states that it will use monitoring systems currently in place to detect and deter attempted manipulative activity and other trading abuses through the use of illegal positions by market participants. The PSE states that it will monitor the markets for evidence of manipulation or disruption caused by investors with positions at or near current position or exercise limits and that the proposed limits will not diminish the surveillance function in this regard.

The Exchanges believe that the proposals to increase narrow-based index option position limits are consistent with Section 6 of the Act, in general, and, in particular, with Section 6(b)(5), in that they are designed to promote just and equitable principles of trade and to prevent fraudulent and manipulative acts and practices. The Amex also believes that the proposal is not designed to permit unfair discrimination between customers, issuers, brokers or dealers. The PSE also believes that the proposal is designed to protect investors and the public interest.

(B) Self-Regulatory Organizations' Statements on Burden on Competition

The Exchanges do not believe that the proposed rule changes will impose any burden on competition.

(C) Self-Regulatory Organizations' Statements on Comments on the Proposed Rule Changes Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule changes.

III. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Changes

The Exchanges have requested that the proposed rule changes be given accelerated effectiveness pursuant to Section 19(b)(2) of the Act. As noted above, the Commission has previously approved identical proposals submitted by the PHLX and the CBOE.[9]

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).[10] Specifically, the Commission finds that the proposed position and exercise limits for narrow-based index options should accommodate the needs of investors and market participants and should increase the potential depth and liquidity of the options market as well as the underlying cash market without significantly increasing concerns regarding intermarket manipulations or disruptions of the market for the options or the underlying securities.

As noted above, the Commission believes that although the position and exercise limits for options must be sufficient to protect the options and related markets from disruptions by manipulation, the limits must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent market makers from adequately meeting their obligations to maintain a fair and orderly market. In this regard, the Exchanges have stated that they believe that the proposals will increase the depth and liquidity or the market for industry index options without causing any market disruption. In addition, the Exchanges represent that they will continue to conduct surveillance for manipulation and other trading abuses.

The Commission notes that the proposals, while increasing the applicable position and exercise limits for narrow-based index options, continue to reflect the unique characteristics of each index option and maintain the structure of the current three-tiered system. Specifically, the lowest proposed limit, 6,000 contracts, will apply to narrow-based index options in which a single underlying stock accounts for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option positions limits. Limits of 9,000 contracts will apply if any single underlying stock accounts, on average, for 20% or more of the index value or any five underlying stocks account, on average for more than 50% of the index value, but no single stock in the group accounts, on average, for 30% or more of the index value during the 30-day period immediately preceding the Exchange's semi-annual review of industry index option position limits. The 12,000-contract limit will apply only if the Exchange determines that the conditions requiring either the 6,000-contract limit or the 9,000-contract limit have not occurred. Accordingly, the proposal allows the Exchanges to avoid placing unnecessary restraints on those narrow-based index options where the manipulative potential is the least and the need for increased positions, both by traders and institutional investors, may be the greatest.

The Commission believes that the proposed increases for the three tiers of 9%, 20%, and 15%, for lowest to highest, respectively, appear to be appropriate and consistent with the Commission's evolutionary approach to position and exercise limits. In this regard, the absence of discernible manipulative problems under the current three-tiered position and exercise limit system for narrow-based index options leads the Commission to conclude that the modest increases proposed by the Exchanges are warranted. The Commission recognizes that there are no ideal limits in the sense the options positions of any given size can be stated conclusively to be free of any manipulative concerns. However, based upon the absence of discernible manipulation or disruption problems under current limits, the Commission believes that the proposed limits can be safely considered. Accordingly, the Commission believes that the liberalization of existing position and exercise limits for narrow-based index options is now appropriate.[11]

The Commission notes that the Exchanges have had considerable experience monitoring the current three-tiered framework in narrow-based stock index options. The Commission has not found that differing position and exercise limit requirements based on the particular options product to have created programming or monitoring problems for securities firms, or to have led to significant customer confusion. Based on the current experience in handling position and exercise limits, the Commission believes that the proposed increases in position and exercise limits for narrow-based index options will not cause significant problems.

Finally, the Exchanges have indicated that they will continue to conduct surveillance for manipulation. The Commission believes that the Exchanges' surveillance programs are adequate to detect and deter violations of position and exercise limits as well as to detect and deter attempted manipulative activity and other trading abuses through the use of such illegal positions by market participants.

For the foregoing reasons, the Commission finds that the proposals to increase the position and exercise limits

[9] See PHLX and CBOE Approval Orders, *supra* note 5.

[10] 15 U.S.C. 78f(b) (1988 & Supp. V 1993).

[11] The Commission continues to believe that proposals to increase position limits and exercise limits must be justified and evaluated separately. After reviewing the proposed exercise limits, along with the eligibility criteria for each tier, the Commission has concluded that the proposed exercise limit increases for the three-tiered framework do not raise manipulation problems or increase concerns over market disruption in the underlying securities.