point intervals. The Exchanges would generally list 2½ point strike prices in selected options for all expiration months on all participating exchanges, but not for long-term options (LEAPS).[11] Pursuant to the pilot program, the Exchanges would be permitted to use such 2½ point strike price intervals for a joint total of up to 100 option issues. Each exchange may select 10 options plus a percentage of the remaining 50 options equal to that exchange's pro rata share of the total number of equity options listed by the Exchanges.[12] If an exchange chooses a multiply-traded option for its allotment, any other exchange trading that option would be allowed to subsequently list 2½ point strike prices wihtout having such listing count toward that other exchange's allotted amount.

When more than one exchange selects a multiply-traded option for its allotment, the Options Clearing Corporation (''OCC'') will determine which exchange will be deemed to have selected the option according to the following procedures. The Exchanges have agreed that an exchange (''Selecting Exchange'') intending to list 2½ point strikes on an option will inform OCC of its selection by submitting a notice (''Selection Notice'') to OCC between the hours of 8:30 a.m. and 12:00 Noon (Central Time). In the event that more than one exchange submits a Selection Notice to the OCC for the same multiply-traded option, the exchange which first submits a Section Notice to the OCC will be deemed to be the Selecting Exchange for that option. Such option will count toward the allotment of the Selecting Exchange, but not toward the allotment of any other exchange submitting a Selection Notice under the terms of the pilot program.[13]

In implementing the proposals, the Exchanges note that the pilot program effectively adds five additional strike prices to each of the applicable classes of equity options, thereby creating a significant number of new strikes, including both puts and calls for all four listed expiration months.[14] The Exchanges believe that limiting the pilot program to 100 selected equity options is a reasonable alternative to adding 2½ point strike price intervals for all equity options trading at a strike price greater than $25 but less than $50. Further, the Exchanges believe that the allocated number of options limits the number of new strike prices while providing important investment opportunities for selected options.[15] Additionally, both the Exchanges[16] and the Options Price Reporting Authority (''OPRA''),[17] represent that each will have adequate computer processing capacity to accommodate the additional strike prices.

Further, the Exchanges believe that the addition of 2½ point strike price intervals will stimulate customer interest by creating greater trading opportunity and flexibility. The Exchanges believe that 2½ point strikes will provide customers the ability to more closely tailor investment strategies to the precise movement of the underlying security. The Exchanges also believe that an increase in customer interest will, in turn, enhance the depth and liquidity of the markets in the selected equity options.

III. Commission Finding and Conclusions

The Commission finds that the proposed rule changes are 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).[18] Specifically, the Commission believes that the proposed listing of 2½ point strike price intervals in selected equity options on a pilot basis will provide investors with more flexibility in the trading of equity options with a strike price greater than $25 but less than $50, thereby furthering the public interest by allowing investors to establish equity options positions that are better tailored to meet their investment objectives. The Commission also believes that the Exchanges' proposal strikes a reasonable balance between the Exchanges' desire to accommodate market participants by offering a wide array of investment opportunities and the need to avoid excessive proliferation of options series. The Commission expects the Exchanges to monitor the applicable equity options activity closely to detect any proliferation of illiquid options series resulting from the narrower strike price intervals and to act promptly to remedy this situation should it occur.

In addition, based on the representations from OPRA, the Commission believes that adequate computer processing capacity to accommodate the additional strike prices is currently available.[19] The Exchanges also represent that their current systems capacities are sufficient to meet the expected demands of the additional strike prices.[20] Nevertheless, the Commission requests that the Exchanges monitor the trading volume

[11] The Exchanges do not propose to require the listing of 2½ point strikes for all expiration months in selected option classes. *See* NYSE Letter, dated June 15, 1995, *supra* note 10. *See also* Phlx Letter, dated June 14, 1995; PSE Letter, dated June 14, 1995; CBOE Letter, dated June 30, 1995; and Amex Letter, dated July 6, 1995, *supra* note 6.

[12] The actual allotment of option issues for each exchange is: CBOE (28), Amex (22), Phlx (18), PSE (18), and NYSE (14). The Amex submitted a clarifying amendment to indicate that its allotment of option issues pursuant to the pilot program is 22. *See* Amex Letter, dated June 6, 1995, *supra* note 10. *See also* NYSE Letter, dated March 29, 1995, *supra* note 4.

[13] *See* Letter from James C. Yong, First Vice President and General Counsel, Options Clearing Corporation (''OCC''), to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated July 6, 1995 (''OCC Letter, dated July 6, 1995'').

[14] The Exchanges submitted clarifying amendments to their proposals to indicate that the maximum number of allotted new strikes created as a result of this pilot program for each exchange is: CBOE (1,120); Amex (880); Phx (720); PSE (720); and NYSE (560). *See* Letter from Michael Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated May 11, 1995, and Letter from Gerald O'Connell, First Vice President, Market Regulation and Trading Operations, Phlx, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated May 16, 1995. *See also* CBOE Letter, dated May 4, 1995; Amex Letter, dated June 6, 1995; and NYSE Letter, dated June 15, 1995, *supra* note 10. These figures do not include LEAPs or new strikes created from multiply-traded options simultaneously selected by more than one exchange in accordance with the terms of the pilot program.

[15] The Amex notes in its proposal that certain low volatility stocks of highly capitalized companies usually trade in fairly narrow price ranges. Amex further notes that options on such stocks generally have limited trading activity since in-the-money options sell for little more than intrinsic value and out-of-the-money options yield little premium income to attract uncovered or covered writers. (*See* File No. SR–Amex–95–12).

The NYSE notes in its proposal that it anticipates selecting its allotment from among those options that overlie less volatile stocks. The NYSE believes that the market for options that overlie low volatility stocks will benefit from the pilot program because options series with strike prices that are closer to the price of the underlying stock will be available. Consequently, expanded options strategies will be available to investors. (*See* File No. SR–NYSE–95–12).

[16] *See* Letters from Michael Pierson, Senior Attorney, Market Regulation, PSE, dated June 6, 1995 (''PSE Capacity Statement''), and Edward Provost, Senior Vice President, CBOE, dated June 5, 1995 (''CBOE Capacity Statement''), to John Ayanian, Attorney, OMS, Market Regulation, Commission. *See also* Memorandum from Donna Gervasi, Phlx, to Gerald O'Connell, First Vice President, Market Regulation and Trading Floor Operations, Phlx, dated June 8, 1995, which is enclosed in letter from Gerald O'Connell, dated June 8, 1995 (''Phlx Capacity Statement''), and Letter from Wendy Hoffman, Amex, dated June 23 (''Amex Capacity Statement''), to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission. *See also* NYSE Letter, dated June 15, 1995, *supra* note 10.

[17] *See* Letter from Joseph P. Corrigan, Executive Director, OPRA, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated June 27, 1995 (''OPRA Capacity Statement'').

[18] 15 U.S.C. 78f(b)(5).

[19] *See* OPRA Capacity Statement, *supra* note 17.

[20] *See* PSE Capacity Statement, Phlx Capacity Statement, Amex Capacity Statement, and CBOE Capacity Statement, *supra* note 16. *See also* NYSE Letter, dated June 15, 1995, *supra* note 10.