



DIVISION OF  
MARKET REGULATION

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

May 1, 1992

Gary Lynch, Esq.  
Davis, Polk & Wardwell  
1 Chase Manhattan Plaza  
New York, New York 10005

Re: Merger of The London International Financial Futures  
Exchange ("LIFFE") and The London Traded Options Market  
("LTOM")

Dear Mr. Lynch:

This responds to your letters, dated March 18 and 19, 1992, on behalf of The London International Financial Futures Exchange (Administration and Management) ("LIFFE (A&M)"), LIFFE, and The London Clearing House Limited ("LCH"), in which you request advice that the Division of Market Regulation (the "Division") will not recommend enforcement action to the Commission against LIFFE (A&M) or LIFFE under Section 6 of the Securities Exchange Act of 1934 (the "Exchange Act"), against LCH under Section 17A of the Exchange Act, or against LIFFE or LIFFE members that are members of the LIFFE's London Traded Options Market ("LTOM") under Section 15(a) of the Exchange Act, if LIFFE 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 LIFFE registering with the Commission as a national securities exchange, without LCH registering with the Commission as a clearing agency, and without LIFFE or LTOM members registering with the Commission as broker-dealers.

We understand the facts to be as follows:

LIFFE (A&M) is an entity organized under the laws of England and Wales which was re-registered in August 1989 under the (British) Companies Act 1985 as a company having a share capital with unlimited liability for its shareholders. LIFFE (A&M) is incorporated as The London International Financial Futures Exchange Limited ("LIFFE Ltd") under the (British) Companies Acts 1949-1980. LIFFE Ltd established LIFFE in 1982 and has administered LIFFE since then. In 1989 a public limited company was established (LIFFE (Holdings) plc) as a holding company for the LIFFE corporate structure. LIFFE (A&M) is a wholly-owned subsidiary of LIFFE (Holdings) plc.

LIFFE Ltd is regulated in the United Kingdom as a Recognized

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Investment Exchange under the U.K. Financial Services Act 1986 (the "FSA"). LIFFE (A&M) and LIFFE, as the market administered by LIFFE (A&M), are subject to the jurisdiction of the Securities and Investments Board, established under the FSA. LIFFE (A&M)'s offices, facilities, and operations are located in London, England, with a representative office in New York City. Neither LIFFE (A&M) nor LIFFE is registered under the Exchange Act in any capacity.

In June 1990, the Joint Action Group, comprising representatives of the Bank of England, LIFFE, LTOM, and the London Stock Exchange (formerly the International Stock Exchange) recommended the creation of a unified financial derivatives exchange in London. The Joint Action Group proposals, subsequently accepted by the London Stock Exchange, LTOM, and LIFFE, included the establishment of a merged market whose membership, governance, and corporate framework would be based on LIFFE's existing structure. The London Stock Exchange and LIFFE (A&M) have entered into an agreement dated as of October 23, 1991, pursuant to which the London Stock Exchange would transfer to LIFFE (A&M) the business of LTOM as a going concern. Such transfer occurred on or about March 22, 1992. The London Stock Exchange has undertaken that subsequent to the transfer it will cease to administer a market in respect of the contracts currently traded on LTOM.

LIFFE was established in 1982 as a market for financial derivative products and currently lists 13 futures and 7 option contracts. Currently, fixed interest and bond options on futures are traded on LIFFE. References herein to "options" are only references to equity and equity index options. The London Stock Exchange 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 LIFFE equity and index options are stocks listed and traded on the London Stock Exchange's SEAQ system (Stock Exchange Automated Quotation system for UK Equities). Trading on the LTOM also occurs in standardized put and call options on the FT-SE 100 Index and on the FT-SE Eurotrack 100 Index (options on the FT-SE Eurotrack 100 Index will not be made available to U.S. investors; therefore, all references to options exclude options on the FT-SE Eurotrack 100 Index). The FT-SE 100 Index is composed of the stocks of one hundred leading U.K. companies listed and traded on the London Stock Exchange. All options are American-style in that they are exercisable at any time prior to expiration, with the exception of certain of the FT-SE 100 Index Options which are European-style and thus exercisable only on the day of expiration.

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LIFFE option trading will take place on a face-to-face, open-outcry basis on LIFFE's trading floor at Cannon Bridge in the City of London. Only LIFFE members who hold appropriate permits will be permitted to execute transactions there. All LIFFE option transactions will be settled in London in pounds sterling. LIFFE options will not be fungible or interchangeable with options that are traded on any other market. Thus, any LIFFE option position opened can be closed only on LIFFE or exercised through LCH.

Registration and clearing of all options transactions on LIFFE will be performed by LCH. You describe the LCH as comparable in function to a clearing agency for a U.S. options market. LCH will be the counterparty to clearing members of the merged market, all acting as principals, in respect of, inter alia, equity and index option contracts registered by such clearing members with LCH. LCH will maintain a balance of open positions between all (clearing members as) writers and all (clearing members as) buyers of the contracts registered with LCH. Non-clearing members and non-member customers are not party to any contracts registered by clearing members with LCH. When such persons enter into equity or index option contracts with a clearing member (or another member) of LIFFE, the clearing member (or such other member) acts as a principal in relation to the non-clearing member or non-member customer and makes a matching contract on the market which, in the case of a clearing member, is registered with LCH or, in the case of a non-clearing member, leads to the registration with LCH of a related contract by the clearing member with whom the nonclearing member has a clearing arrangement. Settlement of option transactions, and daily mark-to-market margin payments for (clearing members as) writers, will be required to be made to LCH in London by LIFFE clearing members. Exercises will also be required to be effected in London with LCH, which will randomly allocate (i.e., assign) exercises to writers. Once equity options are allocated, the comparison, clearing, and settlement of the transaction in the underlying security will take place within the London Stock Exchange's standard equity settlement system. The FT-SE 100 Index Options will be cash settled only.

LIFFE (A&M) wishes to continue to familiarize certain registered broker-dealers and large financial institutions in the United States with the equity and index options to be traded on LIFFE on the same basis that LTOM and the London Stock Exchange currently do with respect to equity and index options traded on 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(a)(1) under the Securities Act of 1933 (the "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
- (b) it must have had prior actual experience with traded options in the United States options markets, and, therefore, have received the options disclosure document for U.S. standardized options required by Rule 9b-1 under the Exchange Act.

Members of LIFFE will be required under LIFFE rules to take reasonable steps to assure themselves, before effecting any LIFFE equity or index option transactions 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 LIFFE option disclosure document referred to below.

Specifically, you represent that LIFFE will institute rules requiring its members to furnish each Qualified Broker-Dealer and Qualified Institution with a LIFFE option disclosure document before accepting an order from that Qualified Broker-Dealer or Qualified Institution to purchase or sell a LIFFE option contract. You state that these LIFFE rules will also require each LIFFE 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 LIFFE option disclosure document;
- (3) that its transactions in LIFFE equity and index options are for its own account or for the account of another Qualified Broker-Dealer or another Qualified Institution, or for 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 a LIFFE equity or index option contract that it has purchased or written to any other U.S. person, or to 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 a LIFFE option contract by instruction to the LIFFE member with whom it has the contract, and the disposition of the option by the LIFFE member shall be effected only on LIFFE and settled at LCH in London; (b) it understands that any required payments for premiums, settlement, exercise, or closing of any LIFFE option contract must be made in London and in pounds sterling; and (c) it understands that, if it is a writer of LIFFE option contracts, margin must be provided to the LIFFE member, 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 LIFFE member on demand; and
- (7) that it will notify the LIFFE 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 LIFFE member.

LIFFE (A&M) will also advise LIFFE members 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.

A LIFFE option disclosure document, in the form submitted to

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and reviewed by the Division, will be provided only to Qualified Broker-Dealers and Qualified Institutions. The document provides an overview of that part of LIFFE which consists of an equity and index option market, 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 LIFFE equity and index options.

LIFFE (A&M) maintains an office in New York City which will act as a representative office in the U.S. A representative in this office or a representative of LIFFE (A&M) outside the U.S. may be available to respond to inquiries concerning LIFFE from Qualified Broker-Dealers and Qualified Institutions. Any such representative may make personal calls on and correspond with entities whom the representative reasonably believes to be Qualified Broker-Dealers and Qualified Institutions to familiarize them with the existence of LIFFE and the operations of LIFFE (A&M). Any Qualified Broker-Dealer or Qualified Institution would be provided with the LIFFE option disclosure document upon its first visit, communication, or inquiry. The representative office will maintain a reasonable supply of that document, and of the most recently published annual report of LIFFE (Holdings) plc and of LCH, for distribution to Qualified Broker-Dealers and Qualified Institutions upon request. A representative may also participate in programs and seminars in the U.S.

Representatives will not give investment advice or make any recommendations with respect to specific LIFFE equity or index options, nor will representatives solicit, take, or direct orders, nor refer Qualified Broker-Dealers or Qualified Institutions to particular LIFFE members. If requested by a Qualified Broker-Dealer or Qualified Institution, the representative office or LIFFE (A&M) from outside the U.S. may make available to the requester a list of all LIFFE members permitted to take orders from the public and any registered U.S. broker-dealer affiliates of such LIFFE members. LIFFE (A&M) will not engage in any general advertisement concerning LIFFE equity or index options in the United States.

LIFFE is an organized securities exchange administered by LIFFE (A&M), operating and regulated abroad. LIFFE (A&M) will establish careful limitations to assure compliance with applicable U.S. securities laws. You represent that making information concerning LIFFE 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.

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Finally, you also request that the Division confirm (a) that furnishing the LIFFE option disclosure document by LIFFE (A&M)'s U.S. representative office, by LIFFE (A&M) from outside the U.S., by a LIFFE member, or by a Qualified Broker-Dealer, in each case, to a Qualified Broker-Dealer or Qualified Institution will satisfy the 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 a LIFFE equity or index option contract, and (b) that neither the furnishing of the LIFFE option disclosure document to a Qualified Broker-Dealer or Qualified Institution by LIFFE (A&M) from outside the U.S. or by LIFFE (A&M)'s New York City representative office, nor a LIFFE member's furnishing of the disclosure document to a Qualified Broker-Dealer or, in response to an unsolicited inquiry concerning equity or index options, to a Qualified Institution, will constitute solicitation or the provision of a research report as those terms are used in Rule 15a-6(a).

Response:

Based on the facts and representations set forth above, the Division will not recommend enforcement action to the Commission against LIFFE (A&M), LIFFE, or LIFFE members under Section 15(a) of the Exchange Act if LIFFE (A&M) and LIFFE act as you describe to familiarize Qualified Broker-Dealers and Qualified Institutions in the United States with equity and index options traded on LIFFE, without LIFFE (A&M), LIFFE, or LIFFE 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 LIFFE members under Section 15(a) of the Exchange Act if, solely in connection with the satisfaction of a LIFFE member's obligation under Exchange Act Rule 9b-1(d) and under the limited circumstances set forth above, (1) the U.S. representative office, LIFFE (A&M) from outside the United States, or a LIFFE member provides the LIFFE option disclosure document for equity and index options to a Qualified Broker-Dealer and the LIFFE member effects transactions in equity or index options traded on LIFFE with or for that Qualified Broker-Dealer pursuant to Rule 15a-6(a)(4), or (2) the U.S. representative office or LIFFE (A&M) provides the LIFFE option disclosure document to a Qualified Institution, or a LIFFE member provides the LIFFE option disclosure document to a Qualified Institution in response to an otherwise unsolicited inquiry concerning equity or index options, and the LIFFE member effects transactions in equity or index options traded on LIFFE 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 LCH under

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Section 17A of the Exchange Act if the LCH operates solely in the manner described above for equity and index options traded on LIFFE, without registering with the Commission as a clearing agency. In addition, the Division will not recommend that the Commission take enforcement action against LIFFE (A&M) or LIFFE under Section 5 of the Exchange Act if LIFFE (A&M) and LIFFE operate solely in the manner described above with respect to equity and index options traded on LIFFE, without registering with the Commission as a national securities exchange under Section 6 of the Exchange Act.

Finally, the Division has reviewed the proposed LIFFE option disclosure document. 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 a LIFFE member pursuant to Rule 9b-1(d) under the Exchange Act, if the Qualified Broker-Dealer, LIFFE member, U.S. representative office, or LIFFE (A&M) from outside the United States furnishes the LIFFE option disclosure document to a Qualified Broker-Dealer or Qualified Institution before the Qualified Broker-Dealer or Qualified Institution effects a transaction in equity or index options traded on LIFFE, subject to the following conditions:

- (1) The Qualified Broker-Dealer or Qualified Institution previously has received the ODD;
- (2) LIFFE requires that LIFFE members, before effecting a transaction with or for a Qualified Broker-Dealer or Qualified Institution in equity or index options traded on LIFFE, determine as described above that the Qualified Broker-Dealer or Qualified Institution has received the ODD and the LIFFE option disclosure document and maintain a record of that determination; and
- (3) LIFFE 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 LIFFE option disclosure document 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 ensure that the document is 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



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Understanding with the U.K. Department of Trade and Industry<sup>1</sup> regarding the sharing of investigative information, and that foreign broker-dealers, including LIFFE 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 relates 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 modification or revocation if the facts and representations set forth above are altered. This Division expresses no view with respect to other questions that this transaction may raise, including the applicability of any other federal or state laws to the merger.

Sincerely,



William H. Heyman  
Director

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<sup>1</sup>Memorandum of Understanding on Mutual Assistance and the Exchange of Information Between the United States Securities and Exchange Commission and the Commodities Futures Trading Commission and the United Kingdom Department of Trade and Industry and the Securities and Investments Board, International Series Release No. 323 (Sept. 30, 1991).

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DIVISION OF MARKET REGULATION

March 19, 1992

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: Merger of The London International  
Financial Futures Exchange ("LIFFE") and  
The London Traded Options Market ("LTOM")

Dear Sirs:

This is to confirm to you that LIFFE will institute rules requiring its members to furnish to Qualified Broker-Dealers and Qualified Institutions a LIFFE disclosure document before accepting an order from such entity to purchase or sell a LIFFE option contract. The rules will also require the LIFFE 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 a specified amount of eligible securities, and where applicable has a specified net worth, sufficient to be a qualified institutional buyer under Rule 144A, and (ii) 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" that is prepared by the

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Options Clearing Corporation and U.S. options exchanges.

2. It has received the LIFFE disclosure document.

3. Its transactions in LIFFE equity or index options will be for its own account or for the account of another Qualified Broker-Dealer or Qualified Institution or for the managed account of a non-U.S. person within the meaning of Rule 902(o)(2).

4. It will not transfer any interest or participation in a LIFFE equity or index option it has purchased or written to any other U.S. person, or to any person in the U.S., who is not a Qualified Broker-Dealer or Qualified Institution.

5. It will cause any disposition of a LIFFE option by instruction to the LIFFE member with whom it has a contract in respect of the LIFFE option, and the disposition of the LIFFE option by the LIFFE member shall be effected only on LIFFE and, by the actions of the LIFFE member directly or indirectly, there shall be a settlement of the LIFFE option at LCH in London. It understands that any required payments for premium, settlement, exercise or closing of any LIFFE option in respect of which it has a contract with the LIFFE member must be made in London and in pounds sterling. It also understands that, if in relation to a LIFFE option it has a contract as a writer with the LIFFE member, margin must be provided to the LIFFE member, and 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 representation to the same effect as the foregoing and will provide it to the LIFFE member upon demand.

7. It will notify the LIFFE 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 LIFFE member.

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

Very truly yours,



Gary G. Lynch

cc: Howard Kramer, Assistant Director  
Division of Market Regulation

Abigail Arms, Deputy Chief Counsel,  
Division of Corporation Finance



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MAR 1 1992

DIVISION OF MARKET REGULATION

March 18, 1992

Division of Market Regulation  
Securities and Exchange Commission  
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Attention: Robert L.D. Colby, Chief Counsel

Re: Merger of The London International  
Financial Futures Exchange ("LIFFE") and  
The London Traded Options Market ("LTOM")

Dear Sirs:

On behalf of The London International Financial Futures Exchange (Administration and Management) ("LIFFE (A&M)"), LIFFE and The London Clearing House Limited ("LCH"), 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 LIFFE (A&M) or LIFFE under Section 6 or Section 15 of the Securities Exchange Act of 1934, as amended (the "Act"), by reason of neither LIFFE (A&M) nor LIFFE registering under the Act as a securities exchange or a broker-dealer, or against LCH under Section 17A of the Act, by reason of its not registering under the Act as a clearing agency.

On or about March 22, 1992, LIFFE (A&M) will acquire as a going concern the business of LTOM which is currently part of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange" (formerly known as the "ISE")). At such time, the London Option Clearing House Limited ("LOCH"),

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which is a wholly owned subsidiary of the London Stock Exchange, will discharge or novate London Traded Option contracts reflecting open positions registered with it, provided that arrangements have been made by the users of LOCH (known as "LOCH Account Holders") for contracts reflecting open positions at LOCH to be registered with LCH. LCH will be clearing the equity and index option contracts which will be listed on LIFFE following the merger with LTOM. Such contracts will replace London Traded Option contracts. By letter dated September 4, 1990 (the "London Stock Exchange No-action Letter"), the staff indicated that it would not recommend to the Commission enforcement action against the London Stock Exchange or LTOM under Section 6 or Section 15 of the Act, by reason of their 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 under the Act as a clearing agency. Because the business of LTOM is scheduled to be transferred to LIFFE (A&M), and the clearing arrangements provided by LOCH are scheduled to be replaced by those of LCH, on or about March 22, 1992, we are hereby requesting the same relief on behalf of LIFFE, LIFFE (A&M) and LCH. Although the business of LTOM is to be transferred to LIFFE (A&M) there will be changes in the way in which the market in the contracts which are being transferred as part of the business will be organized. There will be changes to the procedures governing the conduct of trading on the floor, including changes to commitments undertaken by those members (of the market formed by the merger of LIFFE and LTOM) who wish to make markets in the contracts which are transferred as aforesaid. A description of the clearing arrangements to be provided by LCH is set out below. The terms and conditions of each contract which is to be transferred as aforesaid will be amended on or about March 22, 1992 to the extent that each such contract will have a detailed contract specification which will set forth in one document a number of matters which have not previously been so set forth, such as, for example, the procedures for exercise and delivery under an equity option contract and the calculation of the exchange delivery settlement price for cash settled index option contracts.

LIFFE (A&M) is an entity organized under the laws of England and Wales which was re-registered in August 1989 under the (British) Companies Act 1985 as a company having a share capital with unlimited liability for its shareholders. LIFFE (A&M) was incorporated in September 1981 as The London International Financial Futures Exchange Limited ("LIFFE Ltd") under the (British) Companies Acts 1949-1980 as a company limited by guarantee. LIFFE Ltd established LIFFE in

1982 and has administered LIFFE since then. In 1989 a re-organization of LIFFE's corporate and market structure was undertaken, owing to matters of UK taxation law. A public limited company was established (LIFFE (Holdings) plc) as a holding company for the LIFFE corporate structure. In July 1989, holders of seats on LIFFE gave up their seats in consideration of the allotment of shares in LIFFE (Holdings) plc. LIFFE Ltd was converted under the (British) Companies Act 1985 from a company limited by guarantee to a company with a share capital and unlimited liability for its shareholders (the relevant provision of the Companies Act 1985 stipulates unlimited liability for the share capital of a company which undergoes such a conversion). LIFFE (A&M) is a wholly-owned subsidiary of LIFFE (Holdings) plc.

LIFFE Ltd was granted Recognized Investment Exchange status in 1988 in advance of the implementation of the primary parts of the UK Financial Services Act 1986. Recognized Investment Exchange status was retained by the same entity following its corporate reorganization, which has been described above. LIFFE (A&M) and LIFFE, being the market administered by LIFFE (A&M), are subject to regulation by the Securities and Investments Board, an entity organized under the laws of England and Wales as a company limited by guarantee under the (British) Companies Act 1985, which was given the status of the "designated agency" by the Secretary of State for Trade and Industry for the purposes of, and pursuant to, the UK Financial Services Act 1986. LIFFE (A&M)'s offices, facilities and operations are located in London, England with a representative office in New York City. Neither LIFFE (A&M) nor LIFFE, subject to U.K. law, are registered under the Act in any capacity.

In June 1990, the Joint Action Group, comprising representatives of the Bank of England, LIFFE, LTOM and the London Stock Exchange recommended the creation of a unified financial derivatives exchange in London. The Joint Action Group proposals, subsequently accepted by the London Stock Exchange, LTOM and LIFFE, included the establishment of a merged market whose membership, governance and corporate framework would be based on LIFFE's existing structure. The London Stock Exchange and LIFFE (A&M) have entered into an agreement dated as of October 23, 1991 pursuant to which the London Stock Exchange will transfer to LIFFE (A&M) the business of LTOM as a going concern. Such transfer is expected to occur on or about March 22, 1992. The London Stock Exchange has undertaken that subsequent to the transfer it will cease to administer a market in respect of the contracts currently traded on LTOM.

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LIFFE was established in 1982 as a market for financial derivative products and currently lists 13 futures and 7 option contracts. Currently, fixed interest, bond and stock index futures and options on futures are traded on LIFFE. References herein to "options" are only references to equity and index options. The London Stock Exchange operates several markets, one of which is the LTOM. The London Stock Exchange 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 LIFFE equity and index options are stocks listed and traded on the London Stock Exchange's SEAQ system (Stock Exchange Automated Quotation system for UK Equities). Trading on the LTOM also occurs in standardized put and call options on the FT-SE 100 Index and the FT-SE Eurotrack 100 Index (options on the FT-SE Eurotrack 100 Index will not be made available to US investors, however, and all references herein to options excludes options on the FT-SE Eurotrack 100 Index). The FT-SE 100 Index is composed of the stocks of one hundred leading U.K. companies listed and traded on the London Stock Exchange. All of such options are American-style in that they are exercisable at any time prior to expiration, with the exception of certain of the FT-SE 100 Index Options which are European-style. LIFFE option trading will take place on a face-to-face open-outcry basis on LIFFE's trading floor at Cannon Bridge in the City of London. Only LIFFE members who hold appropriate permits will be permitted to execute transactions there. All LIFFE option transactions will be settled in London in pounds sterling. LIFFE options will not be fungible or interchangeable with options that are traded on any other market. Thus, any LIFFE option position opened can be closed only on LIFFE or exercised through LCH.

Registration and clearing of all options transactions on LIFFE will be performed by The London Clearing House Limited ("LCH"). LCH is owned by six of the U.K.'s largest clearing banks: Barclays Bank PLC, Lloyds Bank PLC, Midland Bank plc, National Westminster Bank PLC, The Royal Bank of Scotland plc and Standard Chartered PLC. In addition to clearing trades on LIFFE, LCH clears transactions on the International Petroleum Exchange of London (IPE), the London Futures and Options Exchange (London Fox) and the London Metal Exchange (LME). Comparable in its function, if not in the detailed aspects of its operation, to a clearing agency for a US options market, LCH will be the counterparty to clearing members of the merged market, all acting as principals, in respect of, inter alia, equity and index option



contracts registered by such clearing members with LCH. LCH will maintain a balance of open positions between all (clearing members as) writers and all (clearing members as) buyers of the contracts registered with LCH. Non-clearing members and non-member customers are not party to any contracts registered by clearing members with LCH. When such persons enter into equity or index option contracts with a clearing member (or another member) of LIFFE, the clearing member (or such other member) acts as a principal in relation to the non-clearing member or non-member customer and makes a matching contract on the market which, in the case of a clearing member, is registered with LCH or, in the case of a non-clearing member, leads to the registration with LCH of a related contract by the clearing member with whom the non-clearing member has a clearing arrangement. Settlement of option transactions, and daily mark-to-market margin payments for (clearing members as) writers, will be required to be made to LCH in London by LIFFE clearing members. Exercises will also be required to be effected in London with LCH, which will randomly allocate (i.e. assign) exercises to writers. Once equity options are allocated, the comparison, clearing and settlement of the transaction in the underlying security will take place within the London Stock Exchange's standard equity settlement system. The FT-SE 100 Index Options will be cash settled only.

LIFFE (A&M) wishes to continue to familiarize certain registered broker-dealers and large financial institutions in the U.S. with the equity and index options to be traded on LIFFE on the same basis that LTOM currently does with respect to equity and index options traded on 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).

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Members of LIFFE will be required under LIFFE Rules to take reasonable steps to assure themselves, before effecting any LIFFE equity or index option 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 LIFFE disclosure document referred to below. LIFFE (A&M) will advise LIFFE members that it has been advised 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.

A LIFFE 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 that part of LIFFE which consists of an equity and index option market, 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 LIFFE equity and index options.

LIFFE (A&M) maintains a representative office located in New York City which will act as a representative office in the U.S. A representative in this office or a representative of LIFFE (A&M) outside the U.S. may be available to respond to inquiries concerning LIFFE from Qualified Broker-Dealers and Qualified Institutions. Any such representative may make personal calls on and correspond with entities whom the representative reasonably believes to be Qualified Broker-Dealers and Qualified Institutions to familiarize them with the existence of LIFFE and the operations of LIFFE (A&M). Any Qualified Broker-Dealer or Qualified Institution would be provided, upon first visit, communication or inquiry, with the LIFFE option disclosure document. The representative office will maintain a reasonable supply of that document, and of the most recently published annual report of LIFFE (Holdings) plc and of LCH, to respond to requests therefor from Qualified Broker-Dealers and Qualified Institutions. A representative may also participate in programs and seminars in the U.S. Representatives will not give investment advice or make any recommendations with respect to specific LIFFE equity or index options, nor will representatives solicit, take, or direct orders, nor recommend or refer particular LIFFE members. If requested by a Qualified Broker-Dealer or Qualified Institu-

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tion, the representative office or LIFFE (A&M) from outside the U.S. may make available to the requester a list of all LIFFE members empowered to take orders from the public and any registered U.S. broker-dealer affiliates of such LIFFE members.

LIFFE (A&M) will not engage in any general advertisement concerning LIFFE equity or index options in the United States.

Following the merger, LIFFE will be an organized securities exchange administered by LIFFE (A&M) operating and regulated abroad, and in LIFFE (A&M) making this known to a particular sophisticated segment of the U.S. financial community it will not be altering this fact. LIFFE (A&M) will establish careful limitations to assure to the extent feasible compliance with applicable U.S. securities laws. Making information concerning LIFFE 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 LIFFE and LIFFE (A&M) that you advise us you will not recommend that the Commission take enforcement action against LIFFE or LIFFE (A&M) separately or jointly under Section 6 or 15 of the Act, by reason of neither LIFFE nor LIFFE (A&M) registering under the Act as a securities exchange or a broker-dealer, or against LCH 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 LIFFE disclosure document by LIFFE (A&M)'s U.S. representative office, by LIFFE (A&M) from outside the U.S., by a LIFFE member or by a Qualified Broker-Dealer, in each case, 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 a LIFFE equity or index option contract, and (b) that neither LIFFE (A&M) from outside the U.S. nor LIFFE (A&M)'s New York City representative office's furnishing to a Qualified Broker-Dealer or Qualified Institution, nor a LIFFE member's furnishing to a Qualified Broker-Dealer or, in response to an unsolicited inquiry concerning equity or index options, to a Qualified Institution, will constitute soliciting or a research report as those terms are used in Rule 15a-6(a).

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If you need any further information concerning this request, please call me collect at (212) 530-4582.

Very truly yours,

*Gary G. Lynch/cs*  
Gary G. Lynch