Amendment No. 2 on August 15, 1995,⁵ Amendment No. 3 on September 6, 1995,⁶ and Amendment No. 4 on September 19, 1995.⁷ This order approves the Exchange's proposal, as amended.

II. Description of Proposal

A. General

The Amex proposes to trade options on the Tech 35 Index, a new stock index developed by Morgan Stanley & Co. Incorporated ("Morgan Stanley") based on technology stocks that are traded on the Amex, the New York Stock Exchange, Inc. ("NYSE"), or are National Market securities traded through Nasdaq. In addition, the Amex proposes to amend Amex Rule 902C(d) to include the Tec 35 Index in the disclaimer provisions of that rule.8 The Amex also proposes to list long-term options on the Index having up to 36 months to expiration. In lieu of such long-term options on the full value of the Index, the Amex may instead list long-term options based on one-tenth of the value of the Tech 35 Index. These long-term options on either the full or reduced value of the Index are referred

to as "Tech 35 LEAPS" or "Index LEAPS." Tech 35 LEAPS will trade independent of and in addition to regular Index options traded on the Exchange. However, as discussed below, position and exercise limits of Index LEAPS (both full and reduced-value) and regular Index options will be aggregated.

B. Composition of the Index

The Index is comprised of 35 large, actively traded, technology stocks. Included in this group are companies in the following industries: computer services, design software, server software, PC software and new media, networking and telecommunications equipment, server hardware, PC hardware and peripherals, specialized systems, and semiconductors. The Exchange will use an "equal dollarweighted" method to calculate the value of the Index.10 The Index was initialized at a level of 200 as of the close of trading on December 16, 1994. As of the close of trading on September 5, 1995, the Index was valued at 300.0. The market capitalizations of the individual stocks in the Index as of the close of trading on June 15, 1995, ranged from a high of \$54.0 billion to a low of \$1.1 billion, with the mean and median being \$11.0 billion and \$5.2 billion, respectively. The market capitalization of all the stocks in the Index on that date was approximately \$386.7 billion. The total number of shares outstanding for the stocks in the Index ranged from a high of 588.6 million shares to a low of 19.9 million shares. In addition, the average monthly trading volume of the stocks in the Index, for the six-month period from December 1, 1994 through May 31, 1995, ranged from a high of 63.3 million shares per month to a low of 4.5 million shares per month, with the mean and median being 24.1 million and 14.4 million shares, respectively. Lastly, as of the close on June 15, 1995, no one stock accounted for more than 3.98% of the

Index's total value and the percentage weighting of the five largest issues in the Index accounted for 18.25% of the Index's value.

C. Eligibility Standards for the Inclusion Component Stocks in the Index

The Tech 35 Index conforms with Exchange Rule 901C, which specifies criteria for the inclusion of stocks in an index on which standardized options will be traded on the Exchange. In addition, Morgan Stanley has included in the Index only those stocks that meet the following standards: (1) a minimum market capitalization of \$75 million; (2) average monthly trading volume of at least one million shares during the preceding six month period; (3) each component security must be traded on the Amex or the NYSE, or must be a National Market security traded through Nasdag; and (4) upon annual rebalancing, at least 90% of the Index's numerical value must satisfy the then current criteria for standardized options trading set forth in Exchange Rule 915.11

D. Calculation of the Index

The Index will be calculated using an ''equal dollar-weighting'' methodology designed to ensure that each of the component stocks are represented in approximately "equal" dollar amounts in the Index. In calculating the initial "equal dollar-weighting" of component stocks, the Amex, using closing prices on December 16, 1994, calculated the number of shares that would represent an investment of \$300,000 in each of the stocks contained in the Index (to the nearest whole share). The value of the Index equals the current market value (i.e., based on U.S. primary market prices) of the assigned number of shares of each of the stocks in the Index divided by the current Index divisor. The Index divisor was initially calculated to yield a benchmark value of 200.00 at the close of trading on December 16, 1994. Annually thereafter, following the close of trading on the third Friday of December, the Index portfolio will be adjusted by changing the number of shares of each component stock so that each company is again represented in "equal" dollar

⁵ Amendment No. 2 was subsequently superseded by Amendment No. 3. *See* Amendment No. 3, *infra* note 6

⁶ In Amendment No. 3, the Amex provided that: (1) the Exchange will replace component securities in the Index that, at the time of any quarterly review, have failed to maintain a share price of \$5.00 or greater for a majority of business days during the three months prior to such quarterly review; and (2) the Exchange will publicly disseminate each Replacement List as soon as practicable following receipt from Morgan Stanley. In Amendment No. 3 the Exchange also clarified that options on the Index will be listed on the March cycle. See Letter from Claire McGrath, Managing Director and Special Counsel, Derivative Securities, Amex, to Michael Walinskas, Branch Chief, OMS, Division, Commission, dated September 6, 1995 ("Amendment No. 3").

In Amendment No. 4, the Amex provided that: (1) the Exchange will in its initial Information Circular describing the trading of options on the High Tech 35 Index advise its membership that a list of securities from which the Exchange will choose replacements for the Index will be publicly available each quarter for their review, and that the Exchange will issue an Information Circular each quarter setting forth the updated replacement list; and (2) each security included on the replacement list will meet the initial criteria for components in the Index and each security chosen from that list as a replacement will continue to meet those criteria at the time of its inclusion in the Index. See letter from Claire McGrath, Managing Director and Special Counsel, Derivative Securities, Amex, to Michael Walinskas, Branch Chief, OMS, Division, Commission, dated September 19, 1995 ("Amendment No. 4")

⁸ Amex Rule 902C(d) provides, among other things, that Morgan Stanley does not guarantee the accuracy or completeness of the Tech 35 Index or any data included therein, nor does Morgan Stanley make any warranty, either express or implied, as to the results to be obtained by any person or entity from the use of the Tech 35 Index or any data included therein.

 $^{^{9}\, \}text{The current components of the Index are: Apple}$ Computer, Inc.; Autodesk, Inc.; Adobe Systems Incorporated; Applied Materials, Inc.; America Online, Inc.; Automatic Data Processing, Inc.; Bay Networks, Inc.; Broderbund Software, Inc. Computer Associates International Inc.; 3Com Corporation; Compaq Computer Corporation; Cabletron Systems, Inc.; Computer Sciences Corporation; Cisco Systems, Inc.; EMC Corporation; Electronic Arts Inc.; First Data Corporation; General Motors (Class E); Hewlett-Packard Company; IBM; Intel Corporation; Intuit Inc.; KLA Instruments Corporation; Linear Technology Corporation; Motorola, Inc.; Microsoft Corporation; Novell, Inc.; Oracle Systems Corporation; Parametric Technology Corporation; Seagate Technology, Inc.; Silicon Graphics, Inc.; Synopsys, Inc.; Tellabs Inc.; Texas Instruments, Incorporated; and Xilinx, Inc.

¹⁰T3See infra Section II.D entitled "Calculation of the Index" for a description of this calculation method

¹¹ The Amex's options listing standards, which are uniform among the options exchanges, provide that a security underlying an option must, among other things, meet the following requirements: (1) the public float must be at least 7,000,000 shares; (2) there must be a minimum of 2,000 stockholders; (3) trading volume must have been at least 2.4 million over the preceding twelve months; and (4) the market price must have been at least \$7.50 for a majority of the business days during the preceding three calendar months. See Amex Rule 915. As of June 15, 1995, all of the Index component securities had standardized options trading on them.