

MEMO# 11713

March 9, 2000

SEC RELEASE PROPOSING OPTIONS MARKETS LINKAGE PLANS

1 Securities Exchange Act Release No. 42456 (February 24, 2000), 65 FR 11402 (March 2, 2000). On October 19, 1999, the SEC issued an order directing the exchanges to file a national market system plan for linking the options markets within 90 days. See Securities Exchange Act Release No. 42029 (October 19, 1999), 64 FR 57674 (October 26, 1999). 2 The International Securities Exchange, which the SEC recently approved as a national securities exchange, submitted a plan identical to the Amex/CBOE Plan. [11713] March 9, 2000 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 14-00 SEC RULES COMMITTEE No. 36-00 RE: SEC RELEASE PROPOSING OPTIONS MARKETS LINKAGE PLANS

The Securities and Exchange Commission ("SEC") has published for comment proposed plans filed by the American Stock Exchange ("Amex"), Chicago Board Options Exchange ("CBOE"), Pacific Exchange ("PCX"), and Philadelphia Stock Exchange ("Phlx") for the purpose of creating and operating an inter-market options linkage.¹ The plans reflect consensus on the majority of issues pertaining to a linkage. Consensus was not achieved, however, on the issues of price/time priority and access to the linkage. Three separate linkage plans were therefore submitted by the exchanges. The Amex and the CBOE filed identical plans (the "Amex/CBOE plan") while the PCX and the Phlx filed separate plans.² A copy of the SEC's release is attached. The release requests comment on a broad range of issues relating to the proposed linkage of the options markets. Regarding the issue of price/time priority, the Amex/CBOE Plan would not provide for intermarket price/time priority and would allow an exchange receiving an order to match a better price that was displayed at another market. The plan filed by the Phlx, however, would impose a strict price/time priority requirement. Under the Phlx plan, even if an exchange receiving an order is quoting at the national best bid or offer ("NBBO"), it would not be permitted to trade with that order unless it were the market that first displayed the best price. It would instead have to route the order to the market with priority. Finally, the PCX plan would permit an exchange quoting at the NBBO, but not first in time, to either route the order to the market that was at the NBBO first, or execute the order at a price better than the NBBO.

2 Comments on this proposal are due to the SEC no later than April 3. If you have any comments you would like the Institute to consider including in a comment letter, please provide them to Ari Burstein by phone at (202) 371-5408, by fax at (202) 326-5839, or by e-mail at aburstein@ici.org no later than March 24. Ari Burstein Assistant Counsel Attachment

should not be considered a substitute for, legal advice.