products based on new indexes (which require that a filing be made pursuant to Section 19(b)(3)(A) of the Act). Specifically, the Commission believes that the seven day prefiling requirement gives the Commission staff an opportunity to discuss with an Exchange whether its proposal to list and trade particular narrow-based index warrants properly qualifies for effectiveness upon filing. In addition, the Commission finds that the 30 day delay in the commencement of trading of proposed narrow-based index warrants will provide a meaningful opportunity for public comment prior to the commencement of trading, while also providing an Exchange with the opportunity to inform market participants in advance of the proposed trade date for new index warrants. In accordance with Section 19(b)(3)(C) of the Act, if the Commission determines that the rule change proposal is inconsistent with the requirements of the Act and the rules and regulations thereunder, the 30 day delay would allow the Commission to abrogate the rule change before trading commences, which will minimize disruption on market participants. This authority could be utilized if, for example, it is determined that the proposed narrow-based index warrant does not satisfy the applicable accelerated listing standards.

III. Conclusion

The Commission believes that the adoption of these proposed uniform listing and trading standards for narrow-based index warrants will provide an appropriate regulatory framework. These standards will also benefit the Exchanges by providing them with greater flexibility in structuring narrow-based index warrant issuances and a more expedient process for listing narrow-based index warrants without further Commission review pursuant to Section 19(b) of the Act. As noted above, additional Commission review of specific warrant issuances will generally only be required for warrants overlying any non-approved narrow-based index that has not been previously approved by the Commission for narrow-based index warrant or options trading. If Commission review of a particular warrant issuance is required, the Commission expects that, to the extent that the warrant issuance complies with the uniform criteria adopted herein, its review should generally be limited to issues concerning the newly proposed index. This should help ensure that such additional Commission review could be completed in a prompt manner without causing any unnecessary delay in listing new narrow-based index warrant products.

The Commission finds good cause for approving the Exchanges' Amendments to the proposals prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. The Commission notes that the Amendments primarily relate to position limits and aggregation of multiple issuances of warrants on the same index. The Commission notes that the Amendments ensure that multiple issuances of index warrants on the same narrow-based index will be aggregated together and subject to an overall limit. The Commission believes it is appropriate to aggregate holdings in multiple issuances together since, despite the difference in expiration dates, warrants which overlie the same index are fundamentally the same instrument. Furthermore, aggregation provisions will ensure that an investor (or group) may not circumvent the applicable position limits by merely purchasing warrants from different issuances.

The Amendments also provide that once a position limit is established for a particular warrant issuance, it will not be reduced for the duration of that particular issuance. Given the limited duration of warrants (one to five years), and that any new index warrants on the same index could not exceed the lowered position limits, the Commission believes it is appropriate for position limits to not be reduced during their duration.

CBOE Amendment No. 2 imposes a minimum nine stock requirement for all narrow-based indexes which underlie a warrant issuance. This provision brings CBOE into conformity with the other exchanges. The Amex and Phlx provisions regarding this requirement have already been noticed and no comments were received. Accordingly, this provision does not raise any new or unique regulatory issues. Finally, Amex Amendment No. 4 reduces the lowest position limit tier to 4.5 million warrants from 4.875 million. The Commission notes that this brings the Amex into conformity with the other Exchanges. Finally, CBOE Amendment No. 4 clarifies an example contained in CBOE Amendment No. 3 with respect to position limit aggregation. Because this example is explanatory in nature and does not alter any of its rules, the provision does not raise any new or unique issues. For these reasons, the Commission believes there is good cause, consistent with Section 19(b)(2) [23] of the Act, to approve the Exchanges' Amendments to the proposals on an accelerated basis.

[23] 15 U.S.C. § 78s(b)(2) (1988).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the Exchanges' Amendments. 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 in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal offices of the above-mentioned self-regulatory organizations. All submissions should refer to the file number in the caption above and should be submitted by April 19, 1996.

It therefore is ordered, pursuant to Section 19(b)(2) of the Act,[24] that the proposed rule changes (SR–Amex–95–39, SR–CBOE–95–67, and SR–Phlx–95–76) are approved, as amended.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[25]

Jonathan G. Katz,

Secretary.

[FR Doc. 96–7699 Filed 3–28–96; 8:45 am]

BILLING CODE 8010–01–M

[Release No. 34–37017; File No. SR–Amex–96–03]

Self-Regulatory Organizations; American Stock Exchange, Inc.; Order Approving Proposed Rule Change by the American Stock Exchange, Inc. Relating to the Listing and Trading of Options and Long-Term Options on the Networking Index and Long-Term Options on a Reduced-Value Networking Index

March 22, 1996.

I. Introduction

On January 23, 1996, the American Stock Exchange, Inc. (''Amex'' or ''Exchange'') submitted to the Securities

[24] 15 U.S.C. § 78s(b)(2) (1988).

[25] 17 CFR § 200.30–3(a)(12) (1994).

and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to provide for the listing and trading of index options on The Networking Index (''Index''). Notice of the proposed rule change appeared in the Federal Register on February 13, 1996.[3] No comment letters were received on the proposed rule change. This order approves the Exchange's proposal.

II. Description of Proposal

A. General

The Amex proposes to trade options on The Networking Index, a modified equal-dollar weighted index developed by the Amex comprised of 15 computer and telecommunication networking stocks which are traded on the Amex, the New York Stock Exchange, Inc. (''NYSE''), or through the facilities of the National Association of Securities Dealers Automated Quotation system and are reported national market system securities (''NASDAQ/NMS''). In addition, the Amex proposes to amend rule 901C, Commentary .01, to reflect that 90% of the Index's numerical value will be accounted for by stocks that meet the current criteria and guidelines set forth in Rule 915.

B. Eligibility Standards for Index Components

The Networking Index currently conforms with Exchange Rule 901C, which specifies criteria for inclusion of stocks in an index on which standardized options will be traded. In addition, the Index also currently conforms to all the criteria set forth in Rule 901C, Commentary .02, which provides for the commencement of trading of options on an index thirty days after the date of filing, with the exception that the Index is calculated using a modified version of the equal-dollar weighting method. Therefore, the component securities all meet the following eligibility standards: (1) They are traded on the Amex or NYSE, or are NASDAQ/NMS securities; (2) component stocks comprising the top 90% of the Index by weight have a minimum market capitalization of $75 million, and those component stocks constituting the botton 10% of the Index by weight have a market capitalization of at least $50 million; and (3) stocks constituting the top 90% of the Index by weight have minimum monthly volume of 1,000,000 shares over the six months preceding this filing, and stocks constituting the bottom 10% of the Index by weight have a minimum monthly volume of at least 500,000 shares over the six months preceding this filing.

C. Index Calculation

The Index is calculated using a ''modified equal-dollar weighting'' methodology. Four of the fifteen component securities are given higher weightings to reflect their higher market capitalizations relative to the rest of the group, while not allowing their weightings to dominate the Index to the extent they would in a straight market capitalization weighted Index. According to the Amex, this method of cacluation is important given the great disparity in market value of a few of the Index's components. It has been the Exchange's experience that options on market value weighted indexes dominated by relatively few component stocks are less useful to investors, since the index will tend to represent these few components and not the industry as a whole. At the same time, the increase in Index weight for the smaller, less liquid stocks is lower than if the index had been straight equal-dollar weighted; and the decrease in Index weight of the larger, more liquid stocks also is less dramatic than using straight equal-dollar weighting.

The following is a description of how the modified equal-dollar weighting calculation method works. As of the market close on October 20, 1995, a portfolio of networking stocks was established representing an investment of $12,000 in each of the four most highly capitalized securities in the Index and $4,727.27 in each of the 11 remaining stocks (rounded 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 sum of the assigned number of shares of each of the stocks in the Index portfolio divided by the Index divisor. The Index divisor was initially determined to yield the benchmark value of 200.00 at the close of trading on October 20, 1995. Each quarter thereafter, following the close of trading on the third Friday of January, April, July and October, the Index portfolio will be ranked in descending market capitalization order and the Index portfolio adjusted by changing the number of whole shares of each component stock so that the four largest capitalized stocks in the Index each represents 12% of the Index value for a total of 48%, and the remaining 52% of the Index value is evenly distributed over the remaining securities. At the inception of the Index, each of the remaining 11 components had a weight of approximately 4.73%. The Exchange has chosen to rebalance following the close of trading on the quarterly expiration cycle because it allows an option contract to be held for up to three months without a change in the Index portfolio being effected, while at the same time maintaining the equal-dollar weighting feature of the Index. If necessary, a divisor adjustment is made at the rebalancing to ensure continuity of the Index's value. The newly adjusted portfolio becomes the basis for the Index's value on the first trading day following the quarterly adjustment.

As noted above, the number of shares of each component stock in the Index portfolio remain fixed between quarterly reviews except in the event of certain types of corporate actions such as the payment of a dividend other than an ordinary cash dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, or similar event with respect to the component stocks.[4] In a merger or consolidation of an issuer of a component stock, if the stock remains in the Index, the number of shares of that security in the portfolio may be adjusted, to the nearest whole share, to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In the event of a stock replacement, the average dollar value of the remaining portfolio components in the same weighting tier of the stock being replaced (*i.e.*, either the top four stocks by market capitalization as of the last rebalance, or the remaining stocks) will be calculated and that amount invested in the stock of the new component, to the nearest whole share. In all cases, the divisor will be adjusted, if necessary, to ensure Index continuity.

Similar to other stock index values published by the Exchange, the value of the Index will be calculated continuously and disseminated every 15 seconds over the Consolidated Tape Association's Network B.

D. Maintenance of the Index

The Exchange will review the Index quarterly,[5] and maintain it so that: (1) The total number of component securities will not increase or decrease by more than 33⅓% from the number

[1] 15 U.S.C. § 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4 (1994).

[3] *See* Securities Exchange Act Release No. 36812 (February 6, 1996), 61 FR 5590.

[4] Telephone conversation between Claire McGrath, Managing Director and Special Counsel, Amex, and Francois Mazur, Attorney, Office of Market Supervision, Division of Market Regulation, Commission, on February 2, 1996.

[5] *Id.*

of components in the Index at the time of its initial listing, and in no event will the Index have fewer than nine components; (2) component stocks constituting the top 90% of the Index by weight will have a minimum market capitalization of $75 million and the component stocks constituting the bottom 10% of the Index by weight will have a minimum market capitalization of $50 million; (3) the monthly trading volume for each of the past six months [6] for each component security shall be at least 500,000 shares, or, for each of the lowest weighted components in the Index that in the aggregate account for no more than 10% of the weight of the Index, the monthly trading volume shall be at least 400,000 shares; (4) no single component will represent more than 25% of the weight of the Index and the five highest weighted components will represent no more than 60% of the Index at each quarterly rebalancing; and (5) at least 90% of the index's numerical index value and at least 80% of the total number of component securities individually will meet the then current criteria for standardized option trading set forth in Exchange rule 915;[7]

The Exchange will notify promptly Commission staff at any time it determines that the Index fails to satisfy any of the foregoing maintenance critera. Moreover, in such an event, the Exchange shall not open for trading any additional option series, unless such failure is determined by the Exchange not to be significant and Commission staff concurs in that determination.

E. Expiration and Settlement

The proposed options on the Index will be European style (i.e., exercises permitted at expiration only), and cash settled. Standard option trading hours (9:30 a.m. to 4:10 p.m. New York time) will apply. Networking Index options will expire on the Saturday following the third Friday of the expiration month (''Expiration Friday''). The last trading day in an expiring option series normally will be the second to last business day preceding the Saturday following the third Friday of the expiration month (normally a Thursday). Trading in expiring options will cease at the close of trading on the last trading day.

The Exchange plans to list options series with expirations in the three near-term calendar months and in the two additional calendar months in the January cycle. In addition, longer term option series having up to thirty-six months to expiration may be traded. In lieu of such long-term options on a full-value Index level, the Exchange may instead list long-term, reduced-value put and call options based on one-tenth (1⁄10th) the Index's full value. In either event, the interval between expiration months for either a full-value or reduced-value long-term option will be not less than six months. The trading of any long-term options would be subject to the same rules which goven the trading of all the Exchange's index options, including sales practice rules, margin requirements and floor trading procedures, and all options will have European style exercise. Position limits on reduced-value long-term Networking Index options will be equivalent to the position limits for regular (full-value) Index options and would be aggregated with such options (for example, if the position limit for the full-value options is 9,000 contracts on the same side of the market, then the position limit for the reduced-value options will be 90,000 contracts on the same side of the market).

The exercise settlement value for all of the Index's expiring options will be calculated based upon the primary exchange regular way opening sale prices for the component stocks. In the case of securities traded through the NASDAQ/NMS, the first reported regular way sale price will be used. If any component stock does not open for trading on its primary market on the last trading day before expiration, then the prior day's last sale price will be used in the calculation.

F. Exchange Rules Applicable to Stock Index Options

The Index is deemed to be a Stock Index Option under Rule 901C(a) and a Stock Index Industry Group under Rule 900C(b)(1). Exchange rules governing margin requirements, position and exercise limits, and trading halt procedures applicable to the trading of narrow-based index options will apply to options traded on the Index. For example, the Exchange expects that the review required by Rule 904C(c) will result in a position limit of 9,000 contracts with respect to options on the Index. Surveillance procedures currently used to monitor trading in each of the Exchange's other index options also will be used to monitor trading in options on The Networking Index. With respect to Rule 903C(b), the Exchange proposes to list near-the-money option series on the Index at 2½ point strike (exercise) price intervals when the value of the Index is below 200 points.

G. Surveillance

Surveillance procedures currently used to monitor trading in each of the Exchange's other index options also will be used to monitor trading in Index options and full-value and reduced-value Index long-term options. Further, the Intermarket Surveillance Group (''ISG'') Agreement, dated July 14, 1983, as amended on January 29, 1990, will be applicable to the trading of options on the Index.[8]

III. Findings and Conclusions

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, the requirements of Section 6(b)(5).[9] Specifically, the Commission finds that the trading of Networking Index options, including full-value and reduced-value long-term Index options, will serve to promote the public interest and help to remove impediments to a free and open securities market by providing investors with an additional means to hedge exposure to market risk associated with stocks in the networking industry.[10]

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[6] *Id.*

[7] Currently, all Index component securities are the subject of standardized options trading.

[8] ISG was formed on July 14, 1983 to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. *See* Intermarket Surveillance Group Agreement, July 14, 1983. the most recent amendment to the ISG Agreement, which incorporates the original agreement and all amendments made thereafter, was signed by ISG members on January 29, 1990. *See* Second Amendment to the Intermarket Surveillance Group Agreement, January 29, 1990. The members of the ISG are: the Amex; the Boston Stock Exchange, Inc.; the Chicago Board Options Exchange, Inc.; the Chicago Stock Exchange, Inc.; the National Association of Securities Dealers, Inc. (''NASD''); the NYSE; the Pacific Stock Exchange, Inc.; and the Philadelphia Stock Exchange, Inc. Because of potential opportunities for trading abuses involving stock index futures, stock options, and the underlying stock; and the need for greater sharing of surveillance information for these potential intermarket trading abuses, the major stock index futures exchanges (*e.g.*, the Chicago Mercantile Exchange and the Chicago Board of Trade) joined the ISG as affiliate members in 1990.

[9] 15 U.S.C. § 78f(b)(5) (1988).

[10] Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new option proposal upon a finding that the introduction of such new derivative instrument is in the public interest. Such a finding would be difficult for a derivative instrument that served no hedging or other economic function, because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. In this regard, the trading of listed options on the Index will provide investors with a hedging vehicle that should reflect the overall movement of the stocks representing companies in the networking sector in the U.S. stock markets.

The trading of options on The Networking Index and on a reduced-value Index, however, raises several issues relating to index design, customer protection, surveillance, and market impact. The Commission believes, for the reasons discussed below, that the Amex has addressed these issues adequately.

A. Index Design and Structure

The Commission believes it is appropriate for the Exchange to designate the Index as a narrow-based index for purposes of index options trading. The Index is comprised of 15 stocks intended to track the networking sector of the stock market. The Commission also finds that the reduced-value Index is a narrow-based index because it is composed of the same component securities as the Index, and merely dividing the Index value by ten will not alter its basic character. Accordingly, the Commission believes that it is appropriate for the Amex to apply its rules governing narrow-based index options to trading in the Index options and long-term full-value and reduced-value Index options.[11]

The Commission also believes that the large capitalizations, liquid markets, and relative weightings of the Index's component stocks significantly minimize the potential for manipulation of the Index. First, the stocks that comprise the Index are actively traded, with a mean and median average monthly trading volume for the period between July 1995 and December 1995 of 22.9 million and 10.0 million shares, respectively. Second, the market capitalizations of the stocks in the Index are very large, ranging from a high of $20.9 billion to a low of $1.3 billion as of January 2, 1996, with the mean and median being $5.5 billion and $3.6 billion, respectively. Third, because the index is modified equal dollar-weighted, as described above, no one particular stock or group of stocks dominates the Index. Specifically, as of January 2, 1996, no one stock accounted for more than 13.94% of the Index's total value and the percentage weighting of the five highest weighted stocks in the Index accounted for 50.63% of the Index's value.

Fourth, the proposed maintenance criteria will serve to ensure that: (1) The Index remains composed substantially of liquid highly capitalized securities; and (2) the Index is not dominated by one or several securities that do not satisfy the Exchange's options listing criteria. Specifically, in considering changes to the composition of the Index, 90% of the weight of the Index and 80% of the number of components in the Index must at all times comply with the listing criteria for standardized options trading set forth in Amex Rule 915.

The Amex will notify Commission staff promptly at any time the Amex determines that the Index fails to satisfy any of the foregoing maintenance criteria.[12] Further, in such an event, the Exchange will not open for trading any additional series of Index options or Index long-term options unless the Exchange determines that such failure is not significant, and Commission staff concurs in the determination.

Finally, the Commission believes that the existing mechanisms to monitor trading activity in the component stocks of the Index, or options on those stocks, will help deter as well as detect any illegal activity.

B. Customer Protection

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated financial instruments, such as Index options (including full-value and reduced-value long-term Index options), can commence on a national securities exchange. The Commission notes that the trading of standardized exchange-traded options occurs in an environment that is designed to ensure, among other things, that: (1) The special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risks of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts. Accordingly, because the Index options and Index long-term full-value and reduced-value options will be subject to the same regulatory regime as the other standardized index options currently traded on the Amex, the Commission believes that adequate safeguards are in place to ensure the protection of investors in Index options and full-value or reduced-value Index long-term options.

C. Surveillance

The Commission believes that a surveillance sharing agreement between an exchange proposing to list a stock index derivative product and the exchange(s) trading the stocks underlying the derivative product is an important measure for surveillance of the derivative and underlying securities markets. Such agreements ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the stock index product less readily susceptible to manipulation.[13] In this regard, the Commission notes that the Amex, NYSE, and NASD are all members of the ISG.[14] The Commission believes that this arrangement ensures the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the Index options and full-value and reduced-value long-term Index options less readily susceptible to manipulation.[15]

D. Market Impact

The Commission believes that the listing and trading of Index options, including full-value and reduced-value Index LEAPS on the Amex, will not adversely affect the underlying securities markets. First, because of the ''modified equal dollar-weighting'' method that will be used, as described above, no one security or group of securities represented in the Index will dominate the weight of the Index immediately following a quarterly rebalancing. Second, the Index maintenance criteria ensure that the Index will be substantially comprised of securities that satisfy the Exchange's listing standards for standardized options trading, and that one or a few stocks do not dominate the Index. Third, the currently applicable 9,000 contract position and exercise limits will serve to minimize potential manipulation and market impact concerns. Fourth, the risk to investors of contra-party non-performance will be minimized because the Index options and Index long-term options will be issued and guaranteed by the Options Clearing Corporation just like any other standardized option traded in the United States.

Lastly, the Commission believes that settling expiring Networking Index options (including full-value and reduced-value long-term Index options) based on the opening prices of component securities is reasonable and consistent with the Act. As has been noted previously, valuing index options for exercise settlement on expiration based on opening rather than closing

[11] *See supra* Section II.F.

[12] Telephone Conversation between Howard A. Baker, Senior Vice President, Derivative Securities, Administration & Research, Amex, and Francois Mazur, Attorney, Office of Market Supervision, Division of Market Regulation, on March 20, 1996.

[13] *See* Securities Exchange Act Release No. 31243 (September 28, 1992), 57 FR 45849.

[14] *See supra* note 8.

[15] *See, e.g.,* Securities Exchange Act Release No. 31243 (September 28, 1992), 57 FR 45849 (order approving the listing of index options and index LEAPS on the Chicago Board Options Exchange Biotech Index).

prices of index component securities may help to reduce adverse effects on markets for such securities.[16]

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[17] that the proposed rule change (SR–Amex–96–03), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[18]

Jonathan G. Katz,

Secretary.

[FR Doc. 96–7704 Filed 3–28–96; 8:45 am]

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[Release No. 34–37008; Filed No. SR–Amex–95–53]

Self-Regulatory Organizations; American Stock Exchange, Inc.; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 Thereto by the American Stock Exchange, Inc., Relating to Options on the Morgan Stanley Healthcare Product Companies Index, the Morgan Stanley Healthcare Providers Index and the Morgan Stanley Healthcare Payors Index

March 21, 1996.

I. Introduction

On December 19, 1995, the American Stock Exchange, Inc. (''Amex'' or ''Exchange'') submitted to the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to provide for the listing and trading of index options on three new indexes developed by Morgan Stanley & Co. Incorporated (''Morgan Stanley'') relating to three different subsectors within the healthcare sector: the Morgan Stanley Healthcare Providers Index (''Providers Index''); the Morgan Stanley Healthcare Payors Index (''Payors Index''); and the Morgan Stanley Healthcare Product Companies Index (''Product Companies Index'') (collectively the ''Indexes''). On January 2, 1996, the Amex filed Amendment No. 1 to its proposal.[3] Notice of the proposed rule change and Amendment No. 1 appeared in the Federal Register on January 23, 1996.[4] No comment letters were received on the proposed rule change. On March 20, 1996, the Exchange filed Amendment No. 2.[5] This order approves the Amex's proposal as amended.

II. Description of Proposal

A. General

The Amex proposes to trade standardized options on the Indexes, each of which is comprised of 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 Amex proposes to amend Amex Rule 902C(d) to include the Indexes in the disclaimer provisions of that rule.[6] The Amex also proposes to list long-term options on the Indexes having up to 36 months to expiration. In lieu of such long-term options on the full value of the Indexes, the Amex may instead list long-term options based on one-tenth of the value of each of the Indexes. These long-term options on either the full or reduced-value of the Indexes are referred to as ''LEAPS.'' LEAPS on the Indexes will trade independent of and in addition to regular Index options traded on the Exchange. However, as discussed below, position and exercise limits of LEAPS on the Indexes (both full and reduced-value) and regular options on the Indexes will be aggregated.

B. Composition of the Indexes

The Indexes have been developed by Morgan Stanley to represent a portfolio of large, actively traded, healthcare sector stocks. As of December 1, 1995, the Providers Index was comprised of 15 stocks of companies engaged in the hospital management and medical/nursing services industries, with market capitalizations ranging from $494 million to $23 billion, and six month average daily trading volumes ranging from 95,000 to 995,000 shares. The market capitalization of all of the stocks in the Providers Index on that date was approximately $45.2 billion. The total number of shares outstanding for the stocks in the Providers Index ranged from 19 million shares to 445 million shares.

The Payor's Index, as of December 1, 1995, was comprised of 12 stocks of companies conducting business in the managed health care and health industry services industries, with market capitalizations ranging from $622 million to $10 billion and six month average daily trading volumes ranging from 170,000 to 1,700,000 shares. The market capitalization of all of the stocks in the Payor's Index on that date was approximately $36.3 billion. The total number of shares outstanding for the stocks in the Payor's Index ranged from 18 million shares to 174 million shares.

Finally, as of this same date, the Product Companies Index was comprised of 25 equity issues of companies engaged in the major pharmaceuticals, biotechnology, medical specialities, medical electronics, and medical/dental distributors industries. The market capitalizations of these 25 companies range from $1.6 billion to $56.1 billion and the six month average daily trading volumes range from 124,000 to 2,800,000 shares. The market capitalization of all the stocks in the Product Companies Index on that date was approximately $475 billion. The total number of shares outstanding for the stocks in the Product Companies Index ranged from 29 million shares to 1.5 billion shares.

The Exchange will use an ''equal dollar-weighted'' method to calculate the value of each of the Indexes.[7] The

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[16] *See* Securities Exchange Act Release No. 30944 (July 21, 1992), 57 FR 33376 (July 28, 1992).

[17] 15 U.S.C. 78s(b)(2) (1988).

[18] 17 CFR 200.30–3(a)(12) (1994).

[1] 15 U.S.C. § 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] In Amendment No. 1, the Amex states that for each of the Indexes, if at any time between annual rebalancings, the top five stocks in an Index by weight represent in the aggregate more than 60 percent of the Index's value, the Exchange will rebalance the Index after the close of trading on Expiration Friday in the next month in the March cycle. *See* Letter from Claire P. McGrath, Managing Director and Special Counsel, Derivatives Securities, Amex, to Michael Walinskas, Branch Chief, Office of Market Supervision (''OMS''), Division of Market Regulation (''Division''), Commission, dated January 2, 1996 (''Amendment No. 1'').

[4] *See* Securities Exchange Act Release No. 36715 (January 16, 1996), 61 FR 1796 (January 23, 1996).

[5] In Amendment No. 2 the Exchange clarifies that for each of the Indexes, both eligibility standards and maintenance criteria require that upon annual rebalancing, at least 90 percent of each Index's numerical value and 80 percent of the total number of component securities must meet the then current criteria for standardized options trading set forth in either Exchange Rule 915 for component securities not currently the subject of standardized options trading or Exchange Rule 916 for components currently the subject to standardized options trading. In addition, stocks on each quarterly replacement list will be selected and ranked by Morgan Stanley based on a number of criteria, including conformity to Exchange Rule 915 for securities not currently the subject of standardized options trading and conformity to Rule 916 for securities currently the subject of standardized options trading. *See* Letter from Clifford J. Weber, Managing Director, New Products Development, Amex, to Michael Walinskas, Branch Chief, OMS, Division, Commission, dated March 20, 1996 (''Amendment No. 2'').

[6] Amex Rule 902C(d) provides, among other things, that Morgan Stanley does not guarantee the accuracy or completeness of the Indexes 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 Indexes or any data included therein.

[7] *See infra* Section II.D entitled ''Calculation of the Indexes'' for a description of this calculation method.