



DIVISION OF
MARKET REGULATION

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

March 6, 1996

Nancy Jacklin
Clifford Chance
One New York Plaza
New York, New York 10004

Re: Trading of FLEX style options on The London International Financial Futures and Options Exchange ("LIFFE").

Dear Ms. Jacklin:

This responds to your letter dated January 22, 1996, 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 A&M, LIFFE or LIFFE members under Section 15(a) of the Exchange Act, if LIFFE A&M on behalf of LIFFE and LIFFE members act as described below to familiarize certain registered broker-dealers and large financial institutions in the United States with LIFFE, without LIFFE A&M or LIFFE registering with the Commission as a national securities exchange, without LCH registering with the Commission as a clearing agency, and without LIFFE members registering with the Commission as broker-dealers.

We understand the facts to be as follows:

By letter dated May 1, 1992, the staff provided such advice (the "LIFFE No-Action Letter") based on the facts, conditions and representations described therein. Since March 1992, equity options trading on LIFFE has been limited to standardized put and call equity options and equity index options ("Standardized Options"). In addition, on June 30, 1995, a FLEX option on the FT-SE 100 Index became available for trading on LIFFE. FLEX style options may be traded as puts or calls with investor-specified duration (*i.e.* expiry date) and an investor-specified exercise price. The FT-SE 100 FLEX option may only be traded with a European-style exercise whereas the FT-SE 100 Standardized Option is traded both with an American-style exercise and with a European-style exercise. Trading in the FT-SE 100 FLEX option is similar to that of the FT-SE 100 Index Standard Option except that a member will make a "Request For Quote" which will then be responded to by members, including market-makers in the contract. It is the introduction of FLEX options for trading in LIFFE which underlies the present no-action request.

Nancy Jacklin
March 6, 1996
Page 2

LIFFE A&M is an entity organized under the laws of England and Wales which is registered under the (British) Companies Act 1985 as a company having a share capital with unlimited liability for its shareholders. LIFFE A&M was incorporated as The London International Financial Futures Exchange Limited ("LIFFE Ltd.") under the (British) Companies Acts 1949-1980. LIFFE Ltd. established LIFFE in 1982, as a financial derivatives market, and that legal entity (now LIFFE A&M) 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 A&M is regulated in the United Kingdom as a Recognized 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 Investment 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.

LIFFE has developed and lists a range of futures and options on futures related to money market and fixed rate instruments, and stock index futures. Reference herein to "options" are references only to options contracts on individual stocks that are listed on the London Stock Exchange ("Equity Options") and options contracts on the FT-SE 100 Index, composed of the stocks of one hundred leading UK companies listed and traded on the London Stock Exchange ("Index Options"). All options are American-style with the exception of certain of the FT-SE 100 Index Options which are European-style.

As discussed above, Index Options presently traded on LIFFE include the FT-SE 100 FLEX option. On February 23, 1993, the Commission issued an order approving FLEX options for trading on the Chicago Board Options Exchange, Inc. and designating such options as standardized options under Rule 9b-1 of the Exchange Act. A similar action was taken on July 13, 1994 in respect of FLEX style options traded on the Pacific Stock Exchange, Inc. As with those FLEX options, the LIFFE FLEX options are standardized except for flexibility with respect to strike prices and settlement expiration dates. The FT-SE 100 Index FLEX options do not differ otherwise in any material respect from standardized options traded on LIFFE, and are more limited than FLEX style options authorized to be traded on U.S. exchanges.

LIFFE option trading takes place on a face-to-face, open outcry basis on LIFFE's London trading floor. Only LIFFE members who hold appropriate permits can execute transactions there. All LIFFE options are bought and sold in pounds sterling. LIFFE Options are not fungible nor interchangeable with options that are traded on any other market. Thus, any LIFFE options positions opened can be closed only on LIFFE or exercised through LCH.

Registrations and clearing of all options transactions on LIFFE are performed by LCH, which is owned by six of the UK's largest clearing banks. LCH is counterparty to clearing members each acting as principal, in respect of, *inter alia*, Equity Options and Index Options registered by such clearing members with LCH. LCH maintains a balance of open positions between all (clearing members as) sellers 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 Options or Index Options 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) sellers, are required to be made to LCH in London by LIFFE clearing members. Exercises are also required to be effected in London with LCH, which randomly allocates (*i.e.*, assigns) exercises to sellers. 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, which, as of June 26, 1995 is a five-day rolling settlement system. Equity bargains arising as a result of the exercise of an Equity Option are settled six days after the exercise notice is received by LCH. The FT-SE 100 Index Options are cash settled only.

The actions of LIFFE A&M on behalf of LIFFE and LIFFE members to familiarize certain registered broker dealers and large financial institutions in the United States with Equity Options and Index Options traded on LIFFE have been and continue to be limited to those described in the LIFFE No-Action Letter. Specifically, LIFFE A&M wishes to continue to familiarize certain registered broker-dealers and large financial institutions in the United States with Equity and Index options traded on LIFFE, including the FLEX options on the FT-SE 100 Index. To do this it would continue 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

Nancy Jacklin

March 6, 1996

Page 4

document for U.S. standardized options required by Rule 9b-1 under the Exchange Act.

Members of LIFFE will continue to be required under LIFFE rules to take reasonable steps to assure themselves, before effecting any LIFFE Equity, Index Option, or FLEX options on the FT-SE 100 Index 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.

LIFFE's rules will continue to require 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. These LIFFE rules also require each LIFFE member to obtain from each Qualified Broker-Dealer or Qualified Institution the following written representation, 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, index options, or FLEX options on the FT-SE 100 Index 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 LIFFE equity, index option contract, or FLEX options on the FT-SE 100 Index that it has

Nancy Jacklin
March 6, 1996
Page 5

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 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 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 and reviewed by the Division and as amended from time to time as discussed further below, 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 options 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, index options, or FLEX options on the FT-SE 100 Index.

LIFFE A&M continues to maintain 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. would continue to 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

Nancy Jacklin
March 6, 1996
Page 6

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, Index Options, or FLEX options on the FT-SE 100 Index in the United States.

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). In each case the Qualified Broker-Dealer or Qualified Institution will have previously received the ODD. In addition, LIFFE requires that LIFFE members, before effecting a transaction with or for a Qualified Broker-Dealer or Qualified Institution in Equity, Index Options, or FLEX options on the FT-SE 100 Index traded on LIFFE, determined 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.

Finally, you further state that LIFFE will continue to furnish 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

Nancy Jacklin
March 6, 1996
Page 7

materially inaccurate or incomplete, or because there is or will be an omission of material information to ensure that the document is not misleading.

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, including FLEX options on the FT-SE 100 Index, 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, including FLEX options on the FT-SE 100 Index, 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, or a LIFFE member provides the LIFFE option disclosure document, including a description of FLEX options on the FT-SE 100 Index, to a Qualified Institution in response to an otherwise unsolicited inquiry concerning 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 Section 17A of the Exchange Act if the LCH operates solely in the manner described above for equity and index options traded on LIFFE, including FLEX options on the FT-SE 100 Index, 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 or LIFFE operate solely in the manner described above with respect to equity and index options traded on LIFFE, including FLEX options on the FT-SE 100 Index, 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, as amended to include the description of FLEX options on the FT-SE 100 Index. Based on our review of the document, the Division wishes to advise you that it will not recommend that the Commission take enforcement action against Qualified Broker-Dealer or a LIFFE member pursuant to Rule 9b-1(d) under the Exchange Act, if the Qualified

Nancy Jacklin
March 6, 1996
Page 8

Broker-Dealer, LIFFE member, U.S. representative office, or LIFFE A&M from outside the United States furnishes the LIFFE option disclosure document, which includes a description of FLEX options on the FT-SE 100 Index, 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, including FLEX options on the FT-SE 100 Index, 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, including any FLEX options on the FT-SE 100 Index, 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, including any amendment to its FLEX options on the FT-SE 100 Index, 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 document is not misleading.

These positions of the Division concern enforcement action only and do not represent conclusions on 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 Industry¹ 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

¹ 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 Investment Board, International Series Release No. 323 (Sept. 30, 1991).

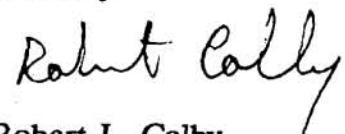
Nancy Jacklin

March 6, 1996

Page 9

different response, and these positions are subject to modification or revocation if the facts and representations set forth 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.

Sincerely,



Robert L. Colby
Deputy Director

CLIFFORD CHANCE

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January 22, 1996

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

Attention: Howard Kramer, Associate Director

Re: Trading of FLEX style options on The London International Financial Futures and Options Exchange ("LIFFE")

Dear Sirs:

On behalf of LIFFE Administration and Management ("LIFFE A&M"), LIFFE, and The London Clearing House Limited ("LCH"), we request your advice that the Division of Market Regulation (the "Division") will not recommend enforcement action [*21] 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 A&M, LIFFE or LIFFE members under Section 15(a) of the Exchange Act, if LIFFE A&M on behalf of LIFFE and LIFFE members act as described below to familiarize certain registered broker-dealers and large financial institutions in the United States with LIFFE, without LIFFE A&M or LIFFE registering with the Commission as a national securities exchange, without LCH registering with the Commission as a clearing agency, and without LIFFE members registering with the Commission as broker-dealers.

By letter dated May 1, 1992, the staff provided such advice (the "LIFFE No-Action Letter") based on the facts, conditions and representations described therein. Since March 1992, equity options trading on LIFFE has been limited to standardized put and call equity options and equity index options ("Standardized Options"). In addition, on June 30, 1995, a FLEX style option on the FT-SE 100 Index became available for trading on LIFFE. FLEX style options may be traded as puts or calls with investor-specified duration [*22] (*i.e.* expiry date) and an investor-specified exercise price. The FT-SE 100 FLEX option may only be traded

with a European-style exercise whereas the FT-SE 100 Standardized Option is traded both with an American-style exercise and with a European-style exercise. Trading in the FT-SE 100 FLEX option is similar to that of the FT-SE 100 Index Standardised Option except that a member will make a "Request For Quote" which will then be responded to by members, including market-makers in the contract. It is the introduction of FLEX options for trading on **Liffe** which underlies the present request.

As you are aware, **Liffe A&M** is an entity organized under the laws of England and Wales which is registered under the (British) Companies Act 1985 as a company having a share capital with unlimited liability for its shareholders. **Liffe** (A&M) was incorporated as The London International Financial Futures Limited ("Liffe Ltd.") under the (British) Companies Acts 1949-1980. **Liffe** Ltd. established **Liffe** in 1982, as a financial derivatives market, and that legal equity (now **Liffe A&M**) has administered **Liffe** since then. In 1989 a public limited company was established (**Liffe** (Holdings) plc) as a holding [*23] company for the **Liffe** corporate structure. **Liffe A&M** is a wholly-owned subsidiary of **Liffe** (Holdings) plc. **Liffe A&M** is regulated in the United Kingdom as a Recognized 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 Securities Exchange Act of 1934 (the "Exchange Act") in any capacity.

Liffe has developed and lists a range of futures and options on futures related to money market and fixed rate instruments, and stock index futures. Reference herein to "options" are references only to options contracts on individual stocks that are listed on the London Stock Exchange ("Equity Options") and options contracts on the FT-SE 100 Index, composed of the stocks of one hundred leading UK companies listed and traded on the London Stock Exchange ("Index Options"). All options are American-style with the exception of certain of the [*24] FT-SE 100 Index Options which are European-style.

As discussed above, Index Options presently traded on **Liffe** include the FT-SE 100 FLEX option. On February 23, 1993, the Commission issued an Order designating FLEX options traded on the Chicago Board Options Exchange, Inc. as standardized options under Rule 9b-1 of the Exchange Act. A similar action was taken on July 13, 1994 in respect of FLEX style options traded on the Pacific Stock Exchange, Inc. As with those FLEX options, the **Liffe** FLEX style options are standardized except for flexibility with respect to strike prices and settlement expiration dates. The FT-SE 100 Index FLEX options do not differ otherwise in any material respect from standardized options traded on **Liffe**, and are more limited than FLEX style options authorized to be traded on U.S. exchanges.

LIFFE option trading takes place on a face-to-face, open outcry basis on **LIFFE**'s London trading floor. Only **LIFFE** members who hold appropriate permits can execute transactions there. All **LIFFE** options are bought and sold in pounds sterling. **LIFFE** options are not fungible nor interchangeable with options that are traded on any other market. Thus, any **LIFFE** option position [*25] opened can be closed only on **LIFFE** or exercised through LCH.

Registration and clearing of all options transactions on **LIFFE** are performed by LCH, which is owned by six of the UK's largest clearing banks. LCH is the counterparty to clearing members each acting as principal, in respect of, *inter alia*, Equity Options and Index Options registered by such clearing members with LCH. LCH maintains a balance of open positions between all (clearing members as) sellers 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 Options or Index Options 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 [*26] of option transactions, and daily mark-to-market margin payments for (clearing members as) sellers, are required to be made to LCH in London by **LIFFE** clearing members. Exercises are also required to be effected in London with LCH, which randomly allocates (*i.e.*, assigns) exercises to sellers. 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, which, as of June 26, 1995 is a five-day rolling settlement system. Equity bargains arising as a result of the exercise of an Equity Option are settled six days after the exercise notice is received by LCH. The FT-SE 100 Index Options are cash settled only.

The actions of **LIFFE A&M** on behalf of **LIFFE** and **LIFFE** members to familiarize certain registered broker dealers and large financial institutions in the United States with Equity Options and Index Options traded on **LIFFE** have been and continue to be limited to those described in the **LIFFE** No Action Letter. Specifically, **LIFFE A&M** wishes to continue to familiarize certain registered broker-dealers and large financial institutions in [*27] the United States with the Equity and Index options traded on **LIFFE**. To do this it would continue 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 continue to 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 [*28] 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.

Liffe's rules will continue to require 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. These **Liffe** rules 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 [*29] 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 [*30] 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, [*31] principally through U.S. registered broker-dealers as provided in the Rule.

A **LIFFE** option disclosure document, in the form submitted to and reviewed by the Division and as amended from time to time as discussed further below, 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 options 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 continues to maintain 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. would continue to 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 [*32] 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.

We 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, 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). In each case the Qualified Broker-Dealer or Qualified Institution will have previously received the ODD. In addition, **LIFFE** requires that **LIFFE** members, before effecting a [*34] 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.

LIFFE will continue to furnish 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 to ensure that the document is not misleading.

If you need additional information concerning this request, please call me at (212) 709-4200.

Sincerely,

Nancy Jacklin