

1/4/77

Dear Mr. Pickard,

CBOE has pending a request which would permit it to expand the number of its options classes from the presently authorized level of 100 to 125. CBOE hereby requests that the Commission's approval of this increase be expedited so that the increase will be effective at the earliest possible date. The basic reason for the requested acceleration is that CBOE is convinced that maintenance of a sound and fair competitive environment for options trading requires that it be in a position to move into dual trading in a broad group of options classes on short notice.

CBOE obviously was disappointed with the announcement that Merrill Lynch intended to switch its MGIC options orders to AMEX, but CBOE regards this as merely a temporary and limited setback in its continuing competition with AMEX and other options exchanges. At the same time CBOE recognizes that its competitive position could be gradually impaired, if AMEX were to succeed in repeating its MGIC showing in one or two options classes at a time rather than competing broadly as to a substantial number of options classes.

The reason is that, as we interpret the recent trading experience with MGIC, AMEX was able to show the volume figures that it did, not by attracting public order flow or members' proprietary order flow greater than CBOE's but by showing concentrated floor activity in MGIC, day after day, greatly in excess of AMEX's normal percentage of floor activity. Specifically, approximately 40% of AMEX's published volume normally consists of specialist and floor trader volume, but it appears that since the commencement of MGIC trading the percentage of AMEX specialist and floor trader

1/4/77

volume has been about twice the normal, or close to 80% of total volume. We believe there has also been a marked increase in the percentage of trades with the specialist or floor traders on both sides. In other words there appears to have been, from whatever cause, far greater concentration of floor trading activity in this one options class than is normal on the AMEX floor. Obviously this pattern could be repeated in one or two options classes at a time, but not for any broad group of options classes at any one time.

In order to be sure that no effort is made to “pick off” CBOE’s options classes in the MGIC fashion one class at a time, CBOE believes it must be ready to commence dual trading in a substantial number of options classes. Presently, CBOE is authorized to increase the number of its options classes from 85 to 100, and the early addition of 25 options classes pursuant to the pending application would give CBOE a total of 40 options classes which it could put to dual trading by commencing trading in that number of options classes presently traded solely by AMEX. CBOE does not have a present intention to commence trading in all or any part of that number of AMEX options classes and it expressly reserves the right to use all or any part of that number to commence trading in non-AMEX options classes. But for the reasons summarized above, i.e., in order to be able to move rapidly to prevent repetition of the MGIC episode as an apparent but essentially artificial showing of AMEX superiority, CBOE believes it must be in a position to move rapidly toward dual trading on a broad basis.