

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-52893; File No. SR-Amex-2005-067)

December 5, 2005

Self-Regulatory Organizations; American Stock Exchange LLC; Order Approving Proposed Rule Change to Expand its \$2.50 Strike Price Interval Program

I. Introduction

On June 17, 2005, the American Stock Exchange LLC (“Amex” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend Commentary .06 to Amex Rule 903 to expand the \$2.50 Strike Price Interval Program for individual equity options to allow the listing of options with \$2.50 strike price intervals for strike prices between \$50 and \$75. The Commission published the proposed rule change for comment in the Federal Register on November 3, 2005.<sup>3</sup> The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The \$2.50 Strike Price Interval Program (“Program”) was initially adopted in 1995 as a joint pilot program of the options exchanges, which permits them to list options with \$2.50 strike price intervals up to \$50 on a total of up to 100 option classes.<sup>4</sup> The Program was later expanded and permanently approved in 1998 to allow the options exchanges collectively to select up to 200

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 52690 (October 27, 2005), 70 FR 66869.

<sup>4</sup> See Securities Exchange Act Release No. 35993 (July 19, 1995), 60 FR 38073 (July 25, 1995) (approving File Nos. SR-Phlx-95-08, SR-Amex-95-12, SR-PSE-95-07, SR-CBOE-95-19, and SR-NYSE-95-12).

classes on which to list options with \$2.50 strike price intervals.<sup>5</sup> Of these 200 option classes eligible for the Program, 51 classes were allocated to Amex pursuant to a formula approved by the Commission as part of the permanent approval of the Program. Each options exchange, in addition, is permitted to list options with \$2.50 strike price intervals on any option class that another exchange selects as part of its Program. Under the Program currently, an option with a \$2.50 strike price interval may be listed only if the strike price is between \$25 and \$50.<sup>6</sup>

The Exchange proposes to amend Commentary .06 to Amex Rule 903 to allow the listing of options with \$2.50 strike price intervals for options with strike prices between \$50 and \$75. However, the \$2.50 strike price intervals between \$50 and \$75 must be no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, and as expressly described in the proposed change to Commentary .06 to Amex Rule 903, if an option class has been selected as part of the Program, and the underlying stock closes at \$48.50 in its primary market, Amex could list options with strike prices of \$52.50 and \$57.50 on the next business day. If the underlying stock closes at \$54, Amex could list options with strike prices of \$52.50, \$57.50, and \$62.50 on the next business day. The proposed rule change does not increase the total number of option classes that Amex may select for the Program.

In addition, the Exchange has proposed other technical changes to Commentary .06 to Amex Rule 903, including expressly noting in the rule text that: (1) the total number of option classes, i.e., 51, that the Amex has been allocated of the 200 classes that are eligible for the

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<sup>5</sup> See Securities Exchange Act Release No. 40662 (November 12, 1998), 63 FR 64297 (November 19, 1998) (approving File Nos. SR-Amex-98-21, SR-CBOE-98-29, SR-PCX-98-31, and SR-Phlx-98-26).

<sup>6</sup> See, e.g., Amex Rule 903, Commentary .06.

Program; and (2) an option class shall remain in the Program until otherwise designated by the Exchange and a decertification notice is sent to the Options Clearing Corporation.

### III. Discussion

After careful review, 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.<sup>7</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be designed to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general to protect investors and the public interest.<sup>8</sup> The Commission believes that this proposal is a reasonable means of providing investors with greater flexibility to establish equity options positions that can be better tailored to meet their investment objectives.

The Commission has previously noted a concern with the pressures on system capacity caused by the proliferation of illiquid options series. However, this proposal should not exacerbate the problem of increased quote traffic. As a result of this proposal, Amex will be permitted to list options with \$2.50 strike price intervals with strike prices between \$50 and \$75, but the total number of classes that Amex is authorized to list pursuant to its \$2.50 Strike Price Interval Program remains unchanged.

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<sup>7</sup> In approving this rule proposal, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>9</sup> that the proposed rule change (SR-Amex-2005-067) be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

Jonathan G. Katz  
Secretary

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<sup>9</sup> 15 U.S.C. 78s(b)(2).

<sup>10</sup> 17 CFR 200.30-3(a)(12).