

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53220; File No. SR-Amex-2005-100)

February 3, 2006

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing of Proposed Rule Change and Amendments No. 1 and 2 Thereto Relating to the Establishment of a New Class of Registered Options Trader Called a Remote Registered Options Trader (“RROT”)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 30, 2005, the American Stock Exchange LLC (“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 Amex. On January 13, 2006, the Amex filed Amendment No. 1 to the proposed rule change.³ On January 26, 2006, the Amex filed Amendment No. 2 to the proposed rule change.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to adopt new Rule 994 - ANTE and to amend existing Rules 900 - ANTE, 918 - ANTE, 935 - ANTE, 936 - ANTE, 936C - ANTE, 950 - ANTE, 951 - ANTE, 958 - ANTE and 958A - ANTE to authorize a new category of Registered Options Traders (“ROTs”) called a Remote Registered Options Trader (“RROT”).

The text of the proposed rule change is available on the Amex’s Web site at

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1, which replaced and superseded the original filing in its entirety, is incorporated in this notice.

⁴ Amendment No. 2, which made clarifying changes to the Purpose section, as well as changes to the proposed rule text, is incorporated in this notice.

<http://www.amex.com>, at the Amex's principal office, and at the Commission's Public Reference Room.

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 Amex 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 Amex 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 Exchange proposes to create a new category of ROTs called an RROT. An RROT is a ROT which would be a member or member organization so designated by the Exchange which would be awarded remote quoting rights to enter bids and offers electronically from locations other than the trading crowd where the applicable options class is traded on the Exchange's physical trading floor.

The Exchange's proposal introduces the concept of awarding remote quoting rights to specialists and ROTs based on quantitative criteria. Specialists would be awarded remote quoting rights based on Exchange floor volume executed and their percentage of the average market share of industry volume in the options in which they specialize per quarter. ROTs would be awarded remote quoting rights based solely on floor volume executed. The Exchange believes that the award of remote quoting rights will serve to foster competition and award specialists and ROTs for their performance in the option classes in which they trade.

Furthermore, the proposed RROT program combines the electronic and open outcry trading models. Currently, the Exchange permits ROTs to submit quotes only from the physical trading floor. In this regard, the Exchange anticipates that offering the ability to enter offers and bids electronically away from the location where the options class is traded on the Exchange's physical trading floor will increase the liquidity available in those classes to which the RROT is assigned, as well as enhance the overall competitiveness of the Exchange.⁵

Exchange Rules applicable to ROTs would not apply to RROT's unless otherwise specified. The proposed rules and amendments to current rules discussed below would address the definition, approval process, quoting rights and obligations of RROT's.

Remote Registered Options Traders Program

i. Application for Designation as an RROT

Proposed Rule 994 - ANTE (a) sets forth an RROT's application and termination procedures. Under the Exchange's proposal, an RROT is defined as a ROT that is a member or member organization that would be granted remote quoting rights to enter bids and offers electronically from locations other than the trading crowd, both on and off the Exchange's trading floor, where the applicable options class is traded.

A member or member organization requesting approval to be designated as an RROT is required to file a written application with the Exchange, pursuant to Exchange Rules, indicating

⁵ See Securities Exchange Act Release No. 53161 (January 20, 2006), 71 FR 4388 (January 26, 2006) (File No. SR-Amex-2005-75), regarding the Exchange's proposed Supplemental Registered Options Trader ("SROT") program. An SROT is defined as a ROT that is a member organization so designated by the Exchange that would be granted remote quoting rights to enter bids and offers electronically from off the Exchange's physical trading floor. The SROT program proposes similar amendments proposed to be made to the Exchange Rules herein. Assuming that the SROT proposal receives Commission approval at an earlier date, the Exchange anticipates incorporating the changes proposed in the SROT filing into this filing at that time.

that it is qualified as a ROT. Under the proposal, an RROT applicant that seeks to withdraw as such must notify the Exchange at least three business days prior to the desired effective date of such withdrawal. The Exchange may suspend or terminate any assignment of an RROT in one or more classes whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action. An RROT may seek review of the suspension or termination of its designation pursuant to Article IV, Section 1(g) of the Constitution and Rule 40.

ii. Remote Quoting Rights

The Exchange's proposal introduces the concept of awarding remote quoting rights to ROTs and specialists.

a. Remote Quoting Rights Earned by Volume

ROTs and specialists would earn remote quoting rights based on the percentage of Amex floor volume they execute. Volume executed via remote quoting would not count towards earning remote quoting rights.

The pool of quoting rights awarded by volume would be established quarterly by a Committee designated by the Board of Governors of the Exchange that would include a representative from the Options Market Maker Association and a representative from the Options Specialist Association (the "Committee"). The Committee would announce the pool of available quoting rights available to be earned by percentage of Amex floor volume, for the subsequent trading period, not later than the first business day of each calendar quarter. The membership would be informed of the amount of quoting rights earned no later than one week prior to the commencement of the subsequent trading period.

By way of example, in a given quarter, the Committee may set the total number of quoting rights to be awarded by the percentage of Amex floor volume at 1,000 quoting rights.

Assuming the Exchange’s total floor volume for a given quarter amounts to 20 million contracts, a member or member organization which has traded 2 million contracts that quarter has traded 10% of the total Amex floor volume. A member or member organization which has traded 10% of the total Amex floor volume would earn 10% of the available quoting rights, or 100 quoting rights. A member or member organization which has traded 1 million contracts in that same quarter has traded 5% of the Amex floor volume and would earn 5% of the available quoting rights, or 50 quoting rights.

b. Remote Quoting Rights Earned by Market Share

Specialists may also earn remote quoting rights based on their percentage of the average market share of the industry volume in the option classes in which they specialize per quarter. The award of remote quoting rights to specialists would be based upon their market share in the top 100 option classes by industry volume, top 101-300 option classes by industry volume, and remaining option classes as follows:

Options Classes

Specialist Percent of Market Share	Top 100	101-300	301+
Greater than 20+	3.00 Rights	1.50 Rights	0.75 Rights
15-19.99	1.50 Rights	0.75 Rights	0.25 Rights
10-14.99	0.50 Rights	0.25 Rights	0.00 Rights

Option classes with an average daily Amex volume of less than 100 contracts would be excluded from this determination. The number of remote quoting rights earned would vary quarterly based on the foregoing criteria.

A specialist’s quarterly market share may not be predetermined. As such, unlike the quoting rights available to be earned by the percentage of the total Amex floor volume, remote quoting rights based on market share would not be preset. The Exchange anticipates that such

incentive-based quoting rights will promote competition and encourage specialists to gain an increased market share in the options classes in which they trade.

Pursuant to the table above, if a particular specialist firm has earned 14% of the market share in a given option class which is in the top 100 option classes by industry volume, this firm would earn .05 quoting rights for that class. A specialist firm that has earned 25% of the market share in a given option class which is ranked 250 would earn 1.5 quoting rights for that class. A specialist firm that has earned 17% of the market share in a given option class which is ranked 350 would earn .25 quoting rights for that class. This analysis is conducted for every class traded by that specialist. Quoting Rights are totaled and rounded to the nearest whole right.

The Exchange proposes that an RROT would be assigned classes pursuant to existing Commentary .05 to Rule 958 - ANTE. Each remote quoting right would permit an RROT to remotely quote one option class, and no fractional remote quoting rights would be issued. Furthermore, RROTs may make adjustments to the option classes in which they will remotely quote in the form and manner set forth in Commentary .05 to Rule 958 - ANTE.

c. Notification of Quoting Rights Earned

As noted above, the pool of quoting rights earned by the percentage of Amex floor volume would be defined quarterly by the Committee. The Committee would announce the pool of quoting rights available to be earned by percentage of Amex floor volume, for the subsequent trading period, no later than the first business day of each calendar quarter.

The Committee would notify eligible members and member organizations of the quoting rights they have earned, based on both volume and market share, no later than the tenth business day of each calendar quarter. Although the determinations regarding quoting rights would occur quarterly, the time frame during which the quoting rights may be used would be the subsequent

three calendar months.⁶

The Exchange further proposes that remote quoting rights would be transferable. The transfer of remote quoting rights would be private transactions between the members and member organizations. Members and member organizations would be required to notify the Exchange of the transfer of any rights.

iii. RROT Obligations

Under the Exchange's proposal, RROT's must have at least one active floor member acting as a ROT, subject to limitations set forth in the "Affiliation Limitations" section of proposed Rule 994 - ANTE, and may remotely quote in up to five (5) option classes per seat owned or leased without any additional seat requirements. RROT's will be required to purchase or lease one additional seat for every forty (40) option classes remotely quoted in excess of the five option classes permitted pursuant to 994 - ANTE (c)(i)(a). For example, a member firm with two (2) seats may quote in up to ten (10) option classes, without any additional seat requirements. Likewise, a member firm with twenty (20) seats may quote in up to one-hundred (100) option classes without any additional seat requirements. Quoting remotely in any additional option classes would require one additional seat for every forty (40) option classes remotely quoted.

Furthermore, Exchange memberships used to satisfy membership requirements to remotely quote as an RROT may not be used for any other purpose while being used in an RROT

⁶ First quarter data regarding percentage of Amex floor volume and industry market share earned per options class would be used to determine the quoting rights awarded for May, June and July. Second quarter data would be used to determine quoting rights for August, September and October. Third quarter data would be used to determine the quoting rights for November, December and January. Fourth quarter data would be used to determine the quoting rights for February, March and April.

capacity, including being leased to another member or for trading on the trading floor. An Exchange membership would include a regular membership and an options principal membership.

RROTs would also be required to provide continuous two-sided quotations in accordance with the parameters set forth in Rule 958 - ANTE (c) in at least 60% of the series of their assigned classes. RROTs may not enter quotations electronically in options classes in which they are not assigned as an RROT. The initial size of an RROT's remote quotes must be for at least ten contracts (undecrement size). An RROT may be called upon by a Floor Official to submit a single quote or maintain continuous quotes in one or more series of an option class to which the RROT is assigned whenever it is in the interest of maintaining a fair and orderly market. Finally, RROTs will be subject to the current designation of options areas that exist for ROTs.⁷ In this manner, options and equity trading will be sufficiently separated so that no time or place advantage may potentially be derived from the proximity of the equity and option trading areas. As a result, in connection with the introduction of RROTs, the Exchange represents that there will be no "line of sight" between designated options trading areas and equity trading areas on the floor of the Exchange.

The Exchange's proposal further states that an RROT may not be assigned to an option class where the RROT has a direct or indirect affiliate who is an RROT, ROT, or specialist in that option class. The Exchange's proposal specifically requires that no person who is either directly or indirectly affiliated with an RROT may submit quotations as an RROT, ROT, or specialist in an option class in which the affiliate RROT is assigned. Furthermore, RROTs would be required to maintain information barriers that are reasonably designed to prevent the

⁷ See Securities Exchange Act Release Nos. 39631 (February 9, 1998), 63 FR 8229 (February 18, 1998) and 46362 (August 15, 2002), 67 FR 54243 (August 21, 2002).

misuse of material, non-public information with any affiliates that may conduct a brokerage business in option classes assigned to an RROT, or that may act as a market maker in any security underlying options assigned to an RROT. The proposal further requires RROT to comply with Rule 193 regarding the misuse of material non-public information between the affiliate and the specialist member organization. The purpose of this provision is to prevent numerous affiliated parties from quoting electronically in the same option classes and receiving multiple automatic allocations for the same or affiliated beneficial account owners.

iv. 900 - ANTE

Rule 900 - ANTE currently sets forth the applicability, definitions and references on ANTE. The Exchange proposes to include the definition of an RROT in 900 - ANTE. An RROT is defined as a ROT that is a member or member organization so designated by the Exchange that would be awarded remote quoting rights to enter bids and offers electronically from locations other than the trading crowd where the applicable options class is traded on the Exchange's physical trading floor. Furthermore, an RROT would be subject to the obligations set forth under proposed Rule 994 - ANTE. Exchange rules applicable to ROTs would not apply to RROT unless specified.

The Exchange also proposes to amend the term "ANTE Participant" to include an RROT assigned to trade a specific options class on the ANTE System.

v. 918 - ANTE

Rule 918 - ANTE currently sets forth the automated opening, reopening and closing rotation procedures, trading halts and the supervision of such procedures. The Exchange proposes to amend Commentary .01 to Rule 918 - ANTE to include paragraph (c), which provides that RROT may not submit market orders prior to the opening. RROT may, however,

submit quotes or limit orders prior to the opening.

vi. 935 - ANTE

Rule 935 - ANTE currently provides for the allocation of all contracts executed through the ANTE System. The Exchange proposes to amend to Rule 935 - ANTE to include RROT's. Under the Exchange's proposal, the ANTE System will allocate executed contracts to non-broker-dealer customers, broker-dealers, competing market makers, specialists, ROTs and RROT's in accordance with the provisions therein.

vii. 936 - ANTE and 936C - ANTE

Rule 936 - ANTE and Rule 936C - ANTE govern the cancellation and adjustment of equity options transactions and the cancellation and adjustment of index option transactions, respectively.⁸ The Exchange proposes to amend Rule 936 - ANTE and Rule 936C - ANTE to include RROT transactions in those that may be cancelled or adjusted. The proposal further modifies the notification requirement to allow Trading Officials and/or the Obvious Error Panel reviewing the transactions to either orally or electronically notify the members involved in the transaction of their determination. The purpose of the proposed electronic notification requirement is to provide notice to RROT's engaging in transactions off the Exchange's physical trading floor.

viii. 950 - ANTE

Rule 950 - ANTE (b) currently provides rules for priority and parity at the opening. Paragraph (b)(i) specifically provides that after the opening, an options specialist acting as principal may only retain priority over, or be on parity with, orders for the accounts of broker-dealers, but may not retain priority over, or be on parity with, off-floor orders for the accounts of

⁸ See Securities Exchange Act Release No. 51246 (February 24, 2005), 70 FR 10425 (March 3, 2005).

public customers. The Exchange proposes to amend 950 - ANTE (b)(i) to identify RROT's as broker-dealers. Commentary .01 of paragraph (c) currently provides that after the opening, an options specialist acting as principal, may only retain priority over or be on parity with orders for the accounts of broker-dealers but may not retain priority over or be on parity with off-floor orders for the accounts of public customers. Commentary .02 of paragraph (c) provides that options orders for the accounts of broker-dealers may only retain priority over or be on parity with orders for the accounts of broker-dealers but may not retain priority over or be on parity with off-floor orders for the accounts of public customers. The proposed amendments to Commentaries .01 and .02 of paragraph (c) also categorize an RROT as a broker-dealer. Finally, the proposed amendment to Commentary .02 of paragraph (l) will require RROT's to compete with one another to improve the quoted markets in all series of option classes in which they trade.

ix. 951 - ANTE

Rule 951 - ANTE currently governs the bids and offers of options contracts.

Commentary .01 to Rule 951 - ANTE provides that if the bid or offer of a specialist or ROT, locks or crosses the ABBO, the ANTE System will revise the bid by one or more minimum price variations lower than the bid submitted, or revise the offer by one or more minimum price variations higher than the offer submitted, so that the bid or offer submitted does not lock or cross the ABBO provided.⁹ The Exchange proposes to amend Commentary .01 to Rule 951- ANTE to apply to RROT's.

⁹ The ANTE System collects all of the quotes being calculated by the specialist and each ROT, and determines the best bid and best offer for dissemination pursuant to the firm quote rule, as the Amex Best Bid and Offer ("ABBO"). The ANTE System never allows a locked or crossed market to occur in the ABBO. If a quote is submitted that would lock or cross the ABBO, the ANTE System will revise the bid or the offer by the minimum price variant(s) so that the ABBO is not locked or crossed.

x. 958 - ANTE

Rule 958 - ANTE governs ANTE options transactions of registered options traders.

Pursuant to 958 - ANTE (a), ROTs are assigned classes of options in accordance with the existing procedures set forth in Commentary .05. Rule 958 - ANTE (a) also provides that any option transactions initiated by a ROT on the Floor and through the facilities of the Exchange for any account in which the ROT has an interest would be in such assigned classes. Paragraph (b) of Rule 958 - ANTE provides that transactions of a ROT must be reasonably calculated to contribute to the maintenance of a fair and orderly market, and no ROT should enter into transactions or make bids or offers that are inconsistent with such a course of dealings. Paragraph (c) of Rule 958 - ANTE provides that whenever ROTs participate in the trading of options in other than a floor brokerage capacity, or are called upon by a floor official or floor broker acting in an agency capacity, they would be required to make competitive bids and offers necessary, in a market making capacity, to contribute to the maintenance of a fair and orderly market. The Exchange proposes to apply paragraphs (a), (b) and (c) of 958 - ANTE to RROTs as they currently apply to ROTs.

Paragraph (h) currently provides that ROTs may choose to use an Exchange provided or proprietary automated quote system to calculate and disseminate quotes, or join the specialist's disseminated quotation in some or all of his assigned classes or series. Paragraph (h) further provides that ROTs must be physically present at the specialist's post on the floor of the Exchange where that options class is traded.

Under the Exchange's proposal, RROTs would also use an authorized or proprietary automated quote system to calculate and disseminate quotes. RROTs may not use the "join quote" feature in ANTE. The Exchange believes that requiring RROTs to submit their own

quotes in options that an RROT is assigned will serve to further foster active quote competition. Finally, the Exchange proposes that RROT, as well as ROTs and specialists, must compete with each other to improve the quoted markets in all series of option classes which they trade. The Exchange further proposes to remove the in-person requirement for RROT as provided in paragraph (h) because the RROT may not be physically present.

xi. 958A - ANTE

Rule 958A - ANTE, the Exchange's Firm Quote Rule, currently provides that ROTs, when inputting their own quotes through an Exchange provided or proprietary automated quote calculation system, would each be considered a responsible broker or dealer for their bids or offers to the extent of their quotation size. The Exchange proposes to amend Rule 958A - ANTE (a)(ii)(C) to include RROT as responsible broker-dealers to the extent of their quotation size for the purposes of this rule.

2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with Section 6(b) of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹¹ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principals of trade, and, in general, to protect investors and the public interest.

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

The Exchange believes that the proposed rule change will impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

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 by the Exchange on this proposal.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer 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 Exchange consents, the Commission will:

- (A) by order approve such proposed rule change, as amended, or
- (B) institute proceedings to determine whether the proposed rule change, as amended, should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Amex-2005-100 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Amex-2005-100. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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 in the Commission's Public Reference Section, Station Place, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of the Amex. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Amex-2005-100 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Nancy M. Morris
Secretary

¹² 17 CFR 200.30-3(a)(12).