

price would need to increase by 25% to reach in-the-money status. According to the Amex, a 25% or higher gain in the price of the underlying stock is especially large given the lessened degree of volatility that has accompanied many stocks and options over the past several months. Accordingly, Amex member firms have expressed an interest in listing additional strike prices on these classes so that they can provide their customers with greater flexibility in achieving their investment strategies. For this reason, the Exchange proposes to implement the proposed Pilot Program.

**1. Pilot Program Eligibility:** The Exchange proposes to amend Amex Rule 903 to allow the Exchange to list options on selected stocks trading below \$20 at one-point intervals, provided that the strike prices are \$20 or less, but not less than \$3. An option would become eligible for inclusion in the Pilot Program provided that the underlying stock closed below \$20 in its primary market on the preceding trading day. Once the underlying stock is part of the Pilot Program, the Exchange may continue to list \$1 strike prices provided the underlying stock remains below \$20. As described more fully below, although an option class will not be removed automatically from the Pilot Program if the underlying stock trades at or above \$20, the Amex will not add \$1 strike prices when the underlying stock closes above \$20. Once the stock closes below \$20, it will again be eligible for the addition of \$1 strike prices. An underlying stock will remain in the Pilot Program until the Amex removes it from the Pilot Program. Options on stocks trading under \$20 that are not included in the Pilot Program may continue to trade in \$2.50 and \$5.00 strike price intervals. Although the Amex may only select up to five individual stock options for its Pilot Program, the Exchange will not be precluded from also listing at \$1 strike price intervals equity options included in the \$1 strike price programs of other option exchanges.

**2. Procedure for Adding \$1 Strike Price Intervals:** The Exchange proposes to amend Amex Rule 903 to set forth the standards regarding the addition of \$1 strike price intervals. Under the Pilot Program, the closing price of the underlying stock serves as the reference point for determining which \$1 strike prices the Exchange may open for trading. To minimize the proliferation of options series, the Exchange intends to restrict the number of \$1 strike prices that may be added to those strikes that fall within a \$5 range of the price of the underlying stock. The Amex will not

add strike prices outside of the \$5 range. For example, if the underlying stock trades at \$6, the Exchange could list \$1 strike prices from \$3 to \$11, while if the underlying stock trades at \$10, the Exchange could list \$1 strikes from \$5 to \$15. By restricting the number of strike prices that may be listed to a predetermined \$5 range, the Exchange believes it will be able to provide investors with more flexibility without burdening The Options Price Reporting Authority ("OPRA") capacity by bringing up strike prices that are not reasonably related to the price of the underlying stock.

Currently, when an underlying stock trades below \$25, the Exchange may list strike prices with \$2.50 intervals.<sup>8</sup> For this reason, several classes have \$7.50, \$12.50, and \$17.50 strike prices. To further avoid the proliferation of series, the Exchange does not intend to list \$1 strike prices at levels that "bracket" existing \$2.50 intervals (e.g., \$7 and \$8 strikes around a \$7.50 strike). Accordingly, the Exchange does not intend to list \$7, \$8, \$12, \$13, \$17, and \$18 levels in an expiration month where there is a corresponding \$2.50 level. As the \$2.50 intervals are "phased-out," as described below, the Exchange will introduce the \$1 levels that bracket the phased-out price. For example, when a \$7.50 series expires, the Exchange will replace it by issuing a new expiration month with \$7 and \$8 strike price intervals.

**3. Procedures for Phasing-Out \$2.50 Strike Price Intervals:** When an individual stock becomes a part of the Pilot Program, the Exchange will begin to phase-out the existing \$2.50 strike price intervals for options on that stock in favor of the \$1 strike price intervals. To phase-out the \$2.50 strike price intervals, the Exchange first will delist any \$2.50 series for which there is no open interest. Second, the Exchange will no longer add new expiration months at \$2.50 strike price intervals below \$20 when existing months expire. This will cause the \$2.50 strike price intervals below \$20 to be phased-out when the farthest-out month with a \$2.50 interval expires.

**4. \$1 Strikes for Longer Dated Options:** The Exchange will not list \$1 strikes on any series of individual equity option classes that have greater than nine months until expiration.

**5. Procedures for Adding Expiration Months:** Amex Rule 903(a)(i) will govern the addition of expiration months for \$1 strikes series. Pursuant to this rule, the Exchange generally opens up to four expiration months for each

class upon the initial listing of an options class for trading. Thus, for options included in the Pilot Program, the Amex will list an additional expiration month upon expiration of the near-term month, provided that the underlying stock prices closes below \$20 on Expiration Friday. If the underlying closes at or above \$20 on its primary market on Expiration Friday, the Exchange will not list an additional month of \$1 strike price series until the stock again closes below \$20.

**6. Procedures for Delisting \$1 Strike Price Intervals:** At any time, the Exchange may cease listing \$1 strike prices on existing series by submitting a cessation notice to The Options Clearing Corporation ("OCC").<sup>9</sup> As discussed above, if the underlying closes at or above \$20 on its primary market on Expiration Friday, the Amex will not list any additional months with \$1 strike prices until the stock subsequently closes below \$20. If the underlying stock does not subsequently close below \$20, thereby precluding the listing of additional strike prices and months, the existing \$1 series eventually will expire. When the near-term month is the only series available for trading, the Exchange may submit a cessation notice to OCC. Upon submission of that notice, the underlying stock would no longer count towards the five option classes available on the Exchange pursuant to the Pilot Program, thereby allowing the Exchange to list options on an additional stock at \$1 strike price intervals. Once the Exchange submits the cessation notice it will not list any additional months pursuant to the Pilot Program for trading with strikes below \$20, unless the underlying stock again closes below \$20.<sup>10</sup>

**7. OPRA Capacity:** The Exchange believes that OPRA has the capacity to accommodate the increase in the number of series that could be added pursuant to the Pilot Program. In this regard, the Amex notes that, on a daily basis, the options exchanges use an average of less than 7,000 messages per second ("mps") during peak periods,

<sup>9</sup> The reasons for submitting a cessation notice are as follows: (1) Expiration of available \$1 strikes (i.e. the underlying stock price remains at or above \$20); (2) series proliferation concerns; and (3) delisting because of, among other things, low price, merger, or takeover. In any event, with prior notice to the membership and customers, the Amex will continue to have the ability to cease trading any series that has become inactive and has no open interest.

<sup>10</sup> If the underlying stock trades below \$20 after the Amex submits a cessation notice, the Amex could again list options on that stock at \$1 strike prices provided the Amex included the class as one of its five allowable classes.

<sup>8</sup> See April 1985 Order, *supra* note 5.