

## MEMORANDUM

TO: Chairman Ruder

FROM: Rick Ketchum

RE: September 22, 1987 meeting with Duke Chapman

DATE: September 21, 1987

In connection with your request for information about Alger "Duke" Chapman, Chairman and Chief Executive Officer of the Chicago Board Options Exchange ("CBOE"), and the issues of importance to the CBOE, we have prepared the following brief memorandum.

### Approval of CBOE's Stock Trading Rules

The CBOE recently has requested that the Division activate a previously dormant CBOE rule filing (SR-CBOE-87-50) that would establish stock trading rules. As you know, the CBOE currently trades equity, debt and index options only. Notwithstanding CBOE's current affiliation with the Cincinnati Stock Exchange,<sup>1</sup> we understand that the CBOE wants to move forward now in obtaining Commission approval of its proposed stock rules. We believe that the CBOE desires the ability to trade stock so that it will be prepared to move quickly should the Commission authorize side-by-side trading of equities and options.

### CBOE Joint Venture with the Chicago Board of Trade ("CBT")

The CBOE and CBT recently entered into a joint venture that would provide CBOE members with the capability to trade CFTC regulated products and CBT members with the capability to trade SEC regulated products. The first two joint venture products to be traded, pending regulatory approval, will be the CBOE-50 and CBOE-250 stock index futures contracts. We also understand that initial plans provide that these two futures contracts will be traded on the CBOE floor in pits that are located between the Standard and Poor's 100 and 500 index options trading posts.

### Extended Trading Hours

Several CBOE representatives met with Division staff last week to brief us on CBOE's efforts in the area of extended trading hours. More specifically, CBOE has appointed a committee to examine the feasibility and desirability of beginning the trading day as early as

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<sup>1</sup> In 1987, the CBOE became affiliated with the Cincinnati Stock Exchange allowing a certain number of CBOE members to become non-proprietary CSE members.

4:00 am Chicago time. The CBOE clearly noted, however, that the Exchange was studying the issue at the present time and that, contrary to reports in the press, no decision had been made to move the start of the trading day to an earlier hour. Such an expansion of trading hours raises clearance and settlement questions as well margin and capital issues for clearing firms.

#### Europe, Australia and Far East (“EAFE”) Index

The CBOE has indicated to the Division that it will be submitting a proposed rule change in the near future which would permit the Exchange to list an EAFE index option. The EAFE index includes 900 stocks traded in sixteen countries, with Japanese stocks accounting for more than one half of the index’s value. Stocks from the United Kingdom, West Germany and Switzerland are the next highest weightings in the index. The EAFE was created by Morgan Stanley Capital International, an affiliated company of Morgan Stanley, and is a proprietary product of Morgan.

The EAFE proposal raises questions concerning: (i) the frequency and adequacy of information (e.g., quotes or trades) used to calculate the index; (ii) the role of Morgan Stanley in index calculation; and (iii) the ability of CBOE to gain access to trading information in the underlying stocks for purposes of investigation.

#### Multiple Trading

As you know, the CBOE is the largest options exchange in the United States. Consequently, the Exchange is keenly interested in the Commission’s actions in connection with the elimination of the existing lottery system, which designates one options exchange to trade individual exchange listed equity options, and establishment of multiple trading of exchange listed equity options. The CBOE continues to favor the existing options allocation plan.