

.04 The interval between strike prices of series of options on individual stocks may be (a) \$2.50 or greater where the strike price is \$25 or less, provided however, that the Exchange may not list \$2.50 intervals below \$20 (e.g. \$12.50, \$17.50) for any class included within the \$1 Strike Price Pilot Program, as detailed below in Commentary .05, if the addition of \$2.50 intervals would cause the class to have strike price intervals that are \$0.50 apart; (b) \$5 or greater where the strike price is greater than \$25 but less than \$200; or (c) \$10 or greater where the strike price is greater than or equal to \$200. For series of options on Exchange-Traded Fund Shares that satisfy the criteria set forth in Commentary .06 to Rule 915, the interval of strike prices may be \$1 or greater where the strike price is \$200 or less or \$5 or greater where the strike price is over \$200. Exceptions to the strike price intervals above are set forth in Commentaries .05 and .06 below.

.05 The interval between strike prices of series of options on individual stocks may be:

a. \$1.00 or greater ("\$1 Strike Prices") provided the strike price is \$20 or less, but not less than \$3. The listing of \$1 strike prices shall be limited to option classes overlying no more than five (5) individual stocks (the "\$1 Strike Price Pilot Program") as specifically designated by the Exchange. The Exchange may list \$1 Strike Prices on any other option classes if those classes are specifically designated by other national securities exchanges that employ a similar \$1 Strike Price Pilot Program under their respective rules.

b. To be eligible for inclusion into the \$1 Strike Price Pilot Program, an underlying security must close below \$20 in the primary market on the previous trading day. After a security is added to the \$1 Strike Price Pilot Program, the Exchange may list \$1 Strike Prices from \$3 to \$20 that are no more than \$5 from the closing price of the underlying on the preceding day. For example, if the underlying security closes at \$13, the Exchange may list strike prices from \$8 to \$18. The Exchange may not list series with \$1 intervals within \$0.50 of an existing \$2.50 strike price (e.g. \$12.50, \$17.50) in the same series. Additionally, for an option class selected for the \$1 Strike Price Pilot Program, the Exchange may not list \$1 Strike Prices on any series having greater than nine (9) months until expiration.

c. A security shall remain in the \$1 Strike Price Pilot Program until otherwise designated by the Exchange. The \$1 Strike Price Pilot Program shall expire on June 5, 2004.

.06 The options exchanges may select up to 200 options classes on individual stocks for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50. The 200 options classes are selected by the various options exchanges pursuant to any agreement mutually agreed to by the individual exchanges and approved by the Commission. In addition to those options selected by the Exchange, the strike price interval may be \$2.50 in any multiply-traded option once another exchange trading that option selects such option, as part of this program. The Exchange and any of the other options exchanges may also list strike prices of \$2.50 on any option class that was selected by the NYSE pursuant to this program.

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 III below. The Exchange 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

The Amex proposes to amend Amex Rule 903, "Series of Options Open for Trading," to implement the Pilot Program, which will operate until June 5, 2004. The Pilot Program will allow the Amex to list options on up to five underlying equities trading below \$20 at one-point intervals and to list \$1 strike prices on any equity option included in the \$1 strike price pilot program of any other options exchange.

In addition to implementing the Pilot Program, the Amex proposes to amend Amex Rule 903 to codify certain existing strike price interval guidelines that the Commission approved but that have not been codified in Amex Rule 903.⁵ In this regard, the Amex proposes

⁵ See Securities Exchange Act Release Nos. 21929 (April 10, 1985), 50 FR 15258 (April 17, 1985) (File No. SR-Amex-85-6) (order approving \$2.50 strike price intervals for options on individual stocks where the strike price is \$25 or less) ("April 1985 Order"); 21644 (January 9, 1985), 50 FR 2360

to amend Amex Rule 903 to indicate that: (1) the strike price interval for series of options on individual stocks may be \$2.50 or greater where the strike price is \$25 or less,⁶ \$5 or greater where the strike price is greater than \$25 but less than \$200 (except for options included in the options exchanges' 2½-point strike price program, as described below), or \$10 or greater where the strike price is greater than or equal to \$200; and (2) the strike price interval for series of options on ETFs may be \$1 or greater where the strike price is \$200 or less or \$5 or greater where the strike price is over \$200. In addition, the Amex proposes to revise Amex Rule 903 to describe more specifically the options exchanges' 2½-point strike price program.⁷

Pilot Program

The Amex notes that stock prices in general have dropped over the past few years, with many listings suffering severe declines. As a result, there has been a proliferation of stocks trading below \$20. The Amex lists options on more than 900 of these stocks. Some of these stocks are among the most widely held and actively traded equity securities listed on the New York Stock Exchange, Inc., the Amex, and Nasdaq, including, for example, Cisco, Oracle, Lucent, JDS Uniphase, AT&T, and Motorola. Accordingly, the options overlying these stocks are among the most actively traded options.

When a stock underlying an option trades at a lower price, it requires a larger percentage gain in the price of the stock for an option to become in-the-money. For example, when a stock trades at \$10 an investor that wants to purchase a slightly out-of-the-money call option would have to buy the \$12.50 call. At these levels, the stock

(January 16, 1985) (File No. SR-Amex-84-31) (order approving \$5 strike price intervals for options on stocks trading below \$200); and 40157 (July 1, 1998), 63 FR 37426 (July 10, 1998) (File No. SR-Amex-96-44) (order approving strike price intervals of \$1 or greater for options on ETFs up to a strike price of \$200 and strike price intervals of \$5 or greater for ETF options where the strike price is over \$200).

⁶ As discussed more fully below, the Pilot Program will impose certain limitations on the Amex's ability to list 2½-point strike prices on options included in the Pilot Program.

⁷ See Securities Exchange Act Release No. 40662 (November 12, 1998), 63 FR 64297 (November 19, 1998) (File Nos. SR-Amex-98-21; SR-CBOE-98-29; SR-PCX-98-31; and SR-PHLX-98-26) (order permanently approving the 2½-point strike price pilot program). The 2½-point strike price program allows the Amex, the Chicago Board Options Exchange, Inc. ("CBOE"), the Pacific Exchange, Inc., and the Philadelphia Stock Exchange, Inc. to list up to 200 equity options trading at a strike price greater than \$25 but less than \$50 at 2½-point intervals.