

NASD NOTICE TO MEMBERS 97-56

Intermarket Surveillance Group Issues New Automated Reporting Requirements

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Executive Summary

New uniform provisions regarding the automated reporting requirement for **Positions Hedging Stock Options** will become effective on December 31, 1997.

New uniform provisions regarding the automated reporting requirement for **Stock Index and Currency Warrants** will become effective on December 31, 1997.

Effective October 15, 1997, all members will be required to file **Large Option Position Reports (LOPRs)** for FLEX options electronically with the Securities Industry Automation Corporation (SIAC¹).

Effective October 15, 1997, all members must provide a list of all groups of options accounts that act in-concert in a standard electronic format. Further, after October 15, all new or updated in-concert lists must be provided in the same electronic format.

All members must successfully test the first three items with SIAC in order to be in compliance by the effective dates. The above new provisions will become effective at the options exchanges, the National Association of Securities Dealers, Inc. (NASD[®]) and those other exchanges which are approved to trade currency and stock index warrants.

This *Notice* describing these new provisions and requirements was prepared by the self-regulatory organizations (SROs²) acting jointly as members of the Intermarket Surveillance Group (ISG):

American Stock Exchange, Inc. (AMEX)

Boston Stock Exchange, Inc. (BSE)

Chicago Board Options Exchange, Inc. (CBOE)

Chicago Stock Exchange, Inc. (CHX)

Cincinnati Stock Exchange, Inc. (CSE)

NASD Regulation, Inc.

New York Stock Exchange, Inc. (NYSE)

Pacific Exchange, Stock & Options, Inc. (PCX)

Philadelphia Stock Exchange, Inc. (PHLX)

I. Automated Reporting Requirement For Positions Hedging Stock Options

Since 1988, member firms have been approved for an automatic limited exemption from equity options position limits when utilizing the four most commonly used hedged positions (long stock and short call or long put, and short stock and long call or short put). When utilizing these exemptions, the exchanges have required that members report all hedged options positions manually on a special "Hedge Exemption" reporting form which indicates account information, equity options positions, and securities used to hedge the position.

Effective December 31, 1997, all Hedge Exemption Reports for Options Clearing Corporation (OCC) issued options will be required to be submitted in machine readable form only.³ For those firms providing the report through their own EDP area or through an outside service bureau, see Attachment 1 for the layout of the new hedged instrument position record reporting as well as the current specifications for reporting large options positions. For those firms using SIAC's PC-based software, upgraded software will be provided to you.

When reporting hedged positions, firms will be required to report the entire customer account options position (all series) and hedge instrument position. Increases or reductions of positions in previously reported series; additions of new series; and series that have been closed out through purchase, sale, exercise, assignment, bona fide adjustment or hedge instrument position changes, must all be reported. Please enter a zero to indicate when a position in a series has been closed. It is not necessary to report changes due to expired series. It is important to remember that all accounts under common control by the same individual or entity must be aggregated for the purpose of calculating the reporting threshold. For firm proprietary accounts, only the firm's hedge instrument position need be reported.

Firms that introduce options transactions to other firms on a fully disclosed basis need not report the position in such accounts provided that the carrying firm files the required information. Non-clearing firms introducing options business to clearing firms on an omnibus basis are required to report individual positions for both customer and proprietary accounts directly to SIAC.

The Large Options Positions Report (LOPR)⁴ should be transmitted to SIAC by no later than 9:00 p.m. eastern time on trade date plus one.

Questions concerning hedge exemption reporting requirements can be directed to James Alaimo, American Stock Exchange, at (212) 306-1540, Patricia Cerny, Chicago Board Options Exchange, at (312) 786-7722, or Joseph Alotto, NASD Regulation, at (301) 590-6845.

II. Stock Index And Currency Warrants Reporting

The Securities and Exchange Commission (SEC) approved revisions to rules⁵ concerning transactions in stock index and currency warrants. One provision requires members to report currency and index warrant positions held by an account acting alone or in-concert with other accounts, when the position totals 100,000 warrants or more covering the same underlying currency or index. This revision applies only to currency or stock index warrants listed after August 28, 1995.

To facilitate the automated reporting of these positions, enhancements have been made to the LOPR. Attachment 2 displays the record layouts for this enhancement.⁶ **Member firms that carry large warrant positions are required to begin reporting on an automated basis by October 15, 1997.**

For purposes of calculating the 100,000-warrant reporting threshold, long positions in call warrants will be aggregated with short positions in put warrants and short positions in call warrants will be aggregated with long positions in put warrants. This aggregation of positions applies only to warrants covering the same underlying currency or index.

Members with positions which currently meet the warrants position reporting threshold should contact the appropriate individual listed below for guidance in reporting these positions:

Oree Richburg, American Stock Exchange, Inc., at (212) 306-1547

Patricia Cerny, Chicago Board Options Exchange, Inc., at (312) 786-7722

Joseph Alotto, NASD Regulation, Inc., at (301) 590-6845

Hope Duffy, New York Stock Exchange, Inc., at (212) 656-6197

David DiCenso, Pacific Exchange, Stock & Options, Inc., at (213) 977-4541

Richard McDonald, Philadelphia Stock Exchange, Inc., at (215) 496-5353

III. FLEX Options

Because of the differences in the FLEX option symbol format, member firms have been permitted to file large FLEX options positions either manually with an interested SRO, or electronically with SIAC. **Effective October 15, 1997, all members will be required to file LOPRs for FLEX options electronically with SIAC.⁷** Manual reporting will no longer be accepted.

Questions concerning FLEX options reporting requirements can be directed to James Alaimo, American Stock Exchange, at (212) 306-1540, or Patricia Cerny, Chicago Board Options Exchange, at (312) 786-7722.

IV. Aggregation Of Accounts Acting In-Concert

Member firms carrying customer accounts that must be aggregated for position limit and LOPR purposes currently file a listing of in-concert accounts in a manual format. As a reminder, this reporting requirement only applies to customer accounts that trade options and whose aggregate position equals 200 or more contracts. This procedure has been changed so that by no later than October 15, 1997, all members must provide a list of all groups of accounts that act in-concert on a 3.5" IBM compatible diskette in the format outlined in Attachment 3. Fur-

ther, all new or updated in-concert lists must be provided in the above-noted manner. Diskettes must be filed with the American Stock Exchange, Market Surveillance Department, 86 Trinity Place, New York, New York 10006. The AMEX will process this information on behalf of all market centers.

Questions concerning account aggregation reporting should be directed to Oree Richburg, American Stock Exchange, at (212) 306-1547.

V. Testing

Members wishing to utilize the new hedge exemption or currency/index warrant reporting methods prior to the deadline can do so by updating their software and conducting a successful test of their computerized data input with SIAC. Firms wishing to obtain SIAC's PC-based software or to upgrade their old PC-based software can contact the SIAC PC

Service Center, at (212) 383-2062. Firms wishing to commence hedge exemption reporting directly to SIAC, utilizing their own software, should contact Laura Clinton of SIAC's Network Support Department, at (212) 383-2890 for testing information.

Note: All firms must successfully test with SIAC before utilizing the new reporting methods. Further, firms which do not utilize hedge exemptions or trade currency or stock index warrants are not required to upgrade their software.

Endnotes

¹ NASD RegulationSM has special reporting requirements for listed and unlisted options. Please refer to *NASD Notice to Members 94-46* for details.

² These new provisions and requirements were prepared by the American Stock Exchange, Chicago Board Options Exchange,

NASD Regulation, New York Stock Exchange, Pacific Stock Exchange and the Philadelphia Stock Exchange.

³ NASD Regulation has special reporting requirements for listed and unlisted options. Please refer to *NASD Notice to Members 94-46* for details.

⁴ This procedure is implemented pursuant to the following rules: AMEX - 906; CBOE - 4.13; NASD - Conduct Rule 2860-1(5); NYSE - 706; PCX - 8.17; PHLX - 1003.

⁵ This procedure is implemented pursuant to the following rules: AMEX - 1110; CBOE - 30.35; NASD Conduct Rules 2852; NYSE - 414; PCX - 8.17; PHLX - 1003.

⁶ NASD Regulation has special reporting requirements for listed and unlisted currency and stock index warrants.

⁷ See note 2 above.

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