

• • RECONCILIATION CLEARANCE SHEETS • TRADE- 11/18/77 SETTLE- 11/20/77 PROCESSED- 11/22/77
6 03 6 03

SECURITY DESCRIPTION					SEC-SYMBOL	CUSIP NO	UNIT-OF-TRADING	PAGE 1000	
NATIONAL SEMICONDUCTOR CORP					NON	43760103 000	100-SHARE		
BUY	BUY	BUY	BUY	BUY	SELL	SELL	SELL	SELL	
CM NO	ALPHA	ITEMS	SHARES	Z-OF-TOT	CM NO	ALPHA	SHARES	Z-OF-TOT	
0030	B	2	1,100	002.1	0006	BB	1,700	003.3	
0054	AG8	3	1,800	001.9	0013	DM	2,300	000.6	
0071	T	4	1,200	002.3	0030	B	2,800	005.4	
0141	M	18	4,900	013.2	0065	KP	600	001.2	
0201	GED	1	500	001.0	0087	DEA	1,000	001.9	
0221	PW	4	2,000	003.8	0141	M	1,000	003.6	
0286	C	11	16,300	031.3	0201	GED	1,800	003.5	
0302	DB	2	1,100	002.1	0221	PM	100	000.2	
0320	JJC	12	15,700	030.1	0242	LWI	200	000.4	
0352	BB	2	800	001.5	0277	L	2,200	004.2	
0411	LFR	2	400	000.8	0286	C	11,800	022.6	
0418	S	2	200	000.4	0302	DB	15,500	029.8	
0420	OC	1	500	001.0	0320	JJC	2,300	004.4	
0487	EFM	6	1,600	003.1	0333	WM	1,000	001.9	
0576	PE	1	200	000.4	0340	IFR	2,300	004.4	
0701	BOL	1	100	000.2	0411	LFR	100	000.2	
					0418	S	100	000.2	
					0433	R	300	000.6	
					0443	P	1,600	003.1	
					0487	EFM	1,500	002.9	
					0501	SLK	100	000.2	
					0540	BKO	800	001.5	
					0545	M	1,600	003.1	
•• COLUMN-TOTALS		B2 •	52,100 •	100.0 •			B2 •	52,100 •	100.2 •
CLEARED-SHARES			52,100 ••	REPORTED-VOLUME	52,100 ••	SHARE-DIFFER		EXCD-TO-REPORTED-	100.0
PRICES		HI-	20.25000	LO-	19.87500	CLOSE-	20.00000	SETTL-	820

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American Stock Exchange Inc.

REGISTERED OPTION TRADER & SPECIALIST REPORT OF ORDERS ENTERED IN OPTION RELATED UNDERLYING STOCKS

Date _____

For the account of _____

Clearing Agent _____

Note: To be filed with Trading Analysis Dept. by 11:00 a.m. on the first business day following the date the order was entered.

(SIGNATURE) _____

ORDER DESCRIPTION

STOCK	TIME OF ENTRY	TYPE OF ORDER		QUANTITY		EXECUTION(S)		POSITION AT OPENING
		MARKET (Held, Not Held) LIMIT (Specify price)	Day or GTC	BUY	SELL	VOLUME	PRICE	

MARKET MAKER DAILY TRANSACTION REPORT

PAGE ____ OF ____

FORM - OTR-1

THE PACIFIC STOCK EXCHANGE INCORPORATED

CLEARING FIRM _____

TRADE DATE _____

M	CHECK ONE			QUANTITY	CHECK ONE			Stock Symbol and/ or Option Series	P R I C E	Amount of Original Order	Limit on Order	Time Order Entered	Time Order Executed	Place of Execution
	BOUGHT	SOLD	SHARES		STOCK	CALL	PUT							

DATE _____

PREPARED BY _____

Mr. Richard Teberg, Director
Special Study of the Options Markets
Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20545

October 6, 1978

Dear Mr. Teberg:

We are pleased to submit this letter in response to the various issues raised by the Special Study of the Options Markets (the Options Study) with respect to the need for and creation of an integrated regulatory system among the self-regulatory organizations (SRO's). We will first make a preliminary statement concerning the Option Study's objectives and discussions between the self-regulatory organizations. We will then offer substantive comments, preliminary conclusions and recommendations under four headings: (I) Interchange of Market Surveillance Information, (II) "Compliance Plan" for Member Firm Examination and Information Sharing, (III) Centralization of Compliance Data for Registration and Investigation Purposes, and (IV) Allocation of Responsibility.

Preliminary Statement

As you are aware, during August, 1978, the staff of the Options Study held several meetings with representatives of the following organizations: American Stock Exchange, Boston Stock Exchange, Chicago Board Options Exchange, Midwest Stock Exchange, National Association of Securities Dealers, New York Stock Exchange, Options Clearing Corporation, Pacific Stock Exchange, and Philadelphia Stock Exchange (hereinafter participant SRO's or the group). Also participating were representatives of the Commission's Divisions of Enforcement, Market Regulation and Consumer Affairs, and Monchik-Weber Associates, Inc. These discussions described the Commission's concerns which precipitated the request for a Proposal For A Market Surveillance System as awarded to Monchik-Weber Associates, Inc. as well as the preliminary findings of the Options Study which indicate the need for greater coordination of existing options and securities regulatory systems so as to achieve an integrated industry-wide regulatory system.

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The meetings of the participants have focused upon the need for the creation of an integrated regulatory system among the SRO's which would enhance total industry regulatory capability by coordinating and interfacing existing regulatory data and programs through the sharing of available information, improvement of regulatory techniques, the allocation of regulatory responsibility and the centralization of registration data and customer complaints to facilitate access.

In particular, the Options Study has noted several areas of concern which are indicative of its findings and which should be addressed in order, in its opinion, to improve overall regulatory capability of the SRO's. The main objectives would be to eliminate overlapping efforts which may presently exist, to fill existing voids in regulatory programs and to promote the interchange of and access to information. This is especially true with respect to dual trading in options and stocks and intermarket options activities. These concerns center upon whether there is a need for the SRO's to:

- (1) share and improve existing data bases and increase inter and intra-market cooperation;
- (2) to enhance audit trails to promote intermarket reconstruction and surveillance;
- (3) enhance regulation of off-floor proprietary and customer accounts;
- (4) establish audit trails for position adjustments, "as of" transactions and Clearing Member Trade Assignment arrangements;
- (5) establish minimum uniform standards which trigger surveillance follow-up activity;
- (6) establish uniform forms and letters requesting additional information from broker-dealers with the elimination of duplicate inquiries in the case of multiply traded options and the underlying security;
- (7) receive and process relevant information from each SRO regarding registered personnel and to utilize such in preparation for regulatory examinations and investigations;

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- (8) conduct more examinations of member firms which may incorporate regulatory methods and practices which have not been routinely utilized by all SRO's in the past;
- (9) establish the method, form, and principles upon which information available to one or more SRO's will be accessed by other SRO's; and
- (10) establish uniform minimum compliance and disciplinary programs.

The Options Study also recognized the importance of enhancing regulation of broker-dealers who, though not a member of an options exchange engage in exchange listed options activity by going through a clearing member (so called "access firm"). However, this problem appears to be nearing resolution by the Commission's recent conditional approval of the NASD's "access" rule proposals. This situation would be further improved if the SEC would now adopt and approve comparable rules to regulate SECO and other broker-dealers not covered by the rules governing access firms or any other specialized options rules.

Although it is recognized by the participant SRO's that complete integration of regulatory information and systems may present technical and feasibility questions, it is acknowledged that the establishment of a more fully integrated regulatory system is both necessary and desirable as a means of establishing more efficient and effective regulation which may be cost-effective to the industry and achieve minimum standards of regulation on an industry-wide basis thus assuring the protection of public investors.

Significant progress has been made by the participants toward the creation of an integrated regulatory system. Numerous meetings and discussions have been held by the group and sub-groups formed for the purpose of focusing on specific issues including (a) interchange of market surveillance information, (b) interchange of compliance information relating to firm examinations and sales practices, (c) development of central files for registered personnel and customer complaints, (d) allocation of regulatory responsibilities, and (e) legal matters to be addressed in order to achieve an integrated regulatory system.

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As a result of these discussions, the participant SRO's listed above met jointly for the purpose of defining the overall parameters of a comprehensive regulatory system based upon their complete and thorough understanding of the capabilities presently in place and, following such analysis, to make recommendations for the implementation of the system.

The group, based upon the reports and recommendations of its sub-groups, and its own deliberations to date, has achieved agreement in several specific areas and wishes to submit this preliminary report to apprise the Options Study of the material developments which have occurred and to focus attention on those areas which, although approved in principle by the various SRO's, remain to be fully resolved before consideration may be given to their later implementation. It is clear, however, that continuing efforts will be required in order to reach mutually satisfactory solutions and that further meetings of the SRO's with the Commission's staff will also be required to facilitate the implementation of desired programs.

I. Interchange of Market Surveillance Information

A sub-group was established on interchange of Market Surveillance information. This body was directed to identify all market surveillance reports and information presently available to each participant SRO in order to determine which information could be integrated into other self-regulatory organizations' programs to enhance existing regulatory efforts with respect to intermarket surveillance. This sub-group thereafter collected from and furnished to each participant SRO, including the Options Clearing Corporation, copies of all option and equity computer print-outs and certain manually prepared reports (along with explanatory materials identifying the type of data, format, frequency and purpose) which are utilized in conducting market surveillance for listed securities. In addition to disseminating examples of data base information derived from transaction and clearing streams, each organization provided copies of reports which identify activity which exceeds pre-determined parameters during a trading session.

After the analysis of this voluminous information, a better understanding of the nature of information available was achieved. There was also a consensus that the sharing of data by the various SRO's is both needed and desired. However, while certain agreements have been reached, it is yet to be determined whether all such information will be furnished routinely or on some other basis.

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It is generally agreed that any information interchanged may be more desirable in a computer readable format rather than on microfiche or hard copy print-outs for manageability and flexibility purposes.

Further, it is noted that certain data which would be useful to each organization is presently available on an on-line basis through such systems as the OTIS system for collecting and displaying option information and for stock activity from the last sale and quote information transmitted via high speed lines. This information may be captured with appropriate programming which is being explored.

During a general discussion of the adequacy of option and stock data bases and audit trails, it became apparent that a significant difficulty in an effective and efficient integrated system is the reconstruction of transaction data on the underlying security in a form which identified the broker/dealers involved in each transaction and whether they are acting as agent or principal. Various participants expressed concern that such a system might be very expensive to construct and maintain and that these costs must be weighed.

After identifying the information available, the participant SRO's expressed interest in the exchange of market surveillance information as follows:

- a) Reconciliation Clearing Sheets from markets where securities underlying options are traded.
- b) Daily Transaction Journal from all markets where securities underlying options are traded.
- c) Monthly Short Interest Reports by firm from all markets where securities underlying options are traded.
- d) Block trade reports from all markets where securities and options are traded.
- e) Notification of the initiation of investigations and reviews, as appropriate.
- f) Status reports on investigations and reviews, as appropriate.
- g) Notification of trading halts.

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- h) Notification of corporate contacts resulting from unusual trading activity.
- i) Exercise/Assignment Listing Reports from OCC.
- j) Open Interest Distribution Reports from OCC.
- k) Market Data Retrieval Reports and Matched Trade Listing Reports.

The equity exchanges indicated that they would be responsive to inquiries by the options exchanges with respect to matters which could affect trading in underlying securities and options trading thereon and would make every effort to inform other appropriate market centers of trading halts.

With respect to the interchange of information pertaining to multiply listed options, we believe that useful data is currently being disseminated to the options exchanges via the daily Options Clearing Corporation compliance tape and that modifications due to be implemented in the beginning of 1979 will enhance monitoring capabilities by providing member transactions in multiply traded classes executed on other exchanges. These modifications, as currently envisioned will consist of each participant SRO receiving the following:

- a) All positions, exercises/assignments and adjustments of their members regardless of where the options class is listed;
- b) All cleared options transactions of their market makers/specialists/registered traders; and
- c) All exercises, assignments, positions and adjustments of non-members trading in classes which are solely listed on their exchange.

There is general agreement among the participant SRO's that they are willing to share information for surveillance purposes subject to certain specific limitations, i.e. non-member specialist and marketmaker positions which would be provided on a case-by-case basis rather than as a matter of routine. It is important to note that the participant SRO's agree that all information would be available to other SRO's for specific investigations.

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It was suggested that rather than receive information from each option exchange the Options Clearing Corporation upon appropriate authorization could furnish a modified daily compliance tape to non-OCC participant SRO's which would contain the information requested except for data pertaining to non-member specialists, traders, and marketmakers.

The group recognizes that there could be problems inherent in providing an SRO information pertaining to a non-member of that participant. It remains to be resolved whether such information is to be furnished on a routine basis or only upon request.

With respect to the legal question of providing a participant with information pertaining to a non-member, the legal sub-group raised questions of legal liability. It believes, however, the potential liability of SRO's would be decreased if the action taken (a) is pursuant to legitimate regulatory objectives under the Securities Exchange Act of 1934 and does not involve excessive or gratuitous compromise of privacy or due process rights; (b) has been duly authorized by the SRO's and approved by the SEC; and (c) each SRO has implemented appropriate rule changes to the extent necessary and/or has required proper disclosure.

II. Compliance Plan for Member Firm Examinations and Information Sharing

We established a sub-group to review current industry compliance practices toward the goal of developing a more standardized compliance program. This program would utilize in part the concept of a central reporting of relevant information concerning member firms. The aims of such a program would be, among others, to promote a sharing of relevant information about broker/dealer compliance activities and to assist in the execution of complete, comprehensive and thorough examinations of such firms. In addition, the group agrees with the Options Study that it should be possible to establish some industry-wide objectives for the conduct of an examination so as to insure the protection of investors, avoid regulatory duplication, and eliminate regulatory voids.

It is agreed that a broad "Compliance Plan" would include:

- I. Continual Monitoring Programs
- II. Special Attention Programs
- III. Examination Programs
- IV. Disciplinary Programs
- V. Educational Programs

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While we acknowledge that most, if not all, of the basic components of the programs noted above are in place and presently being utilized by one or more of the SRO's, it is also agreed that certain of these programs may have to be further refined so as to increase their comprehensiveness and to facilitate their use, as deemed appropriate, by each SRO.

We therefore agreed that the sub-group would reach an understanding as to the components of each program within the compliance plan and the objectives to be achieved by each such component. In addition, the sub-group would compile a list of the particular data bases which could be utilized to accomplish the objectives of each program component. The sub-group is making progress in the above area and will submit its future recommendations on these matters to us for review and action.

In addition to the above, we have agreed that the compliance plan sub-group should include within the scope of its discussions matters such as:

- . the targeting of, and visits to, branch offices for examinations;
- . the enhancement of examination "audit trails;"
- . the uses of "intelligence" information received from other SRO's; and,
- . a comprehensive pre-examination procedure.

III. Centralization of Compliance Data for Registration and Investigation Purposes

We established a sub-group to review the feasibility and usefulness of creating a central repository for compliance information. As a result of the sub-group's recommendation we have determined that a repository could be utilized to provide each self-regulatory organization with more information than is presently utilized for purposes of registration of personnel, customer complaints, investigations and examinations. We also believe that measures should be taken in this area to decrease or eliminate duplication of efforts among self-regulatory organizations and increase the overall efficiency of such processes within the industry. The group further agrees that the adoption of these measures should not, to the extent feasible, result in increased costs to the industry.

The group discussed the concerns of the Options Study regarding the concept of a registered representative who transferred from firm to firm and through various regulatory jurisdictions. It was agreed that a central repository of registered personnel and customer complaints may assist in following the movements of such an individual and provide SRO's with more comprehensive data by which to judge his actions.

The NYSE offered to become the central repository for general compliance information for those firms for which it is the designated examining authority. The NASD offered to include data elements relating to customer complaint information on its automated system for processing registered representative applications. Such system presently contains certain data elements of interest to the sub-group including termination for cause information and final disciplinary actions taken against registered personnel. Each SRO agreed to furnish the NASD with output requirements they would need from such central repository system with the understanding that the NASD will outline for consideration a system designed to meet their needs.

To date there has been no general agreement as to how information could be used except to provide "intelligence" for SRO's preparing for examinations and investigations. There was concern as to potential legal obstacles which could prevent information sharing, however, we have concluded that potential legal liabilities would be reduced if the procedure outlined on page 7 is pursued.

The group has agreed that, aside from the feasibility of such a plan, a central file on registered personnel which would include at least all information regarding registration and termination, customer complaints, and formal actions taken by SRO's and other regulatory bodies would be a worthwhile accomplishment. It is generally agreed that such information would assist each participant in determining whether registration was appropriate, whether closer than normal surveillance was warranted and would provide information useful in the preparation and conduct of investigations and examinations.

Additional questions were raised concerning access to such information and whether or not such a repository would include matters which have not yet reached a conclusive state at a regulatory body. Representatives on the sub-group have agreed to review the position of their organization with regard to the sharing of this information keeping in mind the goal

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of accomplishing the total sharing of information whenever possible. Additionally, the sub-group has determined to address and resolve questions regarding the methods of implementing such a proposal, access, refinements in the use of information and the responsibilities of users.

IV. Allocation of Responsibility

We established an allocation of responsibility sub-group to explore the means of identifying and eliminating duplicative regulatory efforts as well as the measures necessary to improve regulatory programs. The sub group was also requested to provide the means of resolving such overlaps and shortfalls through the allocation of responsibility for investigation and enforcement and to assure, as much as possible, the uniform interpretation and application of comparable self-regulatory and Commission rules. The group focused on problems involving jurisdictional issues where membership in more than one self-regulatory organization existed and on inter-market trading activities which transcended individual SRO jurisdictional boundaries, such as insider trading activities, fraudulent and manipulative trading practices, tape racing, front-running, expiration studies and other specific inter-market transactions.

For purposes of its discussions, the participants determined that non-member broker-dealers and non-member broker-dealer customers would be treated as the same type of entity for surveillance purposes. It was also determined that where a non-member (whether a broker-dealer or customer) effects a transaction using the facilities of a member broker-dealer, the matter should be referred to the SRO that has jurisdiction over that non-member or to the SEC if a non broker-dealer customer is involved.

Of course, questions of jurisdiction over a broker-dealer which is a member of more than one self-regulatory organization and/or when a security is multiply traded encompass much broader and complex issues and consequently consumed a significant portion of the group's efforts. Based upon its discussions, the group agreed to consider the following principles of allocation:

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- (1) The surveillance and regulation of specialists, market-makers and registered floor traders will be retained by the self-regulatory organizations of which they are a member and on which they fulfill such functions.
- (2) The gathering of customer and firm information needed in pursuing insider trading and manipulation cases shall be allocated to the primary market in that family of markets whenever there is a dually traded security.
- (3) Whenever an SRO conducting an investigation lacks jurisdiction over a broker-dealer non-member, the information necessary to conduct the investigation shall be obtained from any other self-regulatory organization of which such non-member is a member.
- (4) Expiration Studies - It was agreed that the SRO's would inform each other when they are preparing to conduct expiration studies of options vs. stocks in order to prevent a duplication of effort. If two or more self-regulatory organizations have decided to perform a similar study, they would determine among themselves which would conduct the study; however, where market-makers, specialists and registered floor traders are involved, the self-regulatory organizations of which they are a member shall retain responsibility for investigating such matters.
- (5) Disciplinary Procedures - Self-regulatory organizations shall share information while retaining jurisdiction of their own members; however, where joint members are involved the market where the violative activity occurred would be responsible for disciplining the member unless otherwise agreed upon.
- (6) Employees of SRO's will be made available for testimony as needed by other SRO's in any case where their testimony is required or where such employees performed a portion of an investigation or examination. (The self-regulatory organizations will continue to review the possibility of requiring their members to testify at disciplinary hearings of other self-regulatory organizations which lack jurisdictional authority over such members.)

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In agreeing to these principles of allocation, we note that certain initiatives in these areas have previously been undertaken in the form of 17d-2 agreements which have been entered into by the various participants and filed with the SEC. We urge the Commission to promptly review and act upon those agreements which it has not yet considered. In doing so, we recognize that they are not all inclusive in respect to the matters which are the subject of our discussions and that amendment of the 17d-2 agreements may be appropriate as these matters are implemented.

To accomplish our goals, it is anticipated that there will be further discussion by the participants to allocate additional responsibilities with respect to matters arising from inter-market regulatory problems and to further eliminate regulatory duplication.

* * *

The above presentation is a summary of principles agreed upon by staff representatives of the participant SRO's and those questions remaining to be resolved prior to achieving our objective of establishing an efficient and effective integrated inter-market regulatory system. We are continuing to meet in an effort to achieve such a system. It must be borne in mind, however, that certain aspects of these programs would require formal action by the governing bodies of the respective SRO's. Continued cooperation on behalf of the SEC will, of course, be necessary in order to achieve and implement these goals.

We welcome the Commission's participation at future meetings.

Very truly yours,

American Stock Exchange

Boston Exchange Exchange

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Chicago Board Options Exchange

Midwest Stock Exchange

National Association of Securities Dealers

New York Stock Exchange

Options Clearing Corporation

Pacific Coast Stock Exchange

Philadelphia Stock Exchange
