calculated by multiplying its listed capital⁵ by the price of the common stock (or if the common stock is not listed, the preferred stock) and a multiplier determined by the FSE. The stocks included in the DAX Index are among the largest German corporations, whose shares are among the most actively traded of German issuers. The Index is composed of securities representing more than ten broad industry groups, including chemicals, automobile manufacturers, banks, and insurance companies.⁶

The Index had a closing value of 2,184.33 on July 20, 1995. As of December 2, 1994, the 30 stocks comprising the Index ranged in individual market capitalizations from a low of approximately DM 1.17 billion (US. \$841.73 million)7 to a high of approximately DM 50.59 billion (U.S. \$36.40 billion) with a mean capitalization of DM 13.88 billion (U.S. \$9.99 billion). Also as of that date, the five largest stocks in the Index accounted for approximately 43.69% of the total weight of the Index with no single security accounting for more than 12.15% of the weight of the Index. Average daily trading volume in the components of the Index for the period from June 1, 1994, through November 30, 1994, ranged from a low of 59,408 shares to a high of 1,042,280 shares, with an average daily trading volume for an Index component during that period of 338,449 shares.

B. Calculation and Dissemination of the Index Value

The value of the DAX Index is calculated every minute by the FSE from 10:30 a.m. to 1:30 p.m., Frankfurt time (4:30 a.m. to 7:30 a.m. Eastern time), based on last sale prices of the component stocks. The value of the Index is disseminated over Reuters News Service, among others. The value of the Index, however, is not disseminated by the FSE until opening

prices are available for at least 15 components of the Index representing at least 70% of the capitalization of the Index. Thereafter, with respect to any stock that has not yet opened for trading, the Index value is calculated using the previous day's closing price for those components.

In order to maintain continuity of the value of the Index, the FSE adjusts the Index to reflect certain events relating to the component stocks. For example, the FSE adjusts the Index value to reflect cash dividends paid on the component securities.⁸ An adjustment is also applied by the FSE whenever a company issues new shares for which the shareholders have preemptive rights, or when other intra-year events, such as mergers and spinoffs, occur.

The number of listed shares of each stock used in the calculation of the value of the Index is updated by the FSE annually in September. At that time, the adjustment factors mentioned above, which reflect the dividend payments and/or intra-year adjustments, are rescaled to one, with an additional adjustment made to maintain continuity in the value of the Index.

In addition, the composition of the Index is reviewed periodically by the FSE. It is the FSE's policy not to alter the composition of the DAX Index unless a stock ceases to meet the criteria that initially were the basis for including the stock in the Index. Replacements are usually made from a list of substitute stocks. If it is not possible to substitute a stock from the same industry group, a stock from another industry may be substituted.

C. Index Warrant Trading

The Amex proposes to list DAX Index warrants pursuant to Section 106 of the Amex Company Guide ("Guide"). Under Amex's rules, the Amex may approve for listing warrants on established foreign and domestic market indexes. The CBOE has similar authority to list warrants on foreign indexes pursuant to CBOE Rule 31.5(E).

The Amex and the CBOE represent that Index warrant issues will conform to the index listing guidelines contained in Section 106 of the Guide and CBOE Rule 31.5(E), respectively. Specifically, the listing guidelines of the Exchanges require that: (1) issuers of DAX Index warrants will be have assets in excess of

\$100,000,000 and otherwise substantially exceed the Exchanges' size and earnings requirements; ⁹ (2) the term of warrants will be for a period ranging from one to five years from the date of issuance; and (3) the minimum public distribution of such issues will be 1,000,000 warrants, with as minimum of 400 public holders, and a minimum aggregate market value of \$4,000,000.

The Exchanges will apply the same margin treatment for the purchase of Index warrants as they require for listed options.¹⁰

The proposed Index warrants will be direct obligations of their issuers subject to cash-settlement in U.S. dollars, and either exercisable throughout their life (i.e., American-style) or exercisable only immediately prior to their expiration date (i.e., Europe-style). Upon exercise, the holder of an Index warrant structured as a "put" will receive payment in U.S. dollars to the extent that the DAX Index has declined below a cash settlement value specified at the time of issuance. Conversely, upon exercise, holders of an Index warrant structured as a "call" will receive payment in U.S. dollars to the extent that the DAX Index has increased above a cash settlement value specified at the time of issuance. Index warrants that are "out-of-the-money" at the time of expiration will expire worthless.

Because index warrants are derivative in nature and closely resemble index options, the Exchanges will also require that DAX Index warrants be sold only to customers whose accounts have been approved for options trading. 11 Second, the Exchanges' options suitability standards will apply to recommendations in Index warrants. 12 Third, the exchanges' rules regarding discretionary orders will also apply to transactions in Index warrants. 13

Prior to the commencement of trading of Index warrants, the Exchanges will distribute circulars to their members calling attention to certain compliance responsibilities when handling transactions in Index warrants.

⁵Listed capital for a component security is determined based on an issuer's preferred and common shares registered for trading on the FSE. This is different from domestic capitalization-weighted indexes, such as the S&P 500 Index, the values of which are calculated based only on the shares of the issuer's common stock.

⁶The components of the Index are: Allianz AG Holdings; BASF AG; Bayer AG; Bayer Hypo/Wech; BMW; Bayer Vereinsbank AG; Commerzbank AG; Continental AG; Daimler-Benz AG; Deutsche Babcock AG; Deutsche Bank AG; Degussa AG; Dresdner Bank AG; Henkel KGAA-Pfd; Hoechst AG; Karstadt AG; Kaufhof Holdings AG; Lufthansa AG; Linde AG; Man AG; Metallgesellschaft; Mannesmann AG; Preussag AG; RWE AG; Schering AG; Siemens AG; Thyssen AG; Veba AG; Viag AG; and Volkswagen AG.

⁷ Based on a current German mark/U.S. dollar exchange rate of approximately DM 1.39/U.S. \$1.

⁸The FSE makes this adjustment because German companies usually pay their dividends only once per year (generally in June or July). If not adjusted, the annual dividend payment would result in a significant drop in the value of the Index at the time when the dividends are paid. As a result, the FSE calculates the dividend adjustment such that share prices reflect full dividend reinvestment.

 $^{^{9}\,}See$ Amex Guide Section 101 and CBOE Rule 31.5A.

¹⁰ Telephone conversation between Claire McGrath, Managing Director and Special Counsel, Derivative Securities, Amex, and Brad Ritter, Senior Counsel, Office of Market Supervision, Division of Market Regulation, Commission, on July 21, 1995. See Amex Rule 462 and CBOE Rule 12.3.

¹¹ See Amex Rule 921 and CBOE Rule 9.7.

 $^{^{12}\,}See$ Amex Rule 411, Commentary .02 and CBOE Rule 9.9.

¹³ See Amex Rule 421, Commentary .02 and CBOE Rule 30.50, Interpretation .04 (requiring that the standards of Rule 9.10 be applied to index warrant transactions).