UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 14057/October 17, 1977

In the Matter of

American Stock Exchange, Inc.
86 Trinity Place
New York, New York 10006

Chicago Board Options Exchange, Incorporated
LaSalle at Jackson
Chicago, Illinois 60604

Midwest Stock Exchange, Incorporated
120 South LaSalle Street
Chicago, Illinois 60603

National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, D.C. 20006

New York Stock Exchange, Inc.
11 Wall Street
New York, New York 10005

Pacific Stock Exchange Incorporated
301 Pine Street
San Francisco, California 94104

Philadelphia Stock Exchange, Inc.
17th Street & Stock Exchange Place
Philadelphia, Pennsylvania 19103

File Nos. SR-Amex-76-12
SR-Amex-76-28
SR-Amex-77-8
SR-Amex-77-9
SR-CBOE-76-16
SR-CBOE-76-27
SR-CBOE-77-5
SR-CBOE-77-14
SR-CBOE-77-15
SR-CBOE-77-16
SR-MSE-77-2
SR-MSE-77-4
SR-MSE-77-6
SR-MSE-77-28
SR-NASD-77-2
SR-NYSE-77-17
SR-NYSE-77-21
SR-PHLX-76-18
SR-PHLX-77-5
SR-PHLX-77-6
SR-PSE-76-17
SR-PSE-76-40
SR-PSE-77-9
SR-PSE-77-13
SR-PSE-77-15
SR-PSE-77-17

ORDER INSTITUTING CONSOLIDATED PROCEEDINGS TO DETERMINE WHETHER THE FOREGOING PROPOSED RULE CHANGES SHOULD BE DISAPPROVED

The self-regulatory organizations listed above have each filed with the Commission, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), 15 U.S.C. 78(s)(b)(1), and Rule 19b-4 thereunder, 17 CFR 240.19b-4, rule or rule change proposals which would expand existing programs for trading standardized options or initiate new programs for such trading (the "Expansion Proposals"). Notice of each proposal, together with the respective terms of substance thereof, was given by the publication of a Commission release and by publication in the Federal Register as follows:

To expand the number of call option classes which may be listed on the American Stock Exchange, Inc. ("Amex") from 80 to 100 classes, SR-Amex-76-12, Securities Exchange Act ("SEA") Release No. 12334; April 12, 1976, 41 FR 16523, April 19, 1976;

To permit the trading on Amex of options on underlying securities that are solely traded in the over-the-counter market, SR-Amex-76-28, SEA Release No. 13095, December 22, 1976, 42 FR 2146, January 10, 1977;

To permit trading on Amex of options on Government guaranteed debt securities, SR-Amex-77-8, SEA Release No. 13559, June 20, 1977, 42 FR 2734, May 27, 1977;

To permit the Amex to institute strike price intervals of 5 points for option series on underlying stocks priced up to $100, and 10 point intervals for option series on stocks above $100, SR-Amex-77-9, SEA Release No. 13518, May 6, 1977, 42 FR 24779, May 16, 1977;

To permit the trading on the Chicago Board Options Exchange, Incorporated ("CBOE") of options on underlying securities that are solely traded in the over-the-counter market, SR-CBOE-76-16, SEA Release No. 12703, August 12, 1976, 41 FR 35884, August 23, 1976;

To expand the number of call option classes which may be listed on the CBOE from 100 to 125 classes, SR-CBOE-76-27, SEA Release No. 13160, January 13, 1977, 42 FR 3911, January 21, 1977.

To permit the CBOE to institute strike price intervals of 5 points for option series on underlying stocks priced up to $80, and 10 point intervals for option series on stocks above $80, SR-CBOE-77-5, SEA Release No. 13429, April 4, 1977, 42 FR 19194, April 12, 1977;

To trade equity securities on the CBOE floor, SR-CBOE-77-14, SEA Release No. 13672, June 24, 1977, 42 FR 33825, July 1, 1977;

To permit the trading on CBOE of options on Government guaranteed debt securities, SR-CBOE-77-15, SEA Release No. 13698, June 29, 1977, 42 FR 35236, July 8, 1977;

To provide increased position limits for CBOE member options positions which are offset by related positions on the opposite side of the market, SR-CBOE-77-16, SEA Release No. 13803, July 25, 1977, 42 FR 38949, August 1, 1977;

To permit the Midwest Stock Exchange, Incorporated ("MSE") to institute strike price intervals of 2 1/2 points for option series on underlying stocks priced up to $25 and 5 point intervals for option series on stocks between $25 and $100, SR-MSE-77-2, SEA Release No. 13369, March 14, 1977, 42 FR 16005, March 24, 1977;

To permit the trading on MSE of options on underlying securities that are solely traded in the over-the-counter market, SR-MSE-77-4, SEA Release No. 13406, March 25, 1977, 42 FR 19200, April 12, 1977;

To expand the number of call option classes that may be listed on the MSE from 20 to 40 classes, SR-MSE-77-6, SEA Release No. 13431, April 5, 1977, 42 FR 19202, April 12, 1977;

To allow MSE option and equity members to hold simultaneous market maker appointments in both an option and its underlying stock, SR-MSE-77-28, SEA Release No. 13707, June 30, 1977, 42 FR 35718, July 11, 1977;

To permit the National Association of Securities Dealers, Inc. to display standardized options quotations on the NASDAQ system under a pilot program, SR-NASD-77-2, SEA Release No. 13230, February 1, 1977, 42 FR 8244, February 9, 1977;

To permit the trading of standardized options on the New York Stock Exchange, Inc. ("NYSE") under a pilot program, SR-NYSE-77-17, SEA Release No. 13674, June 24, 1977, 42 FR 33829, July 1, 1977;

To enable the NYSE to offer for sale options market maker annual memberships, SR-NYSE-77-21, SEA Release No. 13882, August 22, 1977, 42 FR 44052, September 1, 1977;

To increase the number of call option classes which may be listed on the Philadelphia Stock Exchange, Inc. ("PHLX") from 40 to 70 classes, SR-PHLX-76-18, SEA Release No. 13071, December 14, 1976, 41 FR 55758, December 22, 1976;

To permit PHLX to institute strike price intervals of 5 points for option series on underlying stocks priced below $100, and 10 point intervals for option series on stocks at or above $100, SR-PHLX-77-5, SEA Release No. 13517, May 6, 1977, 42 FR 24790, May 16, 1977;

To eliminate the requirement that a wall or physical barrier separate option and stock trading activities on the PHLX, SR-PHLX-77-6, SEA Release No. 13689, June 28, 1977, 42 FR 34561, July 6, 1977;

To permit the trading on the Pacific Stock Exchange Incorporated ("PSE") of options on underlying securities that are solely traded in the over-the-counter market, SR-PSE-76-17, SEA Release No. 12539, June 11, 1976, 41 FR 24787, June 18, 1976;

To expand the number of call option classes which may be listed on the PSE from 30 to 50 classes, SR-PSE-76-40, SEA Release No. 13161, January 13, 1977, 42 FR 3914, January 21, 1977;

To permit the PSE to institute strike price intervals of 2 1/2 points for option series on underlying stocks priced below $25, 5 point intervals for option series on stocks between $25 and $80, and 10 point intervals for option series on stocks above $80, SR-PSE-77-9, SEA Release No. 13485, April 28, 1977, 42 FR 23901, May 11, 1977;

To eliminate the requirement that a wall or physical barrier separate option and stock trading activities on the PSE, SR-PSE-77-13, SEA Release No. 13567, May 23, 1977, 42 FR 28178, June 2, 1977;

To expand the number of call option classes which may be listed on the PSE to 80 classes, SR-PSE-77-15, SEA Release No. 13795, July 22, 1977, 42 FR 38952, August 1, 1977;

To allow PSE members to hold simultaneous market maker appointments in both an option and its underlying stock, SR-PSE-77-17, SEA Release No. 13725, July 7, 1977, 42 FR 37083, July 19, 1977.

GROUNDS FOR DISAPPROVAL UNDER CONSIDERATION

The Expansion Proposals of the respective self-regulatory organizations listed above have one feature in common. Each appears to provide for an expansion of options trading activities in the trading market for which those respective organizations have self-regulatory responsibility, either by providing for the expansion of an existing program for the trading of standardized options or by initiating a new program for the trading of such options. Under Section 19(b)(2) of the Act, the Commission may approve a proposed rule change of a self-regulatory organization only if it finds that such proposed rule change is consistent with the requirements of the Act and applicable rules and regulations thereunder; the Commission is required to disapprove a proposed rule change if it does not make that finding.

The Commission, for reasons set forth in Securities Exchange Act Release No. 14056 (October 17, 1977) (the "Release") has determined that it is necessary to initiate an investigation and study pursuant to Sections 2, 3, 6, 9(b), 10(b), 11A, 15(c), 15A, 19(b), 19(c), 19(g), 19(h), 21(a) and 23 of the Act to evaluate, among other things, (i) whether the several self-regulatory organizations' regulatory and surveillance programs are adequate to prevent fraudulent, deceptive and manipulative acts, practices, devices and contrivances, to maintain fair and orderly markets in options and in their underlying securities, to protect investors and to enforce the Act, rules adopted thereunder and the rules of such self-regulatory organizations; (ii) whether those self-regulatory programs have adequately kept pace with the dramatic expansion of standardized options trading, or are capable of absorbing the additional burdens that might be occasioned by further expansion of such trading; (iii) whether there are adequate criteria for evaluating, among other things, whether particular options expiration cycles, exercise price intervals and other standardized terms are consistent with the purposes of the Act; and (iv) whether the rapid expansion of standardized options trading has been, and whether expansions such as those contemplated by the Expansion Proposals are, consistent with the public interest in ensuring that securities trading does not adversely affect the financing of trade, industry and transportation in interstate commerce and in perfecting the mechanisms of a national market system for securities.

The Proposals raise, in an ad hoc, piecemeal fashion, concerns that are the subject of the Commission's investigation and study. As an administrative and regulatory matter, fragmented, case-by-case consideration of these important issues appears unsound, and potentially damaging to investor protection and the public interest. In addition, it appears to the Commission that, in order to approve any of the Expansion Proposals, the Commission would have to answer many of the same questions that are the subject of the options investigation and study it has authorized and announced in the Release. Thus, it appears that, until the study and investigation are completed, the Commission may not be able to make the required findings for approval of the Expansion Proposals. For these very reasons, in order to preserve the status quo pending a resolution of the Commission's investigation and study,

the Commission has today proposed for adoption in the Release, Rule 9b-1(T) under the Act. That rule would make it unlawful to expand any existing program for the trading of standardized options, or for any exchange or association to initiate any new programs for the trading of such options.

Each of the self-regulatory organizations bears a burden under Section 19(b) of the Act to demonstrate that each of its proposed rule changes is consistent with the requirements of the Act and the rules and regulations thereunder. But, in light of the nature and complexity of the questions that have been raised, the self-regulatory organizations have not yet sustained (and may not at this time be able to sustain) their statutory burden with respect to the Expansion Proposals. Accordingly, for the reasons set forth above and in the Release, the Commission has determined to give notice at this time that the pending Expansion Proposals are the subject of disapproval proceedings. In particular, in view of the considerations described above, the following specific grounds for disapproval of the Expansion Proposals are now under consideration:

A. Section 6(b)(1) of the Act requires that a national securities exchange be organized and have the capacity to be able to carry out the purposes of the Act and to comply, and to enforce compliance by its members and persons associated with its members, with the provisions of the Act, the rules and regulations thereunder, and the rules of the exchange. Section 15A(b)(2) of the Act imposes similar requirements upon registered securities associations. The Commission is unable to find at this time that implementation of the Expansion Proposals, under current circumstances, would not result in violations of the requirements of Sections 6(b)(1) or 15A(b)(2) of the Act by each of the self-regulatory organizations listed above.

B. Section 6(b)(5) of the Act requires that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Section 15A(b)(6) of the Act imposes similar requirements on registered securities

associations. The Commission is unable to find at this time that implementation of the Expansion Proposals, under current circumstances, would not result in violations of the requirements of Sections 6(b)(5) or 15A(b)(6) of the Act by each of the self-regulatory organizations listed above.

C. Section 6(b)(6) of the Act requires that the rules of a national securities exchange provide that its members and persons associated with its members shall be appropriately disciplined for violation of the provisions of the Act, the rules or regulations thereunder, or the rules of the exchange, by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, being suspended or barred from being associated with a member, or any other fitting sanction. Section 15A(b)(7) of the Act imposes similar requirements on registered securities associations. The Commission is unable to find at this time that implementation of the Expansion Proposals, under current circumstances, would not result in violations of the requirements of Sections 6(b)(6) or 15A(b)(7) of the Act by each of the self-regulatory organizations listed above.

D. Section 6(b)(8) of the Act requires that the rules of a national securities exchange not impose any burden on competition not necessary or appropriate in furtherance of the Act. Section 15A(b)(9) of the Act imposes a similar requirement on registered securities associations. The Commission is unable to find at this time that implementation of the Expansion Proposals, under current circumstances, would not result in violations of the requirements of Sections 6(b)(8) or 15A(b)(9) of the Act by each of the self-regulatory organizations listed above.

The instant consolidated disapproval proceedings are not intended to deal comprehensively with every potential basis for considering disapproval of the various Expansion Proposals; rather, the Commission is of the view that the particular concerns it has articulated above, considered alone, presently preclude it from making the findings which are a prerequisite under Section 19(b) of the Act to approval of the Expansions Proposals. Should the Commission remain unable to make those findings, in light of the matters described above, it must disapprove the Expansion Proposals. But if it should prove necessary to take such action, such disapproval should not be construed to bar further consideration of the Expansion Proposals

at some time in the future, under other circumstances, assuming satisfactory resolution of those issues which now prevent the Commission from finding that the Expansion Proposals are consistent with the requirements of the Act and the rules and regulations thereunder.

Procedure

The Commission has determined to provide an opportunity for the written presentation of views, data and arguments, as part of these proceedings. Interested persons are invited to submit written views, data and arguments within 30 days from the date hereof as to the Expansion Proposals. Copies of all submissions will be available for inspection at the Commission's Public Reference Room, 1100 L Street, N. W., Washington, D. C. Copies of the submissions are also available at the principal office of the self-regulatory organization which has made a particular filing. Persons desiring to make written statements should file six copies thereof with the Secretary of the Commission, Securities and Exchange Commission, 500 North Capitol Street, Washington, D. C. 20549 by November 16, 1977. Reference should be made to File No. 4-202 and Release No. 34-14057.

By the Commission.

George A. Fitzsimmons
Secretary