suitability information. (Ch. V, p. 69).

OK d. The SROs should adopt recordkeeping rules which require that member firms keep copies of account statements, and background and financial information for current customers, and maintain these records both in a readily accessible place at the sales office at which the customer's account is serviced and in a readily accessible headquarters office location. (Ch. V, p. 75).

OK e. The SROs should revise their options customer suitability rules to prohibit a broker-dealer from recommending any opening options transaction to a customer unless the broker-dealer has a reasonable basis for believing the customer is able to evaluate the risks of the particular recommended transaction and is financially able to bear the risks of the recommended positions. (Ch. V, p. 55).

objekt f. The rules of the SROs should be amended to prohibit firms from recommending opening options transactions to any customer who refuses to provide information, and for whom the firms do not otherwise have independently verified information sufficient for the suitability determination. (Ch. V, pp. 56-57). 1/

OK g. The SROs should adopt recordkeeping rules which require that member firms keep copies of customer complaints, customer suitability information and customer account statements at both the Branch Office where the account in issue is serviced and the Headquarters Office. (Ch. VI, p. 38).

1/ Several members of the Division's staff disagree with this recommendation. We believe that, because of the substantial debate that may result from proposals to implement this recommendation, both at the staff and the Commission level, it may not be possible for the Division to prepare a memorandum and for the Commission to act on this matter within the prescribed time period. The Commission, therefore, may wish to consider placing this recommendation in a different category for implementation at a later date.

h. The rules of the SROs should be amended to require that brokerage firms assign at least one high ranking person who is ROP-qualified to perform, or to directly supervise, home office compliance procedures relating to options. [The rules should provide that, absent a clear showing of compelling circumstances, this person have no sales functions, direct or indirect, relating to options or otherwise]. (Ch. V, p. 47). 2/

objekt

i. SROs should amend their rules: (1) to require member firms to notify SROs promptly of all internal disciplinary actions against employees, and (2) to provide that when a registered individual's employment is terminated or he resigns from a member firm, the SRO shall retain jurisdiction over the individual for a reasonable time. The SROs should also vigorously enforce member firm compliance with the notification requirements. (Ch. VI, p. 44).

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j. The SROs should amend their options rules to require (1) that whenever rates of return are calculated for disclosure to investors, all relevant costs must be included in the computation; and (2) that whenever annualized returns are used to express the profitability of an options transaction, all material assumptions in the process of annualizing must be disclosed to the investor and a written record of any rate quoted to a customer must be kept. (Ch. V, p. 105).

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k. The self-regulatory organizations should (1) develop uniform standardized options worksheet forms which require disclosure of all relevant costs and other information, including an appropriate discussion of the risks involved in proposed transactions; and (2) prohibit the use of any options worksheets other than the new uniform formats and require that new worksheets be fully completed whenever used. (Ch. V, p. 125).

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2/ Several members of the Division staff disagree with the bracketed part of this recommendation and anticipate substantial debate regarding what constitutes "a clear showing of compelling circumstances." See footnote 1.

1. The SROs should require that copies of all options worksheets which are shown or sent to existing or prospective customers or which are used as the basis for any sales presentation to a customer be retained by member firms for an appropriate time in a separate file in the sales office in which the customer has an account. (Ch. V, p. 127).

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m. The self-regulatory organizations should amend their rules to require that:

(1) All performance reports shown, given or sent to customers by member firms be initialed by the firm's local office supervisor to confirm that the performance report fairly presents the status of the account or the transactions reported upon;

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(2) Copies of all such performance reports shown, given or sent to customers be retained by member firms in a separate file at the local sales office;

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(3) Member firms be prohibited from showing the performance report of the options account of one customer to existing or potential customers, unless all performance figures for all the registered representative's customer options accounts during the same period are shown. (Ch. V, p. 128).

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n. The rules of the SROs should be amended to require that member firms make available for public inspection unequivocal and comprehensive evidence to support any claims made on behalf of options "programs" or the options "expertise" of salespersons. (Ch. V, p. 109).

no ?

o. The rules of the SROs should be amended to require that when member firms use seminars to promote options, they make the following disclosures to those attending:

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— If the "lecturer" in the seminar is a brokerage firm employee compensated in whole or part by commissions, and is using the seminar technique to attract customers, his financial interest in the acquisition of customers from the audience should be disclosed;

Too detailed
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— If a "program", or "system" described in the seminar is already in use, the cumulative experience of the program's participants should be fully disclosed and documented, and the audience should be warned that past results are no measure of future performance;

— If the program is too new to have a performance history, the audience should be fully apprised of the untried nature of the program. (Ch. V, pp. 114-115).

p. The SROs should amend their rules to require member firms to promptly adopt a uniform method for the random allocation of exercise notices among customer accounts. (Ch. V, p. 187).

q. The SROs should require member firms to keep sufficient specific workpapers and other documentation relating to allocations in proper order of time so that a firm's compliance with the uniform exercise allocation system can be verified promptly for an appropriate period. (Ch. V, p.189).

r. The SROs should adopt rules (1) to require all registered market makers to report all accounts, for stock and option trading, in which they have an interest or through which they may engage in trading activities, and (2) to prohibit market maker trading through accounts other than those reported. (Ch. IV, p. 34).

s. The SROs should adopt rules requiring all registered options market makers to report, by appropriate means and on a daily basis: (1) the time that each stock order for the market maker's account, or an account in which he has an interest, is transmitted for execution, (2) the type and terms of each order, (3) the time, volume, and price of any executions that are received, and (4) the opening and closing stock positions for each account in which the market maker has an interest. (Ch. IV, p. 33).

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OK t. All SROs should (1) issue interpretations of their rules to make clear that frontrunning by their members is inconsistent with just and equitable principles of trade and, (2) take prompt disciplinary action against those members who have been found to have engaged in front-running. (Ch. III, p. 64).

2. SRO rules which can and should be filed with the Commission within 90 days of publication of the moratorium release and acted upon within 90 days from filing, but which will require additional implementation time by the SROs (by no later than the end of the year).

OK a. The SROs should adopt rules requiring the options customer's account statement to show the equity in the customer's account with all options and other securities positions marked to market and the year to date profit or loss in the account clearly shown. The options customer's account statement should also show the amount of margin loans outstanding as well as commission charges applicable to each transaction and other expenses paid or payable, for the period covered by the account statement and year to date. (Ch. V, p. 85).

OK b. The SROs should adopt rules to require that the principal supervisor of any and all offices accepting options transactions be qualified as an ROP [Registered Options Principal] (Ch. V, p. 35).

OK c. The SROs should amend their rules to require that each options customer in whose account discretion is to be exercised is provided with a detailed written explanation of the nature and risks of the program and strategies to be employed in his account. (Ch. V, p. 179).

OK d. That the SROP [Senior Registered Options Principal] of each brokerage firm personally make a determination in each case that the discretionary customer understands and can bear the financial risks of the options trading program or strategies for which it is proposed that he grant investment discretion to the firm or any of its employees; and that the SROP make and maintain a record of the basis for that determination. (Ch. V, p. 180).

e. The self-regulatory organizations should adopt rules requiring that the Headquarters Office of each broker-dealer accepting options transactions by customers be in a position to review each customer's options account on a timely basis to determine:

- Commissions as a percentage of the account equity;
- Realized and unrealized losses in the account as a percentage of the customer's equity;
- Unusual credit extensions;
- Unusual risks or unusual trading patterns in a customer's account. (Ch. V, p. 177).

f. The self-regulatory organizations should adopt rules to require that the training of registered representatives who recommend options transactions to customers be formalized to include a minimum number of hours of approved classroom and on-the-job instruction. (Ch. V, p. 13).

g. The SROs should amend their rules to require their member firms to submit all complaints received from customers to a central data file, which should also contain complaints received directly by the SROs and the disposition of such complaints. (Ch. VI, p. 41).

B. Modifications and improvements in SRO surveillance and compliance procedures.

These Options Study recommendations are designated to facilitate improvements in the compliance and surveillance procedures of the SROs. As such, they need not be filed as proposed rule changes. Rather, the changes in the procedures could be supplied to us in the form of letters from the SROs. The Division will then determine whether the modifications are sufficient to implement the recommendations and will work with the SROs in areas we feel may be deficient. We believe 12 of the Study's recommendations can be proposed and implemented by the SROs within 180 days from publication of the moratorium release (§ B1 below). Nine others most likely could not be implemented by the

SROs within such time; however, we believe they are important and recommend that the SROs be required to commit to implementing these recommendations pursuant to a timetable supplied by the SROs (§ B2 below). In addition, there are two recommendations (§B3 below) which require the Division to conduct SRO inspections and/or investigations. These inspections will be done and the investigation begun within 180 days of publication of the moratorium release.

1. Modifications which should and can be proposed by the SROs within 90 days of publication of the moratorium release and which can be implemented within 90 days thereafter.

✓ a. The Amex should establish a complete audit trail for each option transaction that takes place on the Amex floor in accordance with the schedule that the exchange presented [to the Options Study]. The Commission should require that the Amex submit a complete report on the results of its "pilot test" as soon as they are available. The Division of Market Regulation should follow the progress of the Amex closely to assure that the exchange enhances the capabilities of its surveillance system and establishes a proper audit trail as quickly as possible. The Division should present a status report on the progress of the Amex initiatives to the Commission within 180 days. (Ch. IV, p. 25).

✓ b. SROs should revise their account selection procedures when conducting routine examinations to use a statistically valid random selection of accounts together with an account selection process which would be designed to identify those accounts which have a higher probability of being the subjects of particular sales practice abuses. (Ch. VI, p. 52).

✓ c. In investigating complaints, inquiries or questionable activities, SROs should develop procedures which assure timely independent verification of evidence, whenever possible. (Ch. VI, p. 61).

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✓ d. SROs should interview public customers, in appropriate cases, as part of routine or cause sales practice examinations to resolve factual disputes and to ascertain facts necessary to determine whether there is a reasonable likelihood that an SRO rule or provision of law has been violated. (Ch. VI, p. 20).

✓ e. Each SRO should use due diligence to ascertain all relevant facts before closing a cause examination or investigation without action and determine whether there is a reasonable likelihood that an SRO rule or provision of law has been violated.

✓ SROs should establish procedures to assure that an interview or testimony of members, supervisors, salespersons and others is obtained when appropriate in sales practice cause and routine examinations in order to determine whether there may have been a violation of the applicable laws or rules, to verify information obtained from another source, or to resolve disputed issues of fact. (Ch. VI, p. 62).

✓ f. SROs should routinely seek access to relevant compliance information retained by government agencies, including the Commission. (Ch. VI, p. 33).

✓ g. SROs should make and retain written records of oral complaints, evaluate them carefully, and, where appropriate, conduct a cause examination into them and take them into consideration in planning routine and cause examinations. (Ch. VI, p. 20).

✓ h. Each SRO should retain a record of the results of each routine or cause examination which sets forth reasons why no action was taken when apparent violations were detected or why only informal disciplinary action was initiated, and that such records be reviewed periodically by the SRO's governing board or committee. (Ch. VI, p. 80).

✓ i. The Amex should form a special committee of its Board of Governors that will review the investigation and enforcement activities of the exchange. The committee should be composed, as proposed by the Amex, of floor and non-floor members, exchange officials and a representative of the public. In addition to its general review, the committee should

specifically examine, at least every six months, every investigative file in which the investigative and enforcement activities of the staff have been completed. The file should identify the reasons that the investigation was initiated, the steps that were taken to investigate the matter, the conclusions that were reached concerning each aspect of the potentially violative conduct, the rationale for each conclusion, and full documentation to support the result. (Ch. IV, pp. 63-64).

✓ j. Each SRO should adopt a policy whereby a copy of each letter of caution or other document noting an informal disciplinary action is sent to the current employer of the registered representative and to the firm which employed him at the time of the violation. (Ch. VI, p. 75).

✓ k. Each SRO should restrict informal disciplinary actions to those cases involving minor, isolated rule violations that do not involve injury to public customers. (Ch. VI, p. 75).

✓ l. SROs should develop a program in which surprise attendance at seminars forms part of their overall inspection program relating to options sales practices. (Ch. V, p. 115).

✓ m. OCC should implement the revisions in adjustment procedures that it has proposed as scheduled. (Ch. IV, p.43).

2. Modifications which cannot be implemented within 180 days but for which undertakings by SROs should be required prior to expansion. SROs should be required to supply target dates for implementation.

✓ a. SROs should revise and broaden their sales practice examinations, including their checklists and guidelines, to (1) assure that examiners will review all aspects of a firm's procedures and dealings with the public, including the solicitation of customers and marketing of securities, (2) provide that each sales practice examination will include a thorough evaluation of the firm's internal compliance system, and (3) provide for on-site inspections of branch offices as appropriate. (Ch. VI, p. 50).

b. SROs should conduct more comprehensive analyses of customer accounts, including an evaluation of the number and type of transactions in the account, relative risks, actual and unrealized profits and losses,

commissions, and suitability of trading strategies for individual customers. SROs should also develop and use computerized systems to aid in the analysis of customer accounts. (Ch. VI, p. 58).

c. SROs should develop standards for the establishment of minimum compliance programs for implementation by each SRO; the programs should provide industry-wide objectives for the monitoring, examination and disciplinary programs of the SROs and provide standards by which the success of the programs would be measured. (Ch. VI, p. 84).

d. The SROs should amend their rules to require that the registered representative "options qualifying" examinations be revised to require a thorough knowledge of options and of the options exchange rules designed to protect customers. These examinations should be readministered to all options salespersons, and all examinations should be given under controlled surroundings by independent examiners. (Ch. V, p. 12).

e. The registered options principal qualifications examination should be revised substantially to test ROP candidates' understanding of supervisory requirements relating to options as well as their knowledge of options. 3/

All registered options principals should be required to successfully complete this revised version of the examination administered under controlled conditions. (Ch. V, p. 31).

3/ With regard to recommendations d and e, above, some staff members believe that the registered representative options qualifying examination and the ROP qualifications examination can be revised by the SROs and reviewed by the Division within 180 days (although additional time would still be required for retesting). The Commission, therefore may wish to consider moving this recommendation to § 1A2, above.

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f. The SROs should devise a uniform detailed program for supervision of options trading within member firms which would establish minimum supervisory standards and procedures and which would address the issues raised in, and incorporate the recommendations of, [Chapter V] among those standards and procedures. (Ch. V, p. 45).

g. SROs should create a central repository of regulatory information about their common members and employees of such members for shared use on a day-to-day basis. (Ch. VI, p. 30).

h. The SROs should develop standards for minimum position and transaction reporting rules and standardized inquiry forms. In the event that standards are developed and submitted to the Commission for approval, the Commission should act upon them expeditiously and adopt, where feasible, rules to govern SECO broker-dealers which are parallel to self-regulatory organization rules. (Ch. IV, p. 55).

i. Each SRO should consider the feasibility of identifying the actual time that a trade is executed to supplement surveillance information that is currently captured. (Ch. IV, p. 25).

j. The Commission should review the SIAC Report [on the feasibility and cost of distinguishing between proprietary and customer trades in the stock clearing process] as soon as it is completed. The self-regulatory organizations and their member firms should work to establish an economical method for identifying and distinguishing member firm proprietary and customer stock orders and transactions. In the event that the self-regulatory organizations do not devise a method for easily identifying member firm proprietary and customer trading, the Commission should consider whether it is appropriate to require that they do so by Commission rule. (Ch. IV, p. 36). 4/

4/ The SIAC report is scheduled to be completed in March. We recommend that the SROs be required to report to the Commission what steps they intend to take to implement the recommendation within 45 days from receipt of the SIAC report, and to provide a target date for implementation of this recommendation.

3. Recommendations which require Commission inspections and possible SRO action prior to expansion.

With regard to the first recommendation, the Division's Inspection Unit will provide each of the Options SROs with a list of those surveillance techniques which must be implemented prior to expansion and inspect each SRO to determine whether they have been implemented. With regard to the second recommendation, the staff will initiate an investigation of the MSE to determine what steps the MSE must take to be able to meet its statutory compliance responsibilities. 5/ We believe that the above can be accomplished within 180 days and should be done prior to expansion.

a. When conducting oversight inspections of the options exchanges, the Commission should review the surveillance techniques that each options exchange is using to assure that the most effective techniques available are being employed. (Ch. IV, p. 54).

b. The Commission should conduct a complete investigation of the MSE options surveillance program. The inspection should seek to determine whether the MSE has the ability to enforce compliance with the Act, the rules and regulations thereunder, and MSE rules with respect to options trading on the MSE floor. Ch. IV, p. 65).

C. Reports to be submitted by SROs within 90 days for determination of possible further remedial action prior to expansion.

The following recommendations require the Phlx and the OCC to submit reports to the Commission within 90 days (Section C below). Upon receipt of these reports, the Division will have to determine whether further action is necessary prior to expansion.

1. The Phlx should provide complete documentation with respect to routine surveillance functions and investigations that the exchange performs. Such documentation is necessary to assure that the Phlx is carrying out its statutory responsibilities properly. (Ch. IV, p. 59).

5/ There is substantial doubt at this point in time, however, whether the MSE will be capable of taking the necessary steps, within 180 days, to support a finding by the Commission that the MSE has the ability to enforce compliance with the Act, and that it should be permitted to expand.

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2. OCC should consider the feasibility of imposing a surcharge for position adjustments that firms effect above a certain number of contracts. The number of adjustments that a firm should be permitted without the imposition of the charge should be determined giving full consideration to the number of contracts that the firm regularly clears. In addition, OCC should consider the feasibility of requiring its member firms to balance their records to OCC records on a daily basis. The Commission should require OCC to study these issues and report its conclusions and recommendations to the Division of Market Regulation within 90 days. (Ch. IV, pp. 43-44).

II. Recommendations which need not be implemented prior to expansion, but the SROs should be encouraged, after the moratorium is ended, to implement these recommendations.

A. SRO Rules

1. Each SRO should amend its rules in order specifically to permit the award of restitution as a disciplinary sanction, whenever such a sanction would be appropriate. (Ch. VI, p. 81).

2. The options exchanges should revise their rules to restrict the ability of market makers to obtain specialist stock credit to stock underlying no more than 20 options classes, without specific exchange approval. (Ch. VII, p. 77). 6/

6/ Although the Division believes that implementation of this recommendation by SRO rule would result in an improvement of the current system, (in which options marketmakers may obtain specialist stock credit on all stocks underlying options in which they make markets), we believe that the determination as to whether limiting such credit to 20 stocks or, more broadly, whether such credit is appropriate at all will be difficult to make within 180 days. If, however, in view of the improvement over the existing system which would result from the approval of such an SRO rule, the Commission prefers to have this recommendation implemented prior to permitting expansion, we could require the SROs to file the rule proposals and, in its release approving those proposals, the Commission could state that the rules are improvement over the current system, but that the Commission has not resolved whether 20 stocks is the appropriate number of underlying stocks in which options market makers should be permitted to obtain specialist credit or the broader issue of whether stock specialist credit is appropriate in any event, and that the Commission may revisit these issues at a later time.

B. SRO Reports

1. The self-regulatory organizations should use the integrated surveillance data base that they are establishing for stock and options trading to detect unlawful trading activities and conduct appropriate enforcement actions and to identify patterns of stock and options trading that should be regulated or prohibited. The Commission and the self-regulatory organizations should work together to establish priorities for these studies and the self-regulatory organizations should regularly report the results of the studies that they conduct to the Commission. (Ch. III, p. 58).

2. OCC should review its margin and clearing fund deposit rules regarding OCC members that clear market maker accounts with a view to determining whether it would be appropriate to increase their market maker margin deposit requirements in order that the clearing fund deposits of OCC members that do not clear market maker accounts are not unreasonably subject to the risks of those that do clear these accounts. (Ch. VII, p. 31).

III. Options Study recommendations which require action by the Commission, but not prior to permitting expansion.

The Division of Market Regulation will immediately undertake to implement the first four recommendations, and then begin considering the remaining recommendations.

1. The Division of Market Regulation should obtain and review all instances of option and stock trading which are or have been the subject of informal or formal investigations by the self-regulatory organizations. The Division of Market Regulation should review this data with a view toward proposing antimaniipulative options and stock trading rules, where appropriate. (Ch. III, p. 58).

2. Commission inspections of the Amex should emphasize a review of case files that are closed after investigation to assure that Amex enforcement responsibilities are properly carried out. (Ch. IV, p. 54).

3. The Commission should closely monitor the efforts of the self-regulatory organizations to share surveillance information and coordinate self-regulatory activities. The Commission should acknowledge by letter the formation of the [self-regulatory] conference and suggest that the use of Section 17(d)(2) of the Act and Rule 17d-2 thereunder to allocate surveillance responsibilities among the self-regulatory organizations is appropriate and desirable. In addition, the Commission should send a representative to future meetings of the conference. The Commission should also seek to coordinate its own surveillance operations with those of the self-regulatory organizations. (Ch. IV, p. 53).

What does this have to do with options?

4. The Commission should conduct a complete inspection of the NYSE market surveillance system to determine whether the exchange has the ability to carry out the purposes of the Act and to comply and enforce compliance by its members with the Act, the rules and regulations thereunder, and NYSE rules. Specifically, the inspection should consider whether the NYSE can detect, on a daily basis and for each stock traded on the NYSE, trading practices that may be inconsistent with the Act, the rules and regulations thereunder, or exchange rules. The inspection should be conducted and completed as expeditiously as possible and a complete report should be presented to the Commission within 60 days after the completion of the review.

In the event that the inspection reveals that the NYSE cannot fulfill its statutory responsibilities on a daily basis, the Commission should take appropriate remedial steps and should specifically consider requiring, by Commission rule, that the exchange collect and maintain essential surveillance information. (Ch. IV, pp. 30-31).

5. The Commission should adopt a rule which requires SROs to notify the Commission of all informal remedial actions. (Ch. VI, p. 75).

6. The Commission should transmit for inclusion in the central file a record of relevant information about all broker-dealer complaints it receives unless release of such information would be contrary to law, would have an adverse affect upon a pending or proposed investigation, or otherwise would be inappropriate. (Office of Consumer Affairs). (Ch. VI, p. 42).

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7. The Commission should adopt a special registration form for the registration of listed options under the Securities Act and should exercise its authority under the Exchange Act to require that the prospectus filed as part of the registration form include information about options in a simplified format for the benefit of both the purchasers and sellers of options. (Division of Corporation Finance). (Ch. V, p. 87).

8. The Commission should consider recommending to the Federal Reserve Board that the clearing firms for market makers be permitted to finance positions in a stock underlying a market maker's options position on a good faith basis provided the market maker's specialist account contains only those shares necessary to hedge an options position, as determined in accordance with an appropriate options pricing formula. (Ch. VII, p. 75).

9. The Commission should consider revising its net capital rule to establish requirements for upstairs dealers that take into consideration the effects on risk of spreading strategies in listed options and the existence of a secondary market in options. (Ch. VII, p. 58).

10. The Commission should consider revising its net capital rule to require market makers that do not carry customer accounts or clear transactions to maintain a minimum equity of \$5,000. (Ch. VII, p. 46).

11. The Commission should consider revising its net capital rule to increase the deduction in computing net capital for near or at-the-money options by providing the deductions for short options positions in market maker accounts be

 This recommendation is in the process of being revised.

equal to the greater of (i) 75 percent of the premium value, (ii) \$75, or (iii) 5 percent of the market value of the underlying stock reduced by the amount by which the exercise price of the options varies from the current market price for the stock. (Ch. VII, p. 40).

12. The Commission should consider revising its net capital rule to require an additional charge in an OCC member's computation of its net capital for any net long or net short options positions in all market maker accounts guaranteed by the OCC member which are in excess of 10 percent of the open interest in the options class. This deduction should be equal to an additional 50 percent of the charge otherwise required for each series in that options class. (Ch. VII, p. 37).

13. The Commission should consider revising its net capital rule to limit the net capital deduction for market maker options conversion, reverse conversion or equivalent conversion positions to the maximum possible loss on these positions provided that in both cases the off-setting put and call options have the same exercise price and expiration date and are traded on an exchange. (Ch. VII, p. 52).

14. The Commission should consider revising its net capital rule to permit a market maker clearing firm one business day to obtain additional capital or market maker equity before meeting the net capital deductions arising out of its market maker clearing business. (Ch. VII, p. 49).

15. The Commission should consider revising its net capital rule so that the capital required for all of the positions in an account in which a clearing firm, its officers, partners, directors or employees maintain a financial interest are increased. This may be accomplished by requiring that such accounts meet the same financial requirements that are applicable to upstairs dealer firms. (Ch. VII, p. 48).

16. The Commission should consider revising its net capital rule to reduce the permissible amounts of gross deductions to net capital, resulting from the options and stock positions carried by a clearing firm for market makers, from ten to five times the net capital of the clearing firm. (Ch. VIII, pp. 41 - 42).

17. The Commission should issue an interpretive release or initiate rulemaking proceedings specifically to clarify that inter-market manipulative trading activity involving options and their underlying securities may violate Section 9. (Ch. III, p. 54).

18. The Division of Market Regulation should undertake a complete review of the position limit rules of the options exchanges. This review should include: (1) the possibility of eliminating position limit rules; (2) the feasibility of relaxing position limit rules for (a) all market participants, (b) for accounts which hold fully paid, freely transferable securities or (c) for "hedged" positions; and (3) whether exceptions from the rules should be granted to options specialists and, if so, under what circumstances. (Ch. III, p. 68).

19. The Commission should begin to study the most appropriate means of establishing a uniform method of identifying stock and option customers on a routine, automated basis. The Commission should review the NYSE and SIAC Report on this subject and should determine the steps that should be taken to establish a uniform account identification system in light of the Report. (Ch. IV, p. 39).

20. The Division of Market Regulation should consider the elimination of the restricted options rules as soon as the overall effectiveness of the Options Study's suitability recommendations can be evaluated. (Ch. III, p. 71).