[Release No. 34–36537; File Nos. SR–Amex– 95–45; and SR–PSE–95–30]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the American Stock Exchange, Inc., and Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment No. 1 to the Proposed Rule Change by the Pacific Stock Exchange, Inc. Relating to Modifications of the Position and Exercise Limits for Narrow-Based Index Options

November 30, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on November 15, 1995, the American Stock Exchange, Inc. ("Amex"); and on November 16, 1995, the Pacific Stock Exchange, Inc. ("PSE") (each individually referred to as an "Exchange" and both collectively referred to as "Exchanges") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule changes as described in Items I and II below, which Items have been prepared by the selfregulatory organizations.² The Commission is approving the proposals on an accelerated basis.

I. Self-Regulatory Organizations' Statements of the Terms of Substance of the Proposed Rule Changes

The Exchanges propose to amend their rules to increase the position and exercise limits ³ for narrow-based (or industry) index options from the current levels of 5,500, 7,500, or 10,500 contracts to 6,000, 9,000, or 12,000 contracts.⁴ The Commission has

³ Position limits impose a ceiling on the number of option contracts which an investor or group of investors acting in concert may hold or write in each class of options on the same side of the market (*i.e.*, aggregating long calls and short puts or long puts and short calls). Exercise limits prohibit an investor or group of investors acting in concert from exercising more than a specified number of puts or calls in a particular class within five consecutive business days.

⁴The Amex's position and exercise limits for industry index options are provided in Amex Rules 904C, "Position Limits," and 905C, "Exercise Limits." The PSE's position and exercise limits for industry index options are provided in PSE Rules 7.6, "Position Limits for Index Options," and 7.7, approved identical proposal by the Philadelphia Stock Exchange, Inc. ("PHLX") and by the Chicago Board Options Exchange, Inc. ("CBOE").⁵

The texts of the proposed rule changes are available at the offices of the Exchanges, and at the Commission.

II. Self-Regulatory Organizations' Statements of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In their filings with the Commission, the self-regulatory organizations included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organizations have prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organizations' Statements of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

The Exchanges propose to amend their rules to increase the position and exercise limits for narrow-based (or industry) index options from the current levels of 5,500, 7,500, or 10,500 contracts to 6,000, 9,000, or 12,000 contracts. The Exchanges note that the Commission has approved identical proposals by the PHLX and the CBOE.⁶

Currently, the Exchanges' rules establish 5,500, 7,500, and 10,500 contract levels as position limits for industry index options. The Exchanges propose to increase these limits to 6,000, 9,000, and 12,000 contracts,

⁵ See Securities Exchange Act Release Nos. 36194 (September 6, 1995), 60 FR 47637 (September 13, 1995) (order approving File No. SR–PHLX–95–16) ("PHLX Approval Order"); and 36439 (October 31, 1995), 60 FR 56075 (November 6, 1995) (order approving File No. SR–CBOE–95–56) ("CBOE Approval Order"). ⁶ Id.

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respectively. Under the Exchanges' rules, exercise limits correspond to position limits.

The Exchanges note that the current position and exercise limits have been in place since 1993⁷ and that there have been no further increases in position limits for narrow-based index options since that time, despite appreciable growth in index options trading. According to the Amex, there has been a notable increase in narrow-based index option trading since 1993. Specifically, the Amex states that through October 31, 1995, narrow-based index option volume has increased 79% over all of 1994.

In addition, the Exchanges believe that the proposed increases are reasonable and consistent with the gradual, evolutionary approach adopted previously by the Commission and the options exchanges when increasing position and exercise limits.⁸ Accordingly, the Exchanges propose a 9% increase for the lowest tier (5,000 to 6,000 contracts); a 20% increase for the middle level position limit (from 7,500 to 9,000 contracts); and a 15% increase in the highest level (from 10,500 contracts to 12,000 contracts).

The Exchanges also believe that the proposed increases are required by traders and investors to meet their investment needs. In this regard, the Exchanges believe that the current position limit levels create difficulties for investors in narrow-based index options, especially those institutional investors who own large portfolios of the component securities and who wish to use the options markets to hedge those portfolios. The Exchanges propose to raise the position and exercise limits for narrow-based index options to accommodate the liquidity and hedging needs of large investors and the institutions that compete to facilitate the trading interests of the large investors.

Finally, the Exchanges believe that the proposed limits of 6,000, 9,000, and 12,000 contracts will increase the depth and liquidity of the market for industry index options without causing any market disruption. The Exchanges represent that they will continue to monitor and surveill for manipulation and violations of the position and exercise limits. Specifically, the Amex

¹15 U.S.C. 78s(b)(1) (1988).

² On November 27, 1995, the PSE amended its proposal to submit its filing pursuant to Section 19(b)(2) under the Act and to request accelerated effectiveness of the proposal. See Letter from Michael Pierson, Senior Attorney, Market Regulation, PSE, to Yvonne Fraticelli, Office of Market Supervision, Division of Market Regulation, Commission, dated November 27, 1995 ("Amendment No. 1").

[&]quot;Exercise Limits." Under the Exchanges' rules, the current position limits for industry index options are as follows: (1) 5.500 contracts if the Exchange determines in its semi-annual review that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; (2) 7,500 contracts if the Exchange determines in its semiannual review that any single underlying stock accounted, on average, for more than 20% of the index value or that any five underlying stocks accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or (3) 10,500 contracts if the Exchange determines that the conditions requiring the establishment of a lower limit have not occurred.

⁷See Securities Exchange Act Release Nos. 33282 (December 3, 1993), 58 FR 65218 (December 13, 1993) (order approving File No. SR–PSE–93–38); and 33285 (December 3, 1993), 58 FR 65201 (December 13, 1993) (order approving File No. SR– Amex–93–27).

⁸ According to the PSE, the most recent position limit changes in 1993 represented changes of 38% (from 4.000 to 5,500 contracts); 25% (from 6,000 to 7,500 contracts); and 31% (from 8,000 to 10,500 contracts).