

PSE Probing Allegations of Options Fraud

**Inquiry Confirmed by
Exchange's President
Following Publication**

BY RONALD L. SOBLE
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The Pacific Stock Exchange disclosed under questioning Monday that it is investigating allegations of fraudulent trading in its stock options market.

"We have an investigation but nothing to report," PSE President G. Robert Ackerman told The Times.

Should the PSE's surveillance committee see any reason for action on the allegations, the matter would be ~~turned over to the exchange's ethics~~ and business conduct committee, which has the power to fine or suspend any floor traders involved in the allegations, an exchange source noted.

Ackerman, in a telephone interview, voiced anger over the surfacing of the allegations, which first appeared Friday in Daily Report for Executives, a business publication of the Washington, D.C.-based Bureau of National Affairs (BNA).

"Apparently that's the type of garbage they have to write and you can quote me," said Ackerman, adding that the publishing group had not checked with him on the story.

John A. Jenkins, 25, the BNA reporter who wrote the piece, told The Times that Ackerman was right. "I did not talk to Ackerman," but "I stand by the story," Jenkins said.

The story, as carried Monday by Dow Jones news service, alleges that six PSE marketmakers executed among themselves so-called "wash sales," sales which generate no direct profits for the marketmakers but which artificially inflate PSE volume in options contracts.

The BNA story claimed the marketmakers then reversed those trades later in the day to give the illusion of greater trading activity.

BNA said the trading discrepancies were discovered about two weeks ago and quoted a PSE source as declaring they were executed because of the "zeal of certain Pacific marketmakers to compete" with the Chicago Board Options Exchange (CBOE).

No members of the trading public appear to have been hurt by the alleged artificial trades, PSE sources said.

The CBOE is the nation's largest stock options market, trading upward of 80,000 contracts daily against the PSE's recent peak of 6,800 contracts.

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PSE Probing Stock Options Trading

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Ackerman called the charge that the PSE was trying to artificially beef up its volume "a cheap shot." He declared that the PSE stock options market, which opened its doors in San Francisco last April 9, began with a daily trading volume of about 1,500 contracts and has steadily increased volume to where it exceeds the 6,000 level.

The CBOE trades in 86 stock options contracts against 26 for the PSE.

The contracts traded are "calls" which guarantee the buyer the right to purchase stock at a fixed price within a specified period of time. Each contract represents 100 shares of stock. The stock to which the contract is linked is called the underlying issue.

Of the 26 contracts traded on the PSE, five are dually listed on the CBOE—that is, the contracts are traded on both exchanges. One of these five dually listed contracts—Houston Oil & Minerals Corp.—is believed to be one of the contracts about which the allegations swirl.

Houston Oil & Minerals is the newest PSE contract.

added last month by both the PSE and the CBOE. One source speculated that if there were artificial trades in this contract, it was to give the appearance that the bulk of the action was on the PSE and not on the CBOE on this contract, and was therefore an attempt to draw business to the PSE.

Ackerman wouldn't say which contracts were involved, how long the PSE had been probing the problem or whether any marketmakers—the floor traders who make orderly markets by buying and selling contracts—had already been called on the carpet.

It also is known that the Securities & Exchange Commission became aware of possible trading problems on the PSE stock options market several days ago. At present, the SEC is keeping an arms-length relationship to allow the PSE to proceed with its own investigation.

Organized stock options trading began on the CBOE 3½ years ago and, besides the PSE, has spread to the American and Philadelphia stock exchanges.

Both the CBOE and the Amex have had their own trading problems with stock options.

The CBOE has investigated whether inside information was being used in stock trades on the New York Stock Exchange to take advantage of CBOE trades in stock options contracts. And last month, the CBOE announced suspensions, fines and censuring involving eight of its members for rigging stock options among themselves.

The Amex currently is involved in disciplinary actions against six floor members accused of making fictitious stock options trades.

The Amex options inquiry began late last March when the exchange disclosed that some marketmakers may have reported phantom trades to the tape.

According to Dow Jones, the Amex's directors now are seeking stiffer penalties against the floor members involved in the phantom trades.

PSE Complaint Filed Against 9 in 'Wash Trades'

BY JOHN A. JONES
Times Staff Writer

The Pacific Stock Exchange has filed disciplinary complaints against nine individuals accused of improper activity in the first day of trading options on Houston Oil & Minerals Corp. stock, the exchange said Wednesday.

The nine people, whom the exchange declined to identify, are market makers who work on the exchange's options trading floor. They are alleged to have made "wash trades" among themselves, later reversing them with offsetting trades. This results in a "wash" or a net break-even on each pair of trades, which does not swell the traders' profits but inflates the apparent volume of trading activity on the exchange floor.

The improper trading occurred only in the Houston Oil & Minerals options and only on Nov. 22, the first day those options were traded, the exchange said. The activity "was discovered . . . very soon after it occurred, and the individuals charged in the complaints were immediately directed by PSE personnel to discontinue such activity," the exchange said.

"Before releasing this information we completed an investigation and we are absolutely certain this occurred only in that one option and on that one day," said Exchange President G. Robert Ackerman.

The exchange said the complaints will be presented for a hearing before the PSE's options floor trading committee. If the committee finds the complaints are backed by evidence, it may fine, suspend or expel the traders, subject to the exchange governors' approval.

Ackerman said he did not know exactly when the hearing will be held, but he said it will be "fairly soon" and definitely before the end of the year.

The "wash trades" involved only the market makers and had no effect on trades ordered by public investors, the exchange said.