3 on May 26, 1995.<sup>6</sup> This order approves the Amex proposal, as amended by Amendment Nos. 2 and 3.

Pursuant to Section 106 of the Amex Company Guide ("Guide"), the Exchange is now proposing to list and trade currency warrants based upon the value of the U.S. dollar in relation to the Mexican peso. Peso Warrants will be unsecured obligations of their issuers and will be cash-settled in U.S. dollars. Peso Warrants will be exercisable either throughout their life (i.e., Americanstyle) or only immediately prior to their expiration date (i.e., European-style). Upon exercise, the holder of a Peso Warrant structured as a "put" will receive payment in U.S. dollars to the extent that the value of the Mexican peso in relation to the U.S. dollar has declined below a pre-stated base level. Conversely, upon exercise, holders of a Peso Warrant structured as a "call" will receive payment in U.S. dollars to the extent that the value of the Mexican peso in relation to the U.S. dollar has increased above a pre-stated level. Peso Warrants that are "out-of-the-money" at the time of expiration will expire worthless.

Any issue of Peso Warrants will conform to the listing guidelines under Section 106 of the Guide which provide that: (1) the issuer will have assets in excess of \$100,000,000 and otherwise substantially exceed the size and earnings requirements in Section 101(A) of the Guide; (2) the term of the warrants will be from one to five years from the date of issuance; and (3) the minimum public distribution of such issues will be one million warrants, with a minimum of 400 public holders, and an aggregate market value of at least \$4 million.7

The Amex will also require that Peso Warrants be sold only to customers whose accounts have been approved for options trading pursuant to Exchange

Rule 921. The suitability standards of Exchange Rule 923 will apply to recommendations for opening transactions in Peso Warrants. Additionally, all discretionary orders in Peso Warrants must be approved and initialed on the day entered by a Senior Registered Options Principal or Registered Options Principal.8

For customer margin purposes, the Exchange will set the customer margin "add-on" percentage for Peso Warrants at 18% for both initial and maintenance margin, with a minimum add-on for outof-the-money Peso Warrants of 15%.10 If, as a result of the Exchange's routine monitoring of margin adequacy (i.e., at least quarterly reviews), the Amex determines that a higher customer margin level would be appropriate, the Amex will take immediate steps to implement the change. 11 If, on the other hand, the Exchange determines that a lower margin percentage would be appropriate as a result of the Exchange's periodic reviews, the Exchange will file a proposal with the Commission pursuant to Section 19(b) of the Act to modify the margin add-on percentages applicable to Peso Warrants. 12 Anytime that the customer margin levels for Peso Warrants are changes, the Exchange will promptly notify the Exchange's membership and the public.

Prior to the commencement of trading of Peso Warrants, the Exchange will distribute a circular to its membership calling attention to certain compliance responsibilities when handling transactions in Peso Warrants.<sup>13</sup>

The Commission finds that the proposed rule change is consistent with

the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of section 6(b)(5) 14 in that it is designed to protect investors and the public interest. First, the Commission believes that the trading of listed warrants on the Mexican peso should provide investors with a hedging and risk transfer vehicle that will reflect the overall movement of the Mexican peso in relation to the U.S. dollar. In this regard, Peso Warrants should provide investors with an efficient and effective means of managing risk associated with the Mexican peso.

Second, the Exchange has proposed listing standards to provide for fair and orderly markets in Peso Warrants. Peso Warrants will conform to the listing standards in Section 106 of the Guide, which are similar to the standards pursuant to which currency warrants have previously been listed by the Amex. 15 In addition, the Exchange will limit transactions in Peso Warrants to customers with options approved accounts and impose the Amex's suitability standards and discretionary account standards to transactions in Peso Warrants.

Third, the Exchange has proposed adequate customer margin requirements. The proposed add-on margin (i.e., 18%) provides sufficient coverage to account for historical and potential volatility in the Mexican Peso in relation to the U.S. dollar. In addition, the Exchange must conduct periodic reviews of the volatility in the Mexican peso and must take immediate steps to increase the existing customer margin levels if the Exchange determines that the existing levels are no longer adequate. 16 As a result, the Commission believes that the proposed customer margin levels and the review and maintenance criteria for those margin levels will result in adequate coverage of contract obligations and are designed to reduce risks arising from inadequate margin levels.

Finally, the Exchange will prepare and distribute to its membership a circular describing each issue of Peso

<sup>&</sup>lt;sup>6</sup> In Amendment No. 3, discussed herein, the Exchange specified the standards the Amex will use to ensure continued adequate customer margin levels for short positions in Peso Warrants. See Letter from Clair McGarth Managing Director and Special Counsel, Derivative Securities, Amex, to Mike Walinskas, Branch Chief, OMS, Division, Commission, dated May 26, 1995 ("Amendment No. 3").

<sup>&</sup>lt;sup>7</sup>The Exchange has submitted for Commission approval, proposed rules governing listing requirements, and customer protection and margin requirements for stock index warrants, currency index warrants, and currency warrants. See Securities Exchange Act Release No. 35086 (December 12, 1994), 59 FR 65561 (December 20, 1994) (notice of File No. SR–Amex–94–38) ("Generic Warrant Listing Proposal"). If ultimately approved by the Commission, Peso Warrants issued subsequent to that approval will be subject to these rules. These rules, however, will not change the customer margin requirements specified herein. See Amendment no. 2, supra note 5.

<sup>&</sup>lt;sup>8</sup> See Amex Rule 421, Commentary .02.

<sup>&</sup>lt;sup>9</sup> For these purposes, "add-on" is the percentage of the current market value of the Mexican pesos underlying each Peso Warrant that the holder of a "short" position must pay in addition to the current market value of each Peso Warrant.

<sup>&</sup>lt;sup>10</sup> See Amendment No. 2, supra note 5.

<sup>&</sup>lt;sup>11</sup>Prior to increasing the customer margin levels, the Exchange should immediately contact the Commission for a determination as to whether a rule filing pursuant to Section 19(b) of the Act will be required.

<sup>12</sup> Specifically, the Exchange will review, on at least a quarterly basis, the frequency distributions reflecting the percentage price returns for the Mexican peso in relation to the U.S. dollar for all seven day periods during the preceding two year period. If the current margin add-on is not sufficient to cover the least 97.5% of all such seven day price returns, the Exchange will take steps to increase the margin level to one that will cover at least 97.5% of all such instances. See Amendment No. 3, *supra* note 6. In no event, however, will the Exchange reduce the margin levels provided in Amendment No. 2 without the prior approval of the Commission. See Amendment No. 2, *supra* note 5.

<sup>&</sup>lt;sup>13</sup> The circular should highlight: (1) the Peso Warrants may be sold only to customers with options approved accounts; (2) the applicable suitability requirements; (3) the standards regarding discretionary orders; and (4) the applicable customer margin requirements.

<sup>&</sup>lt;sup>14</sup> 15 U.S.C. 78f(b)(5) (1988).

<sup>&</sup>lt;sup>15</sup> For example, the Amex currently lists currency warrants on the Japanese yen and the German mark. If the Commission approves the Exchange's Generic Warrant Listing Proposal, Peso Warrants listed subsequent to that approval will be subject to the revised listing standards. See Generic Warrant Listing Proposal, *supra* note 7. The Commission notes that to the extent the customer margin requirements contained in the Generic Warrant Listing Proposal differ from those discussed herein for Peso Warrants, the customer margin level specified above will be applied.

<sup>16</sup> See supra note 12.