October 31, 2008

Dear OCC Board of Directors:

The Financial Information Forum (FIF) is an organization comprised of broker-dealers, exchanges, vendors and other types of organizations that address the technical, operational and business aspects of the implementation of changes in the industry’s information and processing systems. FIF has been working with the Options Symbology Initiative (OSI) Committee since its inception to help find an optimal method for implementing this major change in the manner in which the industry identifies options contracts. As we have indicated previously, there is significant industry cost to the implementation; the concerns of some of our members have been heightened due to the dramatic change in market conditions and the looming systemic risk resulting from the disparate and uncoordinated manner in which organizations are planning to implement OSI changes.

As a result, we are requesting that the OCC Board temporarily suspend the initiative and create an Evaluation Team to address both short term and long term alternatives. This Evaluation Team should include all segments of the impacted financial community with a focus on avoiding investor confusion, minimizing systemic risk and reducing industry costs. We would like to call your attention to certain significant issues:

- **Unprecedented Market Turbulence**: Market volatility and declines are wreaking havoc on the securities industry and economy at large. With industry consolidation and the focus on financial viability firms need to prioritize development efforts towards system integration, cost savings, and revenue-producing projects.
- **Cost to the Industry**: OSI implementation cost estimates for broker dealers and their vendors’ amounts to $245 million. Adding in additional entities (e.g., the buy-side) and non-development activities (e.g., training), the number early estimate to roughly $400 million. Many firms do not see quantifiable benefits to justify this undertaking.
- **Retail Investor Needs**: The OSI effort to date has not focused on retail investor needs. At a time when retail investor confusion is at an all time high, educating clients on the impact of OSI and introducing more non-standard options presents significant concerns for retail broker dealers on behalf of their clients.
- **Lack of a Standard Symbol**: As currently outlined there will be no single-field symbol standard to replace the OPRA code. The elimination of a standard increases costs, introduces risk, and will create investor confusion, particularly as investors move accounts from one institution to another.

We are requesting that the OCC Board of Directors take this opportunity, as they did in March of 2008, to respond to industry concerns about expense controls at financial institutions. At that time, the OCC Board of Directors was responsive to market participants and extended the implementation date to February 2010 from July 31, 2009 based on “a desire to lighten up the budget burden by potentially spreading the development expenses over 2008 and 2009.” Market conditions have significantly
worsened since that time and our members believe that prudence mandates the temporary suspension of the OSI initiative to revisit OSI goals and ensure that the industry is taking the most cost effective approach that minimizes systemic risk before proceeding with further OSI activities. Such a decision would allow resources currently focused on OSI to be diverted to projects required to sustain firms’ ongoing profitability and viability in today’s challenging environment.

FIF fully appreciates the need for a new options identifier to achieve the operational benefits as stated in the OSI plan. However, over the past few months, market conditions have dramatically changed and additional implementation issues have arisen as a result of tremendous volatility, volumes, and market swings. Many of our members are questioning the need to engage in an industry initiative at this time that will not increase revenue or benefit the public and whose benefits to the industry have not been quantified. We ask you to consider in your evaluation of a temporary suspension the issues discussed below.

Unprecedented Market Turbulence
Since extending the date back in March, we have witnessed an unprecedented time of market turbulence. Financial institution mergers are in progress, the structure of the investment banking industry has been permanently altered and restructuring in our industry may be an elongated process. The financial strain that these events have placed on broker dealers, exchanges and vendors should be considered before moving forward with OSI as planned.

Another issue to consider is that continuing OSI implementation along current timelines will result in wasted efforts. Firms will be required to allocate resources to remediate systems that will subsequently be discontinued. The extent of this issue is not to be underestimated given the recent M&A activity in our industry which occurred after the survey results and cost estimates were compiled.

Cost to the Industry
At a minimum, implementation of the OSI changes is expected to cost the broker dealer, service bureau and market data vendor community $245 million. (See Appendix 1) This estimate does not include the costs for internal training, client education, online web portals, remediation of buy-side proprietary and third party systems as well as the costs for global broker dealers. If we were to include these additional costs, we expect the number to increase to roughly $400 million.

Firms are questioning the need for expending resources on an initiative that offers no payback in terms of revenue or client satisfaction at this time. Even firms that have already spent resources acknowledge that the most significant commitment to this project is yet to come.

Meeting Retail Investor Needs
Retail investor confusion has garnered significant attention as the economic recovery plan and other legislative action has shed light on the lack of understanding many investors have with respect to the securities they are purchasing. Many retail broker dealers are concerned about the impact of OSI on the client experience and potential confusion resulting from
- Retooling of hard copy, online and voice information systems: symbol look-up, order entry, portfolio holding, statements and confirms.
• Elimination of the OPRA code as a single field identifier to be replaced by a variety of descriptions or broker-dealer defined symbols.
• Creation of new non-standard instruments that will not be widely traded by their clients but will require additional education and order validation to ensure investors understand what they are purchasing.

Lack of a Standard Symbol with the Series Key Approach
As we move forward in this initiative, it is worth noting that over 85% of survey respondents had concerns with the current implementation. Given the magnitude of resources involved, many questioned whether the move to a flexible series key represents a step backwards from the move towards standardization in the National Market System, promoted by the SEC in recent and expected regulations. Before moving forward, it is incumbent on the OCC Board of Directors to be certain that this is the best approach for the industry at large. Please refer to Appendix 2 for further details on this topic.

Conclusion
We understand the difficulty in creating a symbology that satisfies all market participants and believe the current plan addresses some of the challenges facing the options industry as identified when the OSI Implementation Plan was first approved in 2006; however, we have a much broader group of participants involved and a very different market environment. Given these issues and the OCC Board of Director’s leadership role in the industry and feedback from many of our members, we recommend temporarily suspending the initiative pending the Evaluation Team recommendations on both short term and long term alternatives. This team should work diligently and include all segments of the community with a focus on reducing industry costs, minimizing systemic risk and avoiding investor confusion. By applying all that has been learned to date, this group can reach a solution that meets these goals and creates a viable industry standard. Appendix 2 contains a set of discussion topics that can guide the evaluation team.

We appreciate your immediate consideration and are prepared to assist you and the industry in ensuring an optimal outcome. If you wish any additional information, please let us know.

Regards,

Tom Jordan
Advisory Chair, Financial Information Forum

cc: David Liu, Securities and Exchange Commission, Division of Market Regulation
    Elizabeth King, Securities and Exchange Commission, Division of Market Regulation
    Steve Williams, Securities and Exchange Commission, Division of Market Regulation
Appendix 1: Aggregate OSI Cost
In order to quantify the cost at an industry level, FIF prepared an extrapolation of survey results using a quantitative model. The following methodology and assumptions were used in the creation of the model:

- **Survey respondents were broken into firm types:** broker dealers, service bureaus, and market data vendors.
- **Since survey responses to implementation effort were based on ranges (e.g., 250 – 500 man days), the average for each range was used for the model, (e.g., if the survey response selected was 250-500 then 375 was used for the model.**
- **In order to estimate the number of broker dealers that would need to assign resources to the OSI initiative, FIF included the following firms:**
  - The top 50 broker dealers based on capital ranking (Source: SIFMA 2007-2008 Year Book)
  - Broker dealer survey respondents (including those that were not in the Top 50 Ranking)
  - Members of ISE, NYSE Arca Options, and the OCC (Source: Member Directories, 9/17/2008) that neither participated in survey nor had a Top 50 Capital Ranking
- **The Top 50 broker-dealers and survey respondents were further subdivided into categories:**
  - Institutional: firms primarily serving institutional clients
  - Clearing Firm: Firms with correspondent clearing clients
  - Full Service Broker: Offering a range of services for both institutional and retail clients
  - Retail Discount Brokerage: Primary focus is on retail clients trading via the internet
  - Retail Financial Services: Traditional retail broker dealers
  - Market Maker: Market makers focused on trade executions with broker-dealer clients
- **Assumptions for extrapolating industry broker dealer cost:**
  - Implementation time is linked to broker dealer category.
  - Survey responses within a category can be averaged to determine the implementation time required by non-survey respondents in the same category. The average was applied to the non-survey respondents within each category.
  - Firms that are not represented in the survey or the Top 50 but that are members of ISE, NYSE Arca Options, or the OCC will require a low level of implementation - 125 man days which was the lowest average in the survey response
  - Cost per Man Day = $1,000

The following table estimates the aggregate cost of a representative group of broker-dealers, market data vendors, and service bureaus at just under $250 million.
- Entities not considered in model: OCC, DTCC, exchanges, buy-side firms, options software providers, internet portals (e.g., Yahoo Finance).
- No additional market data vendors or service bureaus that did not respond to the survey were added to cost model.
Survey participants included broker dealers, service bureaus, market data vendors, and exchanges that participate in the FIF and OSI Committee as indicated in the table below.¹

### Survey Respondents by Firm Type

<table>
<thead>
<tr>
<th>Firm Type</th>
<th>Number of Respondents</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker Dealer</td>
<td>26</td>
<td>57%</td>
</tr>
<tr>
<td>Service Bureau</td>
<td>12</td>
<td>26%</td>
</tr>
<tr>
<td>Market Data Vendor</td>
<td>7</td>
<td>15%</td>
</tr>
<tr>
<td>Exchange</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Appendix 2: Evaluation Team Scope

Establishing an Official Single Symbol Standard
The current options symbol (OPRA code) is a 25+ year old standard being replaced by an open-ended identifier. We understand that this topic has been discussed by OSI in the past and arguments against the need for a standard symbol include:

- Firms should use the four fields (Symbol/Expiration Date/CP Indicator/Strike Price) as they see fit, allowing each firm to customize their OSI implementation to suit their internal needs.
- No consensus can be reached by the industry with respect to a single symbol standard.

Despite these arguments made in the past, many firms are concerned that the end result of the significant OSI effort is that the same option will be represented by different options symbols across the industry.

Based on survey results, there is no single representation of the four fields that firms will use. Additionally, the reality is that many systems key off of a single symbol field and that passing four separated fields requires a significant remediation effort. As a result of this, firms are concatenating the four fields in multiple ways or using other methodologies including:

- Using a fixed 21-character symbol based on the Recommended OSI Series Key with no decimal point and including spaces and leading and trailing zeroes. Note: Many believe that this is the official OSI symbol.
- Using a variable length concatenated symbol based on the Recommended OSI Series Key but with a decimal point and removing spaces as well as leading or trailing zeroes.
- Using a fixed 17-character symbol based on the OPRA Series Key
- Other methodologies as described in the survey

Discussion questions
1. Even without industry consensus, would having a single symbol reduce systemic risk and avoid investor confusion?
2. Since there is common agreement that the four fields will be displayed in some fashion, why wouldn't OSI consider using a meaningless symbol?
   a. If we separate the symbol from the descriptive four fields, does that improve the ability for the symbology to remain constant as new instruments are created?
   b. If OCC were to act as the central repository for the new symbols, while continuing to provide the four fields of data, would that allow for a shorter symbol that would meet the evolving needs of the industry in a more consistent and orderly manner?
3. Many survey respondents indicated that a shorter symbol would reduce their implementation effort. Could a shorter symbol be adopted?
**Determine the Need to Act Now**

While recognizing the limitations of the OPRA codes, survey respondents questioned the need to do this project at this time especially when firms are grappling with integration, capacity and latency as a result of recent market activity.

Discussion Questions:
1. How does symbol reservation for options work today? Is symbol hoarding a factor in the need for a new symbology? Why can’t an additional character be added to the current 5 character system?
2. When does the current symbology “break”?
3. Are there short term solutions that can be considered as an “interim approach” until market conditions improve?

**Consider the Retail Investor Experience**

While touched upon as part of the need for a standard symbol, the issue of retail client education was an area of concern for survey respondents. Comments made as part of the survey or in post-survey feedback highlighted the following:
- Significant client education will be required and lack of standardization will increase and complicate that effort
- New portfolio and display screens that formerly showed equities and options together will need to be remediated and explained to customers
- Buy-side firms serving retail clients have not been engaged in the process
- Cross-broker transactions will become more difficult for retail clients.

Discussion questions:
1. To what extent can the cost and effort of OSI improve the retail client experience?
2. Can the industry take measures from a standardization perspective to promote common education and symbol explanation?
3. Should the retail investor perspective be more carefully considered before further implementation continues?