SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
MARKET REGULATION

January 6, 1983

Mr. Robert Birnbaum
President
American Stock Exchange, Inc.
86 Trinity Place
New York, NY 10006

Dear Mr. Birnbaum:

I am writing to you and the other exchanges that have been approved to trade new options products to seek your assistance in responding to a December 9, 1982 letter from Congressman John D. Dingell to Chairman Shad. In the letter, Congressman Dingell raises several questions regarding the start-up of trading in various new options and futures products and requests that we consult with the Commodity Futures Trading Commission and the securities exchanges in responding to his inquiry.

In particular, Congressman Dingell expresses concern about whether the financial services industry is efficiently absorbing the new products and whether the various exchanges and boards of trade are adequately regulating and monitoring trading activity in these products. Based on reports that "the flood" of new products is causing broker-dealer errors and abuses and is overwhelming the surveillance capabilities of the exchanges and boards of trade, Congressman Dingell requests that we provide him with an indication of how the regulators are, and will be, addressing these problems. Congressman Dingell also questions whether the exchanges and boards of trade are properly considering these problems along with the correlative issue of product duplicity and multiplicity in filing proposals to trade new products.

In approving proposals by the securities exchanges to trade new options products, the Commission has attempted to assure that the markets for those products would be well-regulated and that the start-up of trading would be orderly. In this regard, to facilitate planning and preparation for the introduction of the various new options products, the Commission in several instances has approved the exchanges' basic rules packages well in advance of the time the exchanges actually anticipated to commence trading. In addition to reviewing the rules of the exchanges to assure that they were consistent with the protection of investors and the other requirements of the federal securities laws, the Commission also has conditioned the actual commencement of trading in each of

the new options products on satisfaction of a number of requirements. These conditions have ranged from the development by the exchanges of adequate surveillance procedures and the development and distribution of appropriate disclosure materials to the submission of information on the dissemination of data on the indices underlying proposed options contracts.

Trading has not actually commenced in new options products until the conditions specified in the Commission's approval orders have been satisfied. In this regard, in early October 1982, your exchange, the Chicago Board Options Exchange ("CBOE"), and the Options Clearing Corporation ("OCC") provided us with information letters specifying the programs and steps that had been taken to prepare for the commencement of trading in Treasury options. In response to Congressman Dingell's request, we would appreciate receiving updates on the status of the products that currently are traded, as well as information on the state of preparations for instruments that have been approved but have not yet started trading. In particular, we would like to receive the following information:

1. On what date, or approximate date, do you plan to commence trading in options on certificates of deposit ("CD's") and the Amex Index? Please indicate the factors that have been considered in selecting a date for the commencement of trading of each new product, including the exchange's evaluation of the need for, and public interest in, the options contract.

2. What steps have you taken and plan to take to ensure that broker-dealers and the investing public are and will be educationally and operationally prepared for trading in your currently traded and proposed new options products?

   In this regard, please indicate any adjustments you have made or plan to make with regard to floor operations, trade processing procedures, training and testing systems, and other actions being taken to provide for the general preparedness of member firms.

3. What problems, if any, have you encountered in the reporting or execution of prices and transactions in existing options products? What steps are you taking or planning to address these problems for existing or planned products?

4. What steps have you taken to assure that your member firms have established satisfactory compliance procedures for new options products? What problems, if any, have you identified with respect to compliance with SEC or exchange rules applicable to new options products?

5. Please describe briefly enhancements to your surveillance systems that have been made in connection with the commencement of trading in Treasury options and will be made in connection with the commencement of trading in CD and stock index options.

6. Please provide any information the exchange may have on the nature of the public trading activity or interest (e.g., hedging v. speculation, individual v. institutional) in the new options products currently traded on your exchange.

We would appreciate any other insights you may have that would be helpful in responding to Congressman Dingell's inquiry. We look forward to your comments, views and suggestions and, if possible, would appreciate your response by January 21, 1983.

Sincerely,

Douglas Scarff
Director

Enclosure