

change is available at the Office of the Secretary, Amex and at the Commission.

## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item III below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

#### 1. Purpose

On March 21 1994, the Commission extended its pilot approval of amendments to Exchange Rule 109 until March 21, 1995.<sup>4</sup> The amendments permit a specialist, upon request, to grant a stop<sup>5</sup> in a minimum fractional change market<sup>6</sup> for any order of 2,000 shares or less, up to a total of 5,000 shares for all stopped orders, provided there is an order imbalance, without obtaining prior Floor Official approval. A Floor Official, however, must authorize a greater order size or aggregate share threshold.

During the course of the pilot program, the Exchange has closely monitored compliance with the rule's requirements; analyzed the impact on orders on the specialist's book resulting from the execution of stopped orders at a price that is better than the stop price; and reviewed market depth in a stock when a stop is granted in a minimum fractional change market. The Exchange believes that the amendments to Rule 109 have provided a benefit to investors by providing an opportunity for price

improvement, while increasing market depth and continuity without adversely affecting orders on the specialist's book. The Exchange's findings in this regard have been forwarded to the Commission under separate cover.

The Exchange is therefore proposing a four month extension of the pilot program which amended Rule 109.

#### 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest. The Exchange believes that the proposed amendments to Rule 109 are consistent with these objectives in that they are designed to allow stops, in minimum fractional change markets, under limited circumstances that provide for the possibility of price improvement to customers whose orders are granted stops.

### B. Self-Regulatory Organization's Statement on Burden on Competition

The proposed rule change will impose no burden on competition.

### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

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

## III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC 20549. Copies of such filing will also be available for

inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-95-01 and should be submitted by February 28, 1995.

## IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with Section 6(b)(5)<sup>7</sup> and Section 11(b)<sup>8</sup> of the Act. The Commission believes that the amendments to Rule 109 should further the objectives of Section 6(b)(5) and Section 11(b) through pilot program procedures designed to allow stops, in minimum fractional change markets, under limited circumstances that provide the possibility of price improvement to customers whose orders are granted stops.<sup>9</sup>

In its orders approving the pilot procedures,<sup>10</sup> the Commission asked the Amex to study the effects of stopping stock in a minimum fractional change market. Specifically, the Commission requested information on (1) the percentage of stopped orders executed at the stop price, versus the percentage of such orders that received a better price; (2) whether limit orders on the specialist's book were bypassed due to the execution of stopped orders at a better price (and, to this end, the Commission requested that the Amex conduct a one-day review of all book orders in the ten stocks receiving the greatest number of stops); (3) market depth, including a comparison of the size of stopped orders to the size of the opposite side of the quote and to any quote size imbalance, and an analysis of the ratio of the size of the bid to the size of the offer; and (4) specialist compliance with the pilot program's procedures.

The Exchange has submitted to the Commission several monitoring reports regarding the amendments to Rule 109. The Commission believes that, although these monitoring reports provide certain useful information concerning the operation of the pilot program, the Commission must conduct further

33791 (March 21, 1994), 59 FR 14432 (March 28, 1994) (File No. SR-Amex-93-47) ("1994 Approval Order"). Commission approval of these amendments to Rule 109 expires on March 21, 1995. The Exchange seeks accelerated approval of the proposed rule change in order to allow the pilot program to continue without interruption. See letter from Linda Tarr, Special Counsel, Legal & Regulatory Policy Division, Amex, to Glen Barrentine, Senior Counsel, Division of Market Regulation, SEC, dated January 31, 1995.

<sup>4</sup> See 1994 Approval Order, *supra*, Note 3.

<sup>5</sup> When a specialist agrees to a floor broker's request to "stop" an order, the specialist is obligated to execute the order at the best bid or offer, or better if obtainable. See Amex Rule 109(a).

<sup>6</sup> Amex Rule 127 sets forth the minimum fractional changes for securities traded on the Exchange.

<sup>7</sup> 15 U.S.C. 78f (1988).

<sup>8</sup> 15 U.S.C. 78k (1988).

<sup>9</sup> For a description of Amex procedures for stopping stock in minimum fractional change markets, and of the Commission's rationale for approving those procedures on a pilot basis, see 1992 Approval Order, *supra*, note 3. The discussion in the aforementioned order is incorporated by reference into this order.

<sup>10</sup> See *supra*, note 3.