

PROSKAUER, ROSE, GOETZ & MENDELSON 1150 CONNECTICUT AVENUE, N.W.  
WASHINGTON, D.C. 20036 TELEPHONE(202) 466-7300

April 19, 1982

Nelson S. Kibler, Assistant Director Division of Market Regulation Securities and  
Exchange Commission 500 North Capitol Street Washington, D.C. 20549

Dear Mr. Kibler:

I am writing on behalf of our client, Trans Canada Options, Inc. ("TCO") concerning the possibility of amending certain provisions of the Commission's net capital and customer protection rules. This matter was briefly discussed by telephone with Michael Macchiaroli on April 5, 1982.

TCO is the issuer of standardized put and call options ("TCO Options") traded on the Toronto Stock Exchange and the Montreal Exchange and is jointly owned by those exchanges. TCO Options are registered under the Securities Act of 1933 for offer and sale in the United States.

TCO believes that United States brokers and dealers whose customers engage in transactions in TCO Options should be able to apply the same "haircuts" under the Commission's net capital rule to TCO Options as they are able to apply to options listed on United States securities exchanges. In addition, TCO believes that such brokers and dealers should be able to classify as debits margin on deposit with TCO for option contracts written or purchased in customer accounts for purposes of computing reserve requirements under the Commission's customer protection rule.

TCO's basis for requesting the same treatment for TCO Options as for U.S. listed options for the above purposes is that it believes the risks attendant to trading in TCO Options are substantially similar to those attendant to trading in U.S. listed options. As described under "The Back-up System" at pages 32-35 of the enclosed U.S. prospectus of TCO, the backing for TCO Options is substantially similar to that for U.S. listed options and considerably greater than that for U.S. O-T-C options. Further, as discussed under "THE SECONDARY MARKET IN OPTIONS" commencing at page 27 of the enclosed prospectus, there is a liquid market for TCO options. The

enclosed schedule contains additional information concerning the nature of the market for TCO options.

TCO has the following drafting suggestions for accomplishing the amendments it is requesting, although there may be other appropriate means of accomplishing the same result:

#### SUGGESTED AMENDMENTS

"Appendix A to Rule 15c3-1 Options Certain Definitions (a)(1) The term 'listed option' shall mean any option traded on a registered national securities exchange or facility of a registered national securities association or issued by a subsidiary of one or more Canadian securities exchanges recognized by a Canadian provincial securities commission and traded on such an exchange. (2) The term 'unlisted option' shall mean any option not traded on a registered national securities exchange or facility of a registered national securities association or issued by a subsidiary of one or more Canadian securities exchanges recognized by a Canadian provincial securities commission and traded on such an exchange.

"Exhibit A Formula for determination of Reserve Requirements for brokers and dealers under Rule 15c3-3. 13. Margin required and on deposit with the Options Clearing Corporation or Trans-Canada Options, Inc. for all options contracts written or purchased in customer accounts (See Note F)"

TCO is prepared to provide additional information to assist in your consideration of their request and representatives of TCO wish to meet with appropriate members of the staff to discuss the request.

Please contact the undersigned concerning the availability of the staff to meet with representatives of TCO concerning this matter or if you have any questions or require additional information.

Sincerely yours,

Richard H. Rowe, Esq.

cc: Michael E. Macchiaroli, Esq.

Dan W. Schnelder, Esq.

PROSKAUER, ROSE, GOETZ & MENDELSON 1150 CONNECTICUT AVENUE, N.W.  
WASHINGTON, D.C. 20036 TELEPHONE(202) 466-7300

June 17, 1982

Nelson Kibler, Assistant Director Division of Market Regulation Securities and  
Exchange Commission 500 North Capitol Street Washington, D.C. 20540

Re: Trans Canada Options, Inc.

Dear Mr. Kibler:

I am writing to supplement my letter to you of April 19, 1982. As you will recall, that letter related to the possibility of amending the Commission's net capital and customer protection rules in order to provide that standardized put and call options issued by Trans Canada Options, Inc. ("TCO") would be treated the same as U.S. listed options for certain purposes.

The purpose of this letter is to clarify the intended scope of TCO's suggested amendment to Appendix A to Rule 15c3-1. That suggested amendment would include options issued by TCO within the definition of "listed options" for purposes of Rule 15c3-1. TCO believes that such definition, in addition to applying for purposes of Appendix A, should apply for purposes of various other provisions of that Rule applicable to trading in options, including Rules 15c3-1(a)(5), (6) and (7) and (c)(2)(x). If the scope of the definition is not sufficiently broad to cover the foregoing provisions, certain market makers and other brokers or dealers engaged in transactions in U.S. listed options might be subject to more onerous net capital requirements, if they also deal in TCO options. For example, if TCO options are not considered listed options, a broker or dealer who endorses or writes an option issued by TCO might be required to maintain net capital of not less than \$50,000 pursuant to Rule 15c3-1(a)(5).

Simply put, for the reasons stated in my letter of April 19, a market maker or other broker or dealer who engages in transactions in options issued by TCO should not be subject to any different provisions under Rule 15c3-1 than it would be in connection with transactions in U.S. listed options. The risks attendant to transactions in options issued by TCO, including market making transactions, are substantially similar to those attendant to transactions in U.S. "listed options."

Transactions in options issued by TCO do not at all resemble transactions in unlisted options.

Moreover, if U.S. market makers and other brokers and dealers are penalized under the Commission's net capital rules for engaging in transactions in options issued by TCO, they may forego otherwise economically advantageous transactions. For example, many of the securities of Canadian issuers underlying TCO options are also traded on U.S. securities exchanges. Persons trading in those securities should be in a position to benefit from the availability of the standardized options on those securities issued by TCO to the same extent they are in a position to benefit from the availability of U.S. listed options on securities of U.S. issuers. In addition, standardized U.S. options are now traded on securities of certain Canadian issuers whose securities are listed on U.S. stock exchanges. Options on the same securities are issued by TCO and there may be some possibility of arbitrage transactions in such options. However, unless amended as suggested, the Commission's net capital rules may make it economically disadvantageous for U.S. market professionals to engage in transactions in options issued by TCO.

I understand from a telephone conversation with Julio Mojica on May 26, 1982, that there are two possible alternative approaches being considered by the staff if it is determined that TCO's request should be granted. The alternatives are either to include TCO's suggestions in a package of other rule proposals presently under consideration or to issue a "no action" letter. TCO would prefer the certainty of specific amendments to the relevant rules, but recognizes that the Commission must determine the appropriate course of action in light of its responsibilities.

As indicated in my previous letter, TCO is prepared to provide additional information to assist in the Commission's consideration of this request and representatives of TCO can be made available to discuss the request with the staff.

Please contact the undersigned if you have any questions or require additional information.

Sincerely yours,

Richard H. Rowe

cc: Dan W. Schnelder Michael E. Macchiaroli Julio Mojica Huntly Walker Farr McKay

PROSKAUER, ROSE, GOETZ & MENDELSON 1150 CONNECTICUT AVENUE, N.W.  
WASHINGTON, D.C. 20036 TELEPHONE(202) 466-7300

October 08, 1982

Nelson S. Kibler, Assistant Director Division of Market Regulation Securities and  
Exchange Commission 450 5th Street, N.W. Washington, D.C. 20549

Re: Trans Canada Options, Inc. ("TCO")

Dear Mr. Kibler:

I am writing to pursue further the matters which were the subject of my previous letters to you dated April 19 and June 17, 1982 and a conference between representatives of TCO and the staff on August 9, 1982.

As you will recall, TCO is seeking certain amendments to the Commission's net capital rules, as those rules apply to standardized put and call options registered for offer and sale in the United States.

TCO has determined to renew the requests conveyed in my letter of April 19, 1982. I have enclosed a copy of that letter for your convenience. However, based on conversations with the staff, TCO is persuaded that it should withdraw its requests relating to amendment of the Commission's net capital rules as they apply to market makers. The latter requests were conveyed in my supplemental letter, dated July 17, 1982.

I would appreciate it if you or one of your colleagues could advise me at your earliest convenience concerning this revised request.

Sincerely yours,

Richard H. Rowe

RHR/dc Enclosure

cc: Huntly W.F. McKay Julio Mojica

Michael Macchiaroli

PROSKAUER, ROSE, GOETZ & MENDELSON 1150 CONNECTICUT AVENUE, N.W.  
WASHINGTON, D.C. 20036 TELEPHONE(202) 466-7300

April 19, 1982

Nelson S. Kibler, Assistant Director Division of Market Regulation Securities and  
Exchange Commission 500 North Capitol Street Washington, D.C. 20549

Dear Mr. Kibler:

I am writing on behalf of our client, Trans Canada Options, Inc. ("TCO") concerning the possibility of amending certain provisions of the Commission's net capital and customer protection rules. This matter was briefly discussed by telephone with Michael Macchiaroli on April 5, 1982.

TCO is the issuer of standardized put and call options ("TCO Options") traded on the Toronto Stock Exchange and the Montreal Exchange and is jointly owned by those exchanges. TCO Options are registered under the Securities Act of 1933 for offer and sale in the United States.

TCO believes that United States brokers and dealers whose customers engage in transactions in TCO Options should be able to apply the same "haircuts" under the Commission's net capital rule to TCO Options as they are able to apply to options listed on United States securities exchanges. In addition, TCO believes that such brokers and dealers should be able to classify as debits margin on deposit with TCO for option contracts written or purchased in customer accounts for purposes of computing reserve requirements under the Commission's customer protection rule.

TCO's basis for requesting the same treatment for TCO Options as for U.S. listed options for the above purposes is that it believes the risks attendant to trading in TCO Options are substantially similar to those attendant to trading in U.S. listed options. As described under "The Back-up System" at pages 32-35 of the enclosed U.S. prospectus of TCO, the backing for TCO Options is substantially similar to that for U.S. listed options and considerably greater than that for U.S. O-T-C options. Further, as discussed under "THE SECONDARY MARKET IN OPTIONS" commencing at page 27 of the enclosed prospectus, there is a liquid market for TCO options. The

enclosed schedule contains additional information concerning the nature of the market for TCO options.

TCO has the following drafting suggestions for accomplishing the amendments it is requesting, although there may be other appropriate means of accomplishing the same result:

SUGGESTED AMENDMENTS (additions underlined)

"Appendix A to Rule 15c3-1 Options Certain Definitions (a)(1) The term 'listed option' shall mean any option traded on a registered national securities exchange or facility of a registered national securities association or issued by a subsidiary of one or more Canadian securities exchanges recognized by a Canadian provincial securities commission and traded on such an exchange. (2) The term 'unlisted option' shall mean any option not traded on a registered national securities exchange or facility of a registered national securities association or issued by a subsidiary of one or more Canadian securities exchanges recognized by a Canadian provincial securities commission and traded on such an exchange.

"Exhibit A Formula for determination of Reserve Requirements for brokers and dealers under Rule 15c3-3. 13. Margin required and on deposit with the Options Clearing Corporation or Trans-Canada Options, Inc. for all options contracts written or purchased in customer accounts (See Note F)"

TCO is prepared to provide additional information to assist in your consideration of their request and representatives of TCO wish to meet with appropriate members of the staff to discuss the request.

Please contact the undersigned concerning the availability of the staff to meet with representatives of TCO concerning this matter or if you have any questions or require additional information.

Sincerely yours, Richard H. Rowe, Esq.

cc: Michael E. Macchiaroli, Esq. Dan W. Schnelder, Esq.

March 29, 1983

Richard H. Rowe, Esq. Proskauer, Rose, Gaetz & Mendelsohn 1150 Connecticut Avenue, N.W. Washington, D.C. 20036

Dear Mr. Rowe:

This is in response to your letters of April 19, 1982; June 7, 1982; and October 3, 1982 requesting on behalf of Trans Canada Options, Inc. ("TCO") certain amendments to the net capital and customer protection rules, Rule 15c3-1 and 15c3-3 adopted under the Securities Exchange Act of 1934, (17 CFR §240.15c3-1 and 15c3-3), as these rules apply to standardized call and put options registered for offer and sale in the United States.

The pertinent facts as I understand them are as follows: TCO is the issuer of standardized call and put options traded on the Toronto Stock Exchange and the Montreal Exchange. TCO is jointly owned by both exchanges. TCO options are registered under the Securities Act of 1933 for offer and sale in the United States.

TCO maintains that broker-dealers in the United States should apply the same "haircuts" under the net capital rule as they apply to options listed on exchanges in the United States and issued by the Options Clearing Corporation ("OCC"). Furthermore, TCO asserts that margin deposited with TCO for option contracts written or purchased in customer accounts should be classified as a debit by broker-dealers for purposes of composing the reserve requirements under the customer protection rule.

TCO's basis for requesting the same treatment for TCO options as for options listed on American exchanges is that it believes the risks attendant to trading in TCO options are substantially similar to those attendant to trading in listed options. In addition, the backing for TCO options is also substantially similar to that for listed options, and are considerably greater than that for over-the-counter options in the United States. Furthermore, you believe that there is a liquid secondary market for TCO options, as there is for OCC options.

We have examined your proposed amendments to the net capital rule which appear properly to reflect the risks inherent in the trading of TCO options. Therefore, the Division will not recommend any action to the Commission if a



broker-dealer in computing net capital under Appendix A treats options issued by TCO as if traded on a registered national securities exchange and hence includable within the definition of the term "listed option" in paragraph (a)(1) of the Appendix. This matter will be reviewed again before the close of the present year. The Division, however, will continue to study the question as to Rule 15c3-3 which you have raised.

Sincerely,

Michael A. Macchiaroli Branch Chief

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