

Date: August 29, 1997
To: Members and Associated Persons
From: Department of Market Regulation
Re: Stock Executions and Trading Halts in the OTC Market

The Department of Market Regulation (the "Department") has received a number of complaints from CBOE members concerning NASDAQ market-makers "backing away" from their disseminated bids and offers and possible trade through situations in OTC stocks. The Department met recently with the staff of NASD Regulation, Inc. the regulatory arm of the NASD, to address these concerns. In our conversations with the NASD Regulation staff, they described the various surveillance tools in place to monitor for "backing away" and noted that procedures were in place to resolve these issues on a real-time basis (see below). NASDAQ, as a negotiated market, does not have a per se "trade through" rule. However, where a regulatory concern exists (i.e., "best execution") NASD Regulation Inc. should be notified.

NASD Regulation Inc. has provided the following 800 number for persons to call when they have questions concerning NASDAQ market-makers possibly "backing away" from their quotes. If you believe your stock order should have been filled based on the disseminated quotes call the following number:

BACKING AWAY AND TRADE THROUGH NUMBER

1-800-925-8156

Calls concerning "backing away" and trade throughs should be made as soon as you become aware of a possible problem, i.e. within 5 minutes. The sooner the matter is reported to NASD Regulation Inc. the easier it will be for them to resolve the matter to your benefit.

Members may also call the following number in the NASD StockWatch area to report unusual option activity in a NASDAQ stock. You may call this number directly to report a heavy influx of option orders or other unusual activity which may be of interest to NASD Regulation in determining whether to halt trading in a particular stock.

STOCKWATCH NUMBER

1-800-537-3929

You may also contact the following CBOE TFL staff on the trading floor to assist you in addressing any problems or concerns regarding OTC stock trading: Greg Rich pager 9000 or 689-1018 (long range pager) or Craig Johnson pager 9007 or 689-0518 (long range pager).