



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

DIVISION OF  
MARKET REGULATION

September 4, 1990

Richard B. Smith, Esq.  
Davis Polk & Wardwell  
1 Chase Manhattan Plaza  
New York, New York 10005

Re: London Traded Options Market

Dear Mr. Smith:

This responds to your letters, dated June 1, August 15, and August 30, 1990, on behalf of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("ISE"), as supplemented by conversations with the staff, in which you request advice that the Division of Market Regulation ("Division") will not recommend enforcement action to the Commission against the ISE under Section 6 of the Securities Exchange Act of 1934 ("Exchange Act"), against the ISE's wholly-owned subsidiary, the London Options Clearing House Limited ("LOCH"), under Section 17A of the Exchange Act, or against the ISE or ISE members that are members of the ISE's London Traded Options Market ("LTOM") under Section 15(a) of the Exchange Act, if the ISE and LTOM members act as described below to familiarize certain registered broker-dealers and large financial institutions in the United States with the LTOM, without the ISE registering with the Commission as a national securities exchange, without the LOCH registering with the Commission as a clearing agency, and without the ISE or LTOM members registering with the Commission as broker-dealers.

We understand the facts to be as follows:

The ISE is an entity organized in the United Kingdom of Great Britain and Northern Ireland ("United Kingdom" or "U.K.") and registered under the U.K. Companies Act, 1985 with limited liability. It is a long-established stock exchange and is regulated in the United Kingdom as a Recognized Investment Exchange under the U.K. Financial Services Act, 1986 ("FSA"). The ISE is subject to the jurisdiction of the Securities and Investments Board established under the FSA. The ISE's offices, facilities, and operations are located in London, England, with branches in various British provincial centers and in Dublin, Ireland. The ISE is subject to U.K. law and is not registered under the Exchange Act in any capacity.

The ISE operates several securities markets, one of which is the LTOM. The ISE created the LTOM in 1978 for the purpose of

Richard B. Smith, Esq.  
September 4, 1990  
Page 2

options trading. Trading now occurs in standardized put and call options, called "UK Equity Options," on approximately 70 equity securities of leading U.K. companies. Trading on the LTOM also occurs in standardized put and call options, called "FT-SE 100 Options," on the Financial Times-Stock Exchange 100 ("FT-SE 100") Index. That index is composed of 100 stocks of leading U.K. companies listed and traded on the ISE. All the underlying securities for LTOM options are alpha stocks listed and traded on the ISE's Stock Exchange Automated Quotations ("SEAQ") market. UK Equity Options traded on the LTOM are American-style, in that they are exercisable at any time before they expire. All FT-SE 100 Options traded on the LTOM also have been American-style, until the introduction in February, 1990 of an additional FT-SE 100 Option contract that is European-style, and thus exercisable only on the day when it expires.

LTOM trading takes place on a face-to-face, open-outcry basis on the trading floor in the ISE Tower building in London. Only ISE members that are LTOM members may execute transactions there. All LTOM transactions are settled in pounds sterling in London. LTOM options are not fungible or interchangeable with options that are traded on any other market. Thus, any options position opened on the LTOM only can be closed on the LTOM or exercised through its clearing house.

Registration and clearing of all options transactions on the LTOM are performed by the LOCH, which is located in London. You describe the LOCH as being comparable in function to a clearing agency for a U.S. options market. The LOCH is the counterparty to every LTOM option and maintains a balance of open positions between all writers and all buyers of LTOM option contracts. Settlement of LTOM options transactions, and daily mark-to-market margin payments for writers of LTOM options, must be made to the LOCH in London by LOCH clearing members or clearing agents, who are ISE members. Exercises of LTOM options also must be effected in London with the LOCH, which randomly assigns exercises to options writers. Once UK Equity Options are assigned, the comparison, clearance, and settlement of transactions in the underlying securities takes place within the ISE's standard equity settlement system. The FT-SE 100 Options are cash-settled only.

The ISE wishes to familiarize certain registered broker-dealers and large financial institutions in the United States with the LTOM. The ISE, therefore, proposes to take the limited steps described below with respect only to "Qualified Broker-Dealers" and "Qualified Institutions." To be "Qualified," each broker-dealer or financial institution must meet the following standards:

(1) It must be a "qualified institutional buyer" as defined in Rule 144A(a)(1) under the Securities Act of 1933 ("Securities Act"), or an international organization excluded from the definition of "U.S. person" in Rule 902(o)(7) of Regulation S under the Securities Act; and,

(2) It must have had prior actual experience with traded options in the U.S. options markets, and therefore have received the options disclosure document for U.S. standardized options required by Rule 9b-1 under the Exchange Act.

LTOM members will be required to take reasonable steps to assure themselves, before effecting any LTOM options transaction for or with a customer located in the United States, that the customer is a Qualified Broker-Dealer or a Qualified Institution, that the customer is acting for its own account or the account of another Qualified Broker-Dealer or Qualified Institution or the managed account of a non-U.S. person (within the meaning of Rule 902(o)(2) of Regulation S under the Securities Act), and that the customer has received the LTOM disclosure document referred to below.

Specifically, you represent that the ISE will institute rules requiring LTOM members to furnish each Qualified Broker-Dealer or Qualified Institution with an LTOM disclosure document before accepting an order from that Qualified Broker-Dealer or Qualified Institution to purchase or sell an LTOM option contract. You state that these ISE rules also will require each LTOM member to obtain from each Qualified Broker-Dealer or Qualified Institution the following written representations, signed by an appropriate officer of the Qualified Broker-Dealer or Qualified Institution:

(1) That it is a Qualified Broker-Dealer or Qualified Institution, and that as such (a) it owns and invests on a discretionary basis a specified amount of eligible securities sufficient for it to be deemed a qualified institutional buyer under Rule 144A under the Securities Act and, if it is a bank, savings and loan association, or other thrift institution, that it has a net worth meeting the requirements of Rule 144A under the Securities Act, and (b) it has had prior actual experience in the U.S. traded options markets, and as a result thereof has received the options disclosure document entitled "Understanding the Risks and Uses of Listed Options" ("Options Disclosure Document" or "ODD") that is prepared by the Options Clearing Corporation and U.S. options exchanges;

(2) That it has received the LTOM disclosure document;

(3) That its transactions in LTOM options are for its own account or the account of another Qualified Broker-Dealer, another Qualified Institution, or the managed account of a non-U.S. person within the meaning of Rule 902(o)(2) of Regulation S under the Securities Act;

(4) That it will not transfer any interest or participation in an LTOM option contract that it has purchased or written, to any other U.S. person, or any person in the United States, that is not a Qualified Broker-Dealer or Qualified Institution;

(5) That (a) it will cause any disposition of an LTOM option contract that it has purchased or written to be effected only on the LTOM and to be settled at the LOCH in London, (b) it understands that any required payments for premiums, settlement, exercise, or closing of LTOM option contracts must be made in London and in pounds sterling, and (c) it understands that, if a writer of LTOM option contracts, margin must be provided to LOCH, and maintained, measured in pounds sterling;

(6) That, if it is a Qualified Broker-Dealer or Qualified Institution acting on behalf of another Qualified Broker-Dealer or Qualified Institution that is not a managed account, it has obtained from the other Qualified Broker-Dealer or Qualified Institution written representations to the same effect as these representations, and that it will provide those written representations to the LTOM member on demand; and

(7) That it will notify the LTOM member of any change in the foregoing representations prior to placing any future order, and that the foregoing representations will be deemed to be made with respect to each order that it gives to the LTOM member.

The ISE also will advise LTOM members that, under U.S. law, Qualified Institutions only may be dealt with in accordance with Rule 15a-6 under the Exchange Act, and as provided in paragraph (a)(3) of the Rule, principally through broker-dealers registered with the Commission.

An LTOM disclosure document, in the form submitted to and reviewed by the Division, will be provided only to Qualified Broker-Dealers and Qualified Institutions. The document provides an overview of the LTOM and its options, with attention to



Richard B. Smith, Esq.  
September 4, 1990  
Page 5

significant differences from standardized options in the U.S. domestic options markets, and sets forth special factors relevant to U.S. entities trading in LTOM options.

A wholly-owned U.S. subsidiary of the ISE located in New York City, The International Stock Exchange (London) Inc. ("New York Office"), will act as a representative office of the ISE in the United States.<sup>1</sup> A representative in the New York Office may be available to respond to inquiries concerning the LTOM from Qualified Broker-Dealers and Qualified Institutions. He or she may make personal calls on and correspond with entities that he or she reasonably believes to be Qualified Broker-Dealers and Qualified Institutions to familiarize them with the existence and operations of the LTOM. Any Qualified Broker-Dealer or Qualified Institution will be provided with the LTOM disclosure document upon the first visit, communication, or inquiry, whether initiated by the representative or the Qualified Broker-Dealer or Institution. The representative office will maintain a reasonable supply of that document, and of the most recently published annual report of the ISE, for distribution upon request to Qualified Broker-Dealers and Qualified Institutions. The representative also may participate in programs and seminars in the United States.

The representative will not provide investment advice or make any recommendations regarding specific LTOM options, nor will he or she solicit, take, or direct orders, recommend particular LTOM members to Qualified Broker-Dealers or Qualified Institutions, or refer Qualified Broker-Dealers or Qualified Institutions to particular LTOM members. If requested by a Qualified Broker-Dealer or a Qualified Institution, the representative office may make available to the requester a list of all LTOM members and any registered U.S. broker-dealer affiliates of LTOM members. The ISE will not engage in any general advertisement or general solicitation concerning LTOM options in the United States.

The ISE and the London International Financial Futures Exchange ("LIFFE") recently have announced that they will merge the LTOM with the LIFFE by the end of 1990, but no final decisions on details of the merger have been made yet. You

---

<sup>1</sup> Formerly known as TOPIC Services Inc., the New York Office previously obtained separate no-action treatment from the Division regarding the dissemination of ISE market makers' quotations through electronic terminals to U.S. subscribers. Letter from Robert L.D. Colby, Chief Counsel, Division of Market Regulation, SEC, to Richard B. Smith, Esq., Davis Polk & Wardwell (Oct. 4, 1989).

Richard B. Smith, Esq.  
September 4, 1990  
Page 6

represent that, whatever the outcome, the resulting options market and any separate clearing house will be required to be regulated in the United Kingdom as recognized or authorized entities pursuant to the FSA. Upon consummation of the merger, the ISE will inform the Commission and appropriate changes will be made in the LTOM disclosure document.

You represent that the LTOM will continue to be an organized securities exchange operating and regulated abroad, and that in making the LTOM known to a particular sophisticated segment of the U.S. financial community, the ISE will not be altering this status. You also represent that the ISE has placed on its proposed activities the limitations described above, in order to secure compliance with applicable U.S. securities laws. You maintain that making information concerning the LTOM available in the United States as described above will serve to increase the availability of information concerning an important and growing marketplace in Europe, which you believe will benefit appropriate U.S. investment professionals.

Finally, you also ask the Division to confirm (1) that provision of the LTOM disclosure document by the New York Office, an LTOM member, or a Qualified Broker-Dealer to a Qualified Broker-Dealer or Qualified Institution will satisfy the obligation of an LTOM member or a Qualified Broker-Dealer under Rule 9b-1(d) to furnish an options disclosure document before accepting an order from a customer to purchase or sell an LTOM option contract, and (2) that neither the provision of the LTOM disclosure document by the New York Office to a Qualified Broker-Dealer or Qualified Institution, nor the provision of the LTOM disclosure document by an LTOM member to a Qualified Broker-Dealer or, in response to an unsolicited inquiry concerning options, to a Qualified Institution, will constitute solicitation or a research report for purposes of Rule 15a-6.

**Response:**

Based on the facts and representations set forth above, the Division will not recommend enforcement action to the Commission against the ISE or LTOM members under Section 15(a) of the Exchange Act if the ISE acts as you describe to familiarize Qualified Broker-Dealers and Qualified Institutions in the United States with UK Equity Options and FT-SE 100 Options traded on the LTOM, without the ISE or LTOM members registering with the Commission as broker-dealers under Section 15(b) of the Exchange Act. Also, the Division will not recommend enforcement action to the Commission against the ISE or LTOM members under Section 15(a) of the Exchange Act if, solely in connection with the satisfaction of an LTOM member's obligation under Exchange Act Rule 9b-1(d) and under the limited circumstances set forth above,

(1) the New York Office or an LTOM member provides the LTOM disclosure document for UK Equity Options and FT-SE 100 Options to a Qualified Broker-Dealer, and the LTOM member effects transactions in UK Equity Options or FT-SE 100 Options traded on the LTOM with or for that Qualified Broker-Dealer pursuant to Rule 15a-6(a)(4), or (2) the New York Office provides the LTOM disclosure document for UK Equity Options and FT-SE 100 Options to a Qualified Institution, or an LTOM member provides the LTOM disclosure document for UK Equity Options and FT-SE 100 Options to a Qualified Institution in response to an otherwise unsolicited inquiry concerning UK Equity Options or FT-SE 100 Options, and the LTOM member effects transactions in UK Equity Options or FT-SE 100 Options traded on the LTOM with or for that Qualified Institution pursuant to Rule 15a-6(a)(1).

Based on the foregoing, the Division also will not recommend that the Commission take enforcement action against the LOCH under Section 17A of the Exchange Act if the LOCH operates solely in the manner described above for UK Equity Options and FT-SE 100 Options traded on the LTOM, without registering with the Commission as a clearing agency. In addition, the Division will not recommend that the Commission take enforcement action against the ISE or the LTOM under Section 5 of the Exchange Act if the ISE and the LTOM operate solely in the manner described above with respect to UK Equity Options and FT-SE 100 Options traded on the LTOM, without registering with the Commission as a national securities exchange under Section 6 of the Exchange Act.

Finally, the Division has reviewed the proposed LTOM disclosure document for UK Equity Options and FT-SE 100 Options, as last amended on August 15, 1990. Based on our review of that document, the Division wishes to advise you that it will not recommend that the Commission take enforcement action against a Qualified Broker-Dealer or an LTOM member under Rule 9b-1(d) under the Exchange Act, if the Qualified Broker-Dealer, LTOM member, or New York Office furnishes the LTOM disclosure document for UK Equity Options and FT-SE 100 Options to a Qualified Broker-Dealer or Qualified Institution before the Qualified Broker-Dealer or Qualified Institution effects a transaction in UK Equity Options or FT-SE 100 Options traded on the LTOM, subject to the following conditions:

(1) The Qualified Broker-Dealer or Qualified Institution previously has received the ODD;

(2) The ISE requires that LTOM members, before effecting a transaction with or for a Qualified Broker-Dealer or Qualified Institution in UK Equity Options or FT-SE 100 Options traded on the LTOM, determine as described above that the Qualified Broker-Dealer or

Richard B. Smith, Esq.  
September 4, 1990  
Page 8

Qualified Institution has received the ODD and the LTOM disclosure document for UK Equity Options and FT-SE 100 Options, and maintain a record of that determination; and

(3) The ISE furnishes the Division, at least 30 days prior to the date definitive copies are furnished to Qualified Broker-Dealers or Qualified Institutions, with a copy of any amendment made to the LTOM disclosure document for UK Equity Options and FT-SE 100 Options because the information contained in that document becomes or will become materially inaccurate or incomplete, or because there is or will be an omission of material information necessary to make that document not misleading.

These positions of the Division concern enforcement action only and do not represent conclusions on the applicability of statutory or regulatory provisions of the federal securities laws. The Division has taken these positions based, in part, on the fact that the Commission has entered into a Memorandum of Understanding with the U.K. Department of Trade and Industry regarding the sharing of investigative information,<sup>2</sup> and that foreign broker-dealers, including LTOM members, electing to deal with U.S. institutional investors under Rule 15a-6(a)(3) are required to provide directly to the Commission, upon request, information, documents, testimony, and assistance in taking the evidence of persons that relate to transactions under Rule 15a-6(a)(3). These positions also are based on the representations that you have made; any different facts or conditions might require a different response, and these positions are subject to

---

<sup>2</sup> Memorandum of Understanding on Exchange of Information Between the United States Securities and Exchange Commission and the United Kingdom Department of Trade and Industry in Matters Relating to Securities and Between the United States Commodity Futures Trading Commission and the United Kingdom Department of Trade and Industry in Matters Relating to Futures (Sept. 23, 1986) ("U.K. MOU"). The U.K. Securities and Investments Board became a party to the U.K. MOU on November 22, 1988.



Richard B. Smith, Esq.  
September 4, 1990  
Page 9

modification or revocation if the facts and representations set forth above are altered.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Richard G. Ketchum".

Richard G. Ketchum  
Director

DAVIS POLK & WARDWELL

1 CHASE MANHATTAN PLAZA  
NEW YORK, N. Y. 10005

212-530-4000  
TELEX: ITT-421341  
FAX: 212-530-4800

499 PARK AVENUE  
NEW YORK, N. Y. 10022

1300 I STREET, N. W.  
WASHINGTON, D. C. 20005

4, PLACE DE LA CONCORDE  
75008 PARIS

1 FREDERICK'S PLACE  
LONDON EC2R 8AB

TOKIO KAIJO BUILDING SHINKAN  
2-1, MARUNOUCHI 1-CHOME  
CHIYODA-KU, TOKYO 100

RICHARD B. SMITH  
212-530-4066

June 1, 1990

Division of Market Regulation  
Securities and Exchange Commission  
450 5th Street, N.W.  
Judiciary Plaza  
Washington, D.C. 20549

Attention: Robert L.D. Colby, Chief Counsel

Re: ISE's London Traded Option Market

Dear Sirs:

On behalf of The International Stock Exchange of United Kingdom and the Republic of Ireland Limited ("ISE"), we request your advice that, based on the circumstances stated in this letter, the Division will not recommend to the Commission any enforcement action against the ISE under Section 6 or Section 15 of the Securities Exchange Act of 1934 as amended (the "Act"), by reason of its not registering under the Act as a securities exchange or a broker-dealer, or against the ISE's wholly-owned subsidiary London Options Clearing House Limited ("LOCH") under Section 17A of the Act, by reason of its not registering under the Act as a clearing agency. This letter describes the manner in which the ISE intends to familiarize certain registered broker-dealers and large financial institutions in the United States with its London Traded Options Market ("LTOM").

The ISE is an entity organized in the United Kingdom of Great Britain and Northern Ireland (the "U.K.") and registered under the U.K. Companies Act 1985 with limited liability. It is a long-established stock exchange and is regulated in the U.K. as a Recognized Investment Exchange under the U.K. Financial Services Act 1986. The ISE is

June 1, 1990

subject to the jurisdiction of the Securities and Investments Board established under that statute. The ISE's offices, facilities and operations are located in London, England with branches in various British provincial centers and Dublin. The ISE, subject to U.K. law, is not registered under the Act in any capacity.

The ISE operates several markets, one of which is the LTOM. The ISE created the LTOM in 1978 for the purpose of options trading. Trading now occurs in standardized put and call options, called UK Equity Options, on approximately 70 equity securities of leading U.K. companies. All the underlying securities for LTOM options are alpha stocks listed and traded on the ISE's SEAQ market. Trading on the LTOM also occurs in standardized put and call options on the FT-SE 100 Index. That index is composed of one hundred alpha stocks of leading U.K. companies listed and traded on the ISE. All options traded on the LTOM are American-style in that they are exercisable at any time prior to expiration, except certain of the FT-SE 100 Options which are European-style. (Foreign currency options have also been traded on the LTOM but are not available to U.S. investors; trading in currency options on LTOM will cease on June 30, 1990.)

LTOM trading takes place on a face-to-face open-outcry basis on the trading floor in the ISE Tower building in London. Only ISE members of the LTOM may execute transactions there. All LTOM transactions are settled in pounds sterling in London. LTOM options are not fungible or interchangeable with options that are traded on any other market. Thus, any LTOM option position opened can be closed only on the LTOM or exercised through its clearing house.

Registration and clearing of all options transactions on the LTOM is performed by the London Option Clearing House Ltd ("LOCH"), a wholly-owned subsidiary of the ISE located in London. Comparable in function to a clearing agency for a U.S. options market, LOCH is the counterparty to every LTOM option and maintains a balance of open positions between all writers and all buyers of LTOM option contracts. Settlement of option transactions, and daily mark-to-market margin payments for writers, must be made to LOCH in London by LOCH clearing members or clearing agents, who are ISE members. Exercises must also be effected in London with LOCH, which randomly assigns exercises to writers. Once UK Equity Options are assigned, the comparison, clearance and settlement of the transaction in the underlying security takes place within the ISE's standard equity settlement system. The FT-SE 100 Options are cash settled only.

The ISE wishes to familiarize certain registered broker-dealers and large financial institutions in the U.S. with the LTOM. To do this it proposes to take the limited steps described below with respect only to "Qualified Broker-Dealers" and "Qualified Institutions". To be Qualified, each such entity must meet the following standards:

- (a) it must be a "qualified institutional buyer" as defined in Rule 144A, or an international organization excluded from the definition of "U.S. person" in Rule 902(o)(7), and
- (b) it must have had prior actual experience with traded options in the United States options market (and, therefore, would have received the disclosure document for U.S. standardized options called for by Rule 9b-1).

Members of the LTOM will be required to take reasonable steps to assure themselves, before effecting any LTOM options transaction for or with a customer located in the United States, that the customer is a Qualified Broker-Dealer or a Qualified Institution, that the customer is acting for its own account or the account of another Qualified Broker-Dealer or Qualified Institution or the managed account of a non-U.S. person (within the meaning of Rule 902(o)(2)), and that the customer has received the LTOM disclosure document referred to below. The ISE will advise members of the LTOM that under U.S. law Qualified Institutions may be dealt with only in accordance with Rule 15a-6, principally through U.S. registered broker-dealers as provided in the Rule.

An LTOM disclosure document, in the form submitted to and reviewed by the Division, will be provided only to Qualified Broker-Dealers and Qualified Institutions. The document provides an overview of the LTOM and its options, with attention to significant differences from standardized options in the U.S. domestic options market, and sets forth special factors relevant to U.S. entities transacting in LTOM options.

A wholly-owned U.S. subsidiary located in New York City, The International Stock Exchange (London) Inc. (formerly named TOPIC Services Inc.), will act as a representative office of the ISE in the U.S. (This subsidiary previously obtained separate no-action treatment with respect



June 1, 1990

to the dissemination of ISE market-maker quotations through electronic terminals to U.S. subscribers.) A representative in the subsidiary's office may be available to respond to inquiries concerning the LTOM from Qualified Broker-Dealers and Qualified Institutions. He or she may make personal calls on and correspond with entities that he or she reasonably believes to be Qualified Broker-Dealers and Qualified Institutions to familiarize them with the existence and operations of the LTOM. Any Qualified Broker-Dealer or Qualified Institution would be provided, upon first visit, communication or inquiry, with the LTOM disclosure document. The representative office will maintain a reasonable supply of that document, and of the most recently published annual report of the ISE, to respond to requests therefor from Qualified Broker-Dealers and Qualified Institutions. The representative may also participate in programs and seminars in the U.S. The representative will not give investment advice or make any recommendations with respect to specific LTOM options, nor will he or she solicit, take, or direct orders, nor recommend or refer particular LTOM members. If requested by a Qualified Broker-Dealer or Qualified Institution, the representative office may make available to the requester a list of all LTOM members and any registered U.S. broker-dealer affiliates of LTOM members.

The ISE will not engage in any general advertisement concerning LTOM options in the United States.

The ISE recently announced its intention to place LTOM in a separate corporation. It was anticipated that the ISE would retain a controlling role in the newly formed entity, which would remain subject to regulation in the UK under the Financial Services Act, either as an adjunct of the ISE or as a separate Recognized Investment Exchange. At the instigation of the Bank of England, the ISE and LIFFE (London International Financial Futures Exchange) are currently exploring proposals to merge the two markets (LTOM and LIFFE) in an as yet undefined way. It is nevertheless clear that whatever form a reorganization or merger eventually takes, the same or equivalent U.K. regulatory oversight will apply to either the separate or any merged exchange in the UK. In the event of such a reorganization or merger, the ISE will inform the Commission and appropriate changes will be made in the LTOM disclosure document.

It is clear from the foregoing that the ISE's LTOM will continue to be an organized securities exchange operating and regulated abroad, and that in making itself known to a particular sophisticated segment of the U.S. financial

June 1, 1990

community it will not be altering this fact. It is also apparent that careful limitations have been placed on steps to be taken in order to assure to the extent feasible compliance with applicable U.S. securities laws. Making information concerning the LTOM available in the United States as described in this letter will serve to increase, in a responsible manner, information concerning an important and growing marketplace in Europe that will be of benefit to appropriate U.S. professionals.

We, therefore, request on behalf of the ISE that you advise us you will not recommend that the Commission take enforcement action against the ISE or LTOM under Section 6 or 15 of the Act, by reason of its not registering under the Act as a securities exchange or a broker-dealer, or against LOCH under Section 17A of the Act, by reason of its not registering as a clearing agency.

We also request that you advise us (a) that furnishing of the LTOM disclosure document by the ISE U.S. representative office, an LTOM member or a Qualified Broker-Dealer to a Qualified Broker-Dealer or Qualified Institution will satisfy any obligation of a broker or dealer under Rule 9b-1(d) to furnish an options disclosure document before accepting an order from a customer to purchase or sell an LTOM option contract, and (b) that neither the ISE representative office's furnishing to a Qualified Broker-Dealer or Qualified Institution, nor an LTOM member's furnishing to a Qualified Broker-Dealer or, in response to an unsolicited inquiry concerning options, to a Qualified Institution, will constitute soliciting or a research report as those terms are used in Rule 15a-6(a).

If you need any further information concerning this request, please call me collect.

Very truly yours,

*Richard B. Smith*

DAVIS POLK & WARDWELL

1 CHASE MANHATTAN PLAZA  
NEW YORK, N. Y. 10005  
212-530-4000  
TELEX: ITT-421341  
FAX: 212-530-4800

488 PARK AVENUE  
NEW YORK, N. Y. 10022  
1300 I STREET, N. W.  
WASHINGTON, D. C. 20005  
4, PLACE DE LA CONCORDE  
75008 PARIS  
1 FREDERICK'S PLACE  
LONDON EC2R 8AB  
TOKIO KAIJO BUILDING SHINKAN  
2-1, MARUNOUCHI 1-CHOME  
CHIYODA-KU, TOKYO 100

August 15, 1990

RICHARD B. SMITH  
212-530-4066

Mr. Howard Kramer  
Assistant Director, Exchange and  
Options  
Office of Self-Regulatory Oversight  
and Market Structure  
Division of Market Regulation  
Securities and Exchange Commission  
450 5th Street, N.W.  
Washington, DC 20549

Re: LTOM Options

Dear Mr. Kramer:

This is to confirm to you that the ISE will institute rules requiring LTOM members to furnish to Qualified Broker-Dealers and Qualified Institutions an LTOM disclosure document before accepting an order from such entity to purchase or sell an LTOM option contract. The rules will also require the LTOM member to obtain from the Qualified Broker-Dealer or Qualified Institution a written representation, signed by an appropriate officer, to the following effects:

1. It is a Qualified Broker-Dealer or Qualified Institution and as such it (i) owns and invests on a discretionary basis a specified amount of eligible securities sufficient to be a qualified institutional buyer under SEC Rule 144A (and if a bank, S&L, or other thrift institution, has a net worth meeting the requirements of Rule 144A), and (ii) has had prior actual experience in the US traded options market.
2. It has received the LTOM disclosure document.
3. Its transactions in LTOM options are for its own account or for the account of another Qualified Broker-Dealer or Qualified Institution or

August 15, 1990

for the managed account of a non-US person within the meaning of SEC Rule 902(o)(7).

4. It will not transfer any interest or participation in an LTOM option it has purchased or written to any other US person who is not a Qualified Broker-Dealer or Qualified Institution.

5. It will cause any disposition of an LTOM option that it has purchased or written to be effected only on the LTOM and to be settled at LOCH in London. It understands that any required payments for premium, settlement, exercise or closing of LTOM options must be made in London and in pounds sterling. It also understands that, if a writer, margin must be maintained measured in pounds sterling.

6. If it is a Qualified Broker-Dealer or Qualified Institution acting on behalf of another Qualified Broker-Dealer or Qualified Institution that is not a managed account, it has obtained from the other written representations to the same effect as these representations and will provide it to the LTOM member upon demand.

7. It will notify the LTOM member of any change in the foregoing representations prior to placing any future order, and the foregoing representations will be deemed to be made with respect to each order it gives to the LTOM member.

If you require any further information or have any questions concerning the foregoing, do not hesitate to call me.

Very truly yours,



Richard B. Smith

cc: Robert L.D. Colby, Chief Counsel,  
Division of Market Regulation

Abigail Arms, Deputy Chief Counsel,  
Division of Corporation Finance