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Mr. Jonathan G. Katz  
Secretary  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549-0609

RE: File Number SR-CBOE-2004-63

Dear Mr. Katz:

The American Stock Exchange LLC (“Amex” or “Exchange”) hereby comments on the above captioned proposal of the Chicago Board Options Exchange, Incorporated (“CBOE”) to list option series that expire one week after being opened for trading (“Short Term Option Series”).

While the Amex has no objection to the general concept of Short Term Option Series set forth in CBOE’s proposal, we do have two concerns regarding the proposal as it relates to index options. Because the CBOE proposal is the first of what will undoubtedly be a series of “copy cat” proposals by securities exchanges to trade Short Term Option Series, we believe it is particularly important that these issues be addressed before the CBOE proposal is approved. Indeed, we are preparing a proposed rule change, which we intend to file after these comments, to allow the Amex to list and trade Short Term Option Series. Since Short Term Option Series could be opened on any approved option class,<sup>1</sup> the Amex believes that it is important for the Commission to examine the issues raised by such options before trading begins.

As noted above, we have two specific concerns with respect to Short Term Options Series on index options. First, the Amex questions the appropriateness of listing P.M. settled Short Term Options Series on indexes given the Commission’s historical concern that P.M. settled index options have the potential to increase volatility in the underlying equity market and consequent efforts to convert index options to A.M. settlement. A.M. settlement of index options allows the equities markets to develop a consensus price by affording time to match up buy and sell orders. With A.M settlement, order imbalances can be publicized and offset over the course of the trading day. With P.M. settled index options, trading in the underlying equity market halts at the 4:00 P.M

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<sup>1</sup> Short Term Option Series could be opened in any options class that satisfied the applicable listing criteria under CBOE rules. Assuming that other exchanges seek similar approval, it then follows that Short Term Option Series could be opened in any option class that satisfied the applicable listing criteria under the exchange’s rules seeking to list such short-term options.

close,<sup>2</sup> which terminates the ability of equity markets to offset imbalances and may lead to enhanced volatility. The Amex notes that the Commission mandated that exchanges stop listing P.M. settled options on indexes. The Commission further required that P.M. settled options on indexes that were currently trading on exchanges, switch to A.M. settlement.<sup>3</sup> Since then, the Commission has not approved any new P.M. settled index options.

Second, the Amex believes the Commission fully evaluate the collateral consequences of allowing Short Term Option Series on indexes with respect to the equities underlying the indexes, even if these options were A.M. settled. Amex Rule 131A(d) (and similar NYSE rules) require specialists to perform auxiliary opening procedures on expiration settlement value days, which currently occur 12 times per year. Auxiliary opening procedures are necessary to integrate stock orders relating to expiring index related contracts into the exchanges' opening procedures in a manner that assures an efficient market opening in each stock as close to 9:30 a.m. as possible. If the Commission approves Short Term Option Series, there could be as many as 52 index option expirations per year. The Amex asks the Commission to provide guidance on the procedures by which the Amex and other primary exchanges will be apprised of expiring A.M. Settled Short Term Option Series on indexes so that the Amex may perform the necessary auxiliary procedures prior to the opening on the expiration settlement value days.

In conclusion, the Amex respectfully requests that the Commission not approve the above captioned CBOE proposed rule change, as proposed.

Very truly yours,

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<sup>2</sup> With the exception of trades marked for market-on-close and limit-on-close, which are governed by Amex Rule 131A (Market on Close Policy and Expiration Procedures).

<sup>3</sup> Albeit that the Commission did grandfather in a few of the P.M. settled options.