

number of odd-lot market orders on the Amex¹¹ and the benefits to customers under the pilot procedures as compared to the former pricing procedures, which priced odd-lot orders based on subsequent round-lot transactions and which raised concerns regarding timeliness of execution, the Commission finds that it is appropriate to extend the pilot program for an additional twelve months. This will enable the pilot program to continue without interruption during the system modifications.

The Commission finds good cause for granting approval of the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof. This will permit the pilot program to continue on an uninterrupted basis. In addition, the procedures the Exchange proposes to continue using are substantially identical to the procedures that were published in the **Federal Register** for the full comment period and were approved by the Commission.¹²

It is therefore ordered, pursuant to Section 19(b)(2)¹³ of the Act, that the proposed rule change (SR-Amex-95-03) is approved for a twelve month period ending on February 8, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-35338; File No. SR-Amex-95-02]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by American Stock Exchange, Inc. Relating to Minimum Fractional Changes

February 7, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on January 31, 1994, the American Stock Exchange, Inc. ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared

by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Amex proposes to amend Amex Rule 127 to increase from \$5 to \$10 the price level below which equity securities are traded in sixteenths.

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 IV 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

In August 1992, the Commission approved amendments to Amex Rule 127 to provide that securities selling under \$5 and above \$.25 may be traded in fractions of $\frac{1}{16}$ of \$1.00 per share.¹ Prior to the amendment, Rule 127 provided for trading in sixteenths for securities selling under \$1 and above \$.25, whereas trading in securities selling above \$1 were subject to a minimum trading fraction of one-eighth of \$1. In expanding the number of securities eligible for trading in sixteenths, the Exchange intended to promote greater liquidity in lower priced stocks by allowing quotations between the then-current one-eighth minimum trading fraction, thereby providing possible improved pricing of orders to the benefit of both public customers and market professionals.

The Exchange proposes to increase significantly the number of Amex-listed securities traded in sixteenths by amending Rule 127 to provide for sixteenths trading in securities selling under \$10.² The Exchange believes that

trading in sixteenths will improve the market for securities trading under \$10 by promoting greater liquidity and providing for superior executions of retail and professional orders. In addition, the proposal is responsive to the recommendations of the Division of Market Regulation, in its Market 2000 Study,³ that the exchanges and Nasdaq convert to a minimum variation of one-sixteenth as soon as possible.

The proposed amendments to Rule 127 do not pertain to bond issues, which will continue to be dealt in at one-eighth of \$1. In addition, the Exchange will retain its authority to fix different minimum fractional changes where appropriate.

Prior to implementing expanded sixteenths trading in 1992, the Amex discussed the need for systems enhancements to the Intermarket Trading System ("ITS")⁴ with all ITS participants⁵ in order to permit the transmittal of commitments to trade Amex securities priced under \$5 via ITS in fractions of one-sixteenth, which enhancements were implemented by the Securities Industry Automation Corporation ("SIAC").⁶ Prior to the proposed expansion of trading in sixteenths, the Amex will consult with all ITS participants to permit them to make any required modifications to their individual systems to accommodate trading through ITS in Amex securities priced under \$10.

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) in particular in that it is intended to promote just and equitable principles of trade, to facilitate

of Amex-listed securities) to 589 securities (approximately 60% of Amex-listed securities). These estimates were made by the Exchange as of February 3, 1995.

³ Division of Market Regulation, SEC, Market 2000: An Examination of Current Equity Market Developments (January 1994), at 18 ("Market 2000 Study").

⁴ ITS is a subsystem of the National Market System approved by the Commission pursuant to Section 11A of the Act, 15 U.S.C. 78k-1 (1988). ITS facilitates intermarket trading in exchange-listed equity securities based on the current quotation information emanating from the linked markets. For a discussion of ITS, see Market 2000 Study, *supra* note 3, at Appendix II.

⁵ Participants to the ITS Plan include the Amex, the Boston Stock Exchange, the Chicago Board Options Exchange, the Chicago Stock Exchange, the Cincinnati Stock Exchange, the New York Stock Exchange, the Pacific Stock Exchange, the Philadelphia Stock Exchange, and the National Association of Securities Dealers.

⁶ SIAC is a jointly owned subsidiary of the New York Stock Exchange and the Amex, which does, among other things, the automated processing for ITS.

¹¹ See footnote 9 of Securities Exchange Act Release No. 29922 (November 8, 1991), 56 FR 58409.

¹² No comments were received in connection with the proposed rule changes that implemented these procedures. See *supra*, notes 3-4.

¹³ 15 U.S.C. 78s(b)(2) (1988).

¹⁴ 17 CFR 200.30-3(a)(12) (1991).

¹ See Securities Exchange Act Release No. 31118 (August 28, 1992), 57 FR 40484 (September 3, 1992).

² The Amex estimates that the rule change will increase the number of securities traded in sixteenths from 362 securities (approximately 37%

transactions in securities, and to protect investors and the public.

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

The proposed rule change will remove or lessen existing burdens on competition in that it will enhance the liquidity of and provide for greater price competition in Amex securities trading under \$10.

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. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the publication of this notice in the **Federal Register** or within such other period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. 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-95-02 and should be submitted by March 7, 1995.

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

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35345; File No. SR-CBOE-94-54]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange Relating to Firm Quote Responsibilities

February 8, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78(b)(1), notice is hereby given that on January 4, 1995, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to expand the applicability of the firm quote rule to include two-part orders in equity options, in which the component series are on opposite sides of the market and in a one-to-one ratio. The text of the proposed rule change is available at the Office of the Secretary, CBOE 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 Exchange 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 IV below. The Exchange has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant parts of such statements.

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

The purpose of the proposed rule change is to expand the applicability of

Rule 8.51 to certain two part equity orders and thus, to attempt to ensure the ability of public customers to execute defined risk strategies, such as spreads and straddles, at the disseminated market quotes.

CBOE Rule 8.51 places the responsibility on the trading crowd to ensure that non-broker-dealer customer orders are sold or bought, up to ten contracts, at the quoted offer or bid, respectively. This "firm quote" or "ten-up" requirement is meant to provide confidence that the displayed quotes may be relied upon by the investing public and to ensure that public customer orders will be executed at those quotes.

From its inception the rule was intended to apply to, and has been interpreted to apply only to, single part orders, i.e., either a buy order or a sell order for a particular option series. The Exchange has determined, however, that public customers would be served better if the interpretation were expanded to include a requirement to provide a ten-up market in two-part equity option orders in which the components of the order are on opposite sides of the market and in a one-to-one ratio to each other. The expansion in the interpretation of this rule would make it possible for public customers to execute both sides of a defined risk strategy, such as a spread or a straddle, at the disseminated prices. This rule change, then, should help the Exchange compete more effectively for public customer order flow and trading activity.

The Exchange does not believe this rule change would be burdensome to market-makers because, under the current interpretation, the market-makers would be required to satisfy the ten-up requirement as to each leg of a spread or straddle if each was placed as a separate order. This rule change would merely ensure that these two components may be done at the same time, as one order, and at the same prevailing market quotes. The Exchange believes, however, that it is inappropriate, under any circumstances, to extend the firm-quote treatment to multi-part orders with all parts on the same side of the market as this would effectively impose the burden on options market-makers of making markets in the underlying security. For example, a position in a long call and a short put is economically equivalent to being long the underlying stock; and thus, requiring a trading crowd to provide firm quote treatment to an order for this position would essentially be requiring the option market-makers to act as market-makers in the underlying security.