SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-49465; File No. SR-Amex-2003-89)

March 24, 2004

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and
Amendments No. 1, 2, 3, 4, 5 and 6 thereto by the American Stock Exchange LLC to
Implement a New Options Trading Platform Known as the Amex New Trading
Environment or ANTE

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 October 7, 2003, 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 Exchange. On November

17, 2003, December 17, 2003, February 9, 2004, March 2, 2004, March 18, 2004, and

March 24, 2004, the Exchange submitted Amendments No. 1, 2, 3, 4, 5 and 6 to the

proposed rule change.[3] 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 rules for the implementation of its new

options trading platform known as the Amex New Trading Environment or ANTE.

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

[3]   See letters from Claire P. McGrath, Senior Vice President and Deputy General
        Counsel, Amex, to Nancy Sanow, Assistant Director, Division of Market
        Regulation, Commission, dated November 14, 2003 ("Amendment No. 1");
        December 16, 2003 ("Amendment No. 2"); February 5, 2004 ("Amendment No.
        3"); March 1, 2004 ("Amendment No. 4"); March 17, 2004 ("Amendment No.
        5"); and March 23, 2004, replacing Form 19b-4 in its entirety ("Amendment No.
        6").

The text of the proposed rule change, as amended, is available at the Office of the Secretary, the Amex, at the Commission, and on the Commission's website.

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, as amended, 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 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 Exchange proposes to implement a new trading environment (referred to hereinafter as "ANTE" or the "ANTE System") to replace many of its existing floor trading systems. Initially, ANTE would be used for the trading of standardized options on the Exchange, but would be expanded to include all of the Exchange's current and future product lines—Exchange-Traded Funds, equities and single stock futures. The Exchange seeks the approval of new rules and the amendment of current rules to implement ANTE in options only. However, additional filings would be submitted to the Commission when the Exchange seeks to expand ANTE to other product lines. ANTE is designed to be an integrated, scaleable, easily configurable system that is being developed to meet current and future competitive and economic challenges. The Exchange believes that ANTE has been designed to replicate and improve upon many of

the processes and procedures currently in place on the trading floor today. The ANTE System would replace many of the Exchange's current systems, including the automated quotation calculation system and specialist "book" functions such as limit order display, automatic order execution and allocation of trades. Each floor participant would have electronic access to the ANTE System: floor brokers would access the ANTE system through the Booth Automated Routing System ("BARS"); specialists would access the ANTE System through the Central and Display Books—providing the functions of the quote calculation system (known as "XTOPS") and the Amex Options Display Book ("AODB") in one integrated system; and registered options traders would access the ANTE System through a handheld device.

The functions currently available in the AODB would be split between the ANTE Central Book and the ANTE Display Book. The Central Book would contain what was formerly known as the "specialist's limit order book" and would provide for the matching and execution of eligible orders similar to the current Auto Match and Auto-Ex Systems. The Display Book would be similar to the "Acknowledgement Box" currently found in the AODB and would contain orders awaiting manual handling. Registered options traders would be able to view both the Display Book and the Central Book on their hand-held devices, giving them a complete view of the limit order book and all pending orders in each option series they trade. Market and marketable limit orders routed to the Exchange would be sent to either the Central Book or the Display Book based on whether the size of the order is within the size eligible for automatic matching in the Central Book (referred to as the "auto-match size"). The Options Trading Committee would establish the auto-match size for each option class.

Similar to the Auto-Ex sizes in use today, the auto-match size would be the maximum order size that could be routed to the Central Book for automatic matching with orders on the book or the disseminated quote. An order greater than the established auto-match size would be routed to the Display Book for an immediate execution by the specialist, at the disseminated price, up to the disseminated size. Market and marketable limit orders less than or equal to the disseminated size and less than or equal to the auto-match size would be sent to the Central Book for automatic matching and execution against the disseminated quote and allocation to the appropriate party. Orders less than or equal to the disseminated size and greater than the auto-match size would be routed to the Display Book. Orders greater than the disseminated size and less than or equal to the auto-match size would be routed to the Central Book for a partial execution up to the disseminated size. Orders greater than the disseminated size and greater than the auto-match size would be routed to the Display Book.

The following four examples illustrate order routing in the ANTE System. First example, if a market or marketable limit order of 75 contracts is routed to the Exchange in an option series whose current disseminated size is 150 contracts and whose auto-match size is 100 contracts, the 75-contract order would be sent to the Central Book to be automatically matched against quotes and orders in the book and allocated to the appropriate party. Second example, if a market or marketable limit order of 125 contracts in the same option series is routed to the Exchange, the 125-contract order would be routed to the Display Book to be handled by the specialist since it exceeds the auto-match size. Third example, if a market or marketable limit order of 200 contracts is routed to the Exchange in the same option series, the 200-contract order would be routed to the

Display Book to be handled by the specialist since it exceeds the currently disseminated size of 150 contracts and the auto-match size of 100 contracts. Fourth example, if the disseminated size is 75 contracts and the auto-match size is 100 contracts, and a market or marketable limit order of 85 contracts is routed to the Exchange, then the order would be routed to the Central Book for a partial execution up to the disseminated size. Any remaining contracts would be sent to the Display Book to be handled by the specialist.

Marketable limit orders that better the current bid or offer would be routed to the Display Book to be handled by the specialist. As discussed below, the ANTE System would provide a quote assist feature so that marketable limit orders that better the current bid or offer and have not been executed or otherwise displayed by the specialist would be sent to the Central Book for display within the appropriate timeframe established by Exchange rules. Non-marketable limit orders would route directly to the Central Book, which, as noted above, would function as the specialist's limit order book. Once a non-marketable limit order becomes marketable, it could be executed by being matched by an incoming order, matched with other orders on the specialist's book, or be "taken off the book" by the specialist or a registered options trader.

Member firms would continue to submit orders to the Exchange through the Common Message Switch ("CMS") for direct access into the ANTE System and through phone calls to the trading floor. Floor brokers who receive orders over the telephone (either in their booth or while at the specialist's post) would continue to be obligated to input order information into BARS or BARS handheld terminal ("HHT") immediately upon receipt. Orders in BARS and BARS HHT could be manually represented by the floor broker or electronically forwarded to the specialist or to the Central Book.

The Exchange would continue to maintain its floor-based auction market so that orders of size, complex orders, solicited orders, facilitation orders and other types of orders as determined by the order flow providers could potentially receive price improvement and be exposed to the auction market environment. Orders not eligible for execution through the ANTE System and orders represented by a floor broker at the specialist's post would trade in the same manner and pursuant to the same rules as they do today. Crowd trades or trades that occur outside the ANTE System would be allocated to registered options traders in the same manner as such trades are allocated today.[4] Specialists would be obligated to use best efforts to attempt to ensure that the registered options trader responsible for announcing the best bid or offer during a crowd trade be appropriately allocated executed contracts in accordance with the participation provisions found in Amex Rule 950(d)—ANTE, Commentary .07.

Quoting Function for Specialists and Registered Options Traders

Specialists and registered options traders would be given new tools to calculate quotations using either their own proprietary automatic quotation systems or an Exchange provided automatic quotation system. Both specialists and registered options traders would have the ability to stream quotations for each option series they trade. While specialists would continue to be required to disseminate quotations in all series of the option classes they trade, registered options traders would be able to choose whether to stream quotes with size in all or select series of the option classes they trade. Registered options traders could also choose to join the specialist's quote in those classes they trade and have chosen not to stream quotes. In those series a registered options trader has

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[4]   See Amex Rule 950—ANTE (l), Commentary .03.

chosen to join the specialist's quote, he would also have the ability to manually improve a quote on a series by series basis. In addition, for those classes in which the registered options trader has chosen to join the specialist's quote, the registered options trader would be required to input into the ANTE System the size at which he would be willing to trade, which should not be less than ten contracts. The Exchange believes it is appropriate to provide registered options traders with the choice of either streaming quotes into the ANTE System or joining the specialist's quote with the ability to improve a quote on a series by series basis.

To calculate a quote for each option series, specialists and registered options traders would utilize option valuation formulas to generate options quotations based on a number of variables. These variables include the price of the underlying stock, time remaining to expiration, interest rates (or "cost to carry", the amount of interest on the money used to pay for the options position during the period prior to expiration of the option series), dividends (both declared and anticipated) and volatility. Given that most of these variables are objective for inactive, less volatile options classes, registered options traders could rely upon the quote calculated by the specialist when providing additional liquidity to the market. In addition, from a practical perspective, allowing registered options traders to join the specialist's quote when their quoting variables are identical and likely to produce identical quotes would reduce the amount of quote traffic required to be processed by the Exchange.

The ANTE System would collect all of the quotes submitted by the specialist and each registered options trader, and would determine 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 would never allow 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 would either: (i) revise the bid or the offer by the minimum price variant(s) so that the ABBO is not locked or crossed; or (ii) if the ABBO represents an off-floor limit order, the ANTE System would execute the order and allocate the trade pursuant to the post trade allocation process. If the Ante System revises the quote as discussed in (i), a notification would be sent to the ANTE Participant (specialist or registered options trader) submitting the quote.

The Exchange's market data system would continue to submit only one quote per series to the Options Price Reporting Authority. Each quote entered would have a specific participant identifier to allow the ANTE System to allocate directly contracts executed at the best bid or best offer to those participants quoting at the ABBO at the time the execution occurs. Registered options traders, whether entering their own quotes or joining the specialist's quote, using ANTE hand held devices, would be required to specify the size of each quote they submit or join.

The ANTE System would allocate to each registered options trader only the amount of executed contracts indicated in their quote size. As executed contracts are allocated to registered options traders at the ABBO, their quote size would decrement so that they would never be allocated more than their indicated quote size. Once the indicated quote size is depleted, the registered options trader would need to replenish the quote size before being allocated additional executed contracts. The Exchange believes that the ability to indicate a size for quotes in each option series would provide registered

options traders with the ability to manage their own exposure to the market in order to compete more effectively.

The Exchange believes that providing registered options traders with ability to auto-quote in the option classes they trade could potentially increase the number of messages per second flowing through Exchange systems many fold. As the ANTE System is being rolled-out across the trading floor, the Exchange would monitor the effect of increased quote traffic on its systems and, if needed, would limit the use of the auto-quote feature in less active classes or series.

Registered Options Traders Obligations

Registered options traders would continue to be obligated to meet the requirements of Amex Rule 958—ANTE when quoting and trading in the ANTE System. As noted by the Commission in its Order announcing the effectiveness of the Exchange's plan to list and trade options, the Amex's "…registered floor traders will be expected to trade in a way that assists the specialist in maintaining a fair and orderly market…"[5][Emphasis supplied] The Exchange recognizes that it is the role of a registered options trader to provide additional liquidity and to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists a lack of price continuity, a temporary disparity between the supply of and demand for option contracts of a particular series, or a temporary distortion of the price relationships between option contracts of the same class.

Under the proposal, registered options traders would submit a written application to trade option classes on the ANTE System. The Exchange would review such

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[5]   See Securities Exchange Act Release No. 11144 (December 19, 1974), 40 FR 3258 (January 20, 1975).

applications and assign classes to each registered options traders based upon the following factors: (a) the preference of applicants; (b) assuring that financial resources available to a registered options trader enable him to satisfy the obligations set forth in Amex Rule 958—ANTE with respect to each class of option contracts to which he is assigned; (c) the applicant's expertise in option trading; (d) the applicant's prior market performance; and (e) the impact of the number of registered options traders assigned in an option class or classes on the Exchange's quotation system capacity. The Exchange could suspend or terminate any assignment of a registered options trader under this Rule and make additional assignments whenever, in the Exchange's judgment, the interests of a fair and orderly market would be best served by such action. Pursuant to Article II, Section 3 of the Amex Constitution, registered options traders would, of course, have the right to appeal any Exchange determination made in accordance with this Rule.

During the first six months that an option class is on the ANTE System, a registered options trader applying for an assignment in that option class should be guaranteed an assignment in such class, provided for at least the immediately preceding calendar year the registered options trader: (i) has been a member of the Exchange; (ii) has maintained a continuous presence as a registered options trader in such option class; and (iii) has met the requirements set forth above.

In addition to their trading activity requirements in their assigned classes, registered options traders would have an electronic quoting requirement. Any registered options trader who transacts more than 20% of their contract volume in an assigned option class electronically and not through open outcry measured over a calendar quarter would be obligated to maintain continuous two-sided quotations for at least ten contracts

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in a certain percentage of series in that option class commencing the next calendar quarter. The percentage of series in which a registered options trader would be obligated to quote would vary depending on the amount of contract volume executed electronically on the Exchange in that option class. The Exchange would establish for each option class the percentage of series that should be continuously quoted by those registered options traders based upon the Exchange's percentage of electronic contract volume as set forth below:

Percentage of Overall Contract Volume Executed Electronically on the Exchange During the Previous Calendar Quarter	Registered Options Traders Electronic Quoting Requirement Percentage of Series
50% or Below	20%
51% - 75%	40%
Above 75%	60%

Thus, if the overall contract volume executed electronically on the Exchange is 65%, then registered options traders meeting their own threshold of more than 20% electronic contract volume, would be obligated to maintain continuous quotes in 40% of the series in that option class. It should be noted that for the first 90 days after an option class begins trading on the ANTE System, registered options traders would not have the electronic quoting requirement discussed above.

Registered options traders whose electronically transacted contract volume is less than 20% in a given option class would not have an electronic quoting obligation in any specific number of series in that option class.

In summary, registered options traders would, pursuant to Amex Rule 958—ANTE, be obligated to: (1) apply for an assignment of options classes to trade on the ANTE System; (2) continue to have 50% of their trading activity each quarter in their assigned classes; (3) make competitive bids and offers as reasonably necessary to contribute to the maintenance of a fair and orderly market; (4) maintain a continuous two-sided market in a certain percentage of series in those classes in which the registered options trader has electronically transacted more than 20% of his contract volume; (5) disseminate a size of at least 10 contracts with each quote; and (6) be physically present at the specialist's post on the floor of the Exchange where the option class is traded in order to quote (either by joining the specialist's quote or streaming his own quotes) or submit orders in that option class.

Firm Quote Rule

The ANTE Firm Quote Rule would reflect that registered options traders, when inputting their own quotes either manually on a series-by-series basis or through the use of 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. Any registered options trader choosing to join the specialist's quote would continue along with other registered options traders joining the specialist quote to be collectively considered the responsible broker or dealer for purposes of the firm quote rule.

As discussed above, the ANTE System would not allow an internal locked or crossed market to occur. A responsible broker or dealer that submits to the Exchange a bid or offer that locks or crosses the ABBO would be deemed to have submitted a bid

that is one or more minimum price variations lower than the bid submitted or an offer that

is 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. For example, if the ABBO is 1.00

bid, 1.10 ask, and a responsible broker or dealer submits a quote 1.15 bid, 1.20 ask that

would cross the ABBO, the responsible broker or dealer would be deemed to have

submitted a 1.05 bid, and the ABBO would become 1.05 bid, 1.10 ask. However, when

the ABBO represents an off-floor limit order, the ANTE System would execute the off-

floor limit order and allocate the trade in accordance with the post trade allocation

process.

Limit Order Display Feature

The ANTE System would provide the specialist with a quote assist feature that

would aide the specialist in assuring that limit orders are displayed within the time frame

established by the Exchange. The Exchange currently has pending with the Commission

a proposal to adopt a rule requiring specialists to either execute or display customer limit

orders immediately upon receipt, unless one of the exceptions set forth in the proposed

rule applies. The proposed rule provides that "immediately upon receipt" is defined "as

soon as practicable which shall mean, under normal market conditions, no later than 30

seconds after receipt." While the Exchange anticipates that this rule change should be

approved prior to the completed roll-out of the ANTE System, development of the quote

assist feature in ANTE would be necessary to aide the specialist in complying with

Exchange expectations and performance standards in place today that require specialists

to execute or display customer limit orders immediately upon receipt.

The ANTE System would automatically display eligible limit orders within a configurable time that could be set on a class-by-class basis. If, as stated in the proposed rule, customer limit orders must be executed or displayed within 30 seconds, the ANTE quote assist feature could be set to automatically display limit orders at or close to the end of the 30-second timeframe or within any other shorter time frame established by the Exchange. A new commentary to Amex Rule 950—ANTE (g) would require that the specialist maintain and keep active the ANTE limit order quote assist feature. The Exchange would establish the time frame within which the quote assist feature would display eligible customer limit orders.

The specialist could deactivate the quote assist feature provided Floor Official approval is obtained. The specialist would be required to obtain Floor Official approval as soon as practicable, but in no event later than three minutes after deactivation. If the specialist does not receive approval within three minutes after deactivation, the Exchange would review the matter as a regulatory issue. Floor Officials could grant approval only in instances when there is an unusual influx of orders or movement of the underlying that would result in gap pricing or other unusual circumstances. The Exchange would document all instances where a Floor Official has granted approval.

The quote assist feature would be used on a pilot program basis for the first year that the ANTE System is in use. Thus, use of the quote assist feature would expire on or about April 1, 2005 or the first anniversary of the use of the ANTE System, whichever is later. Notwithstanding the foregoing, the Commission could determine to approve use of the quote assist feature on a permanent basis and not allow it to expire.

The Exchange notes that the quote assist feature would not relieve the specialists of their obligation to display customer limit orders immediately. To the extent that a specialist excessively relies on the quote assist feature to display eligible limit orders without attempting to address the orders immediately, the specialist could be violating his due diligence obligation. However, brief or intermittent reliance on the quote assist feature by a specialist during an unexpected surge in trading activity in an option class would not violate the specialist's obligation if used when the specialist is not physically able to address all the eligible limit orders within 30 seconds.

The Exchange commits to conduct surveillance designed to detect whether specialists as a matter of course rely on the ANTE quote-assist feature to display all eligible limit orders. Initially, the ANTE System would not be able to produce data that would identify for surveillance purposes when the specialist has relied upon the quote assist feature to display a customer limit order versus when the specialist displayed the customer limit order prior to the quote assist time frame. The Exchange anticipates that this information would be available by the end of the second quarter of 2004. In the meantime, the Exchange would run its limit order display exception report at various display intervals in an attempt to detect a pattern suggestive of undue reliance on the quote assist feature. The Exchange would report to the Commission every three months the statistical data it uses to determine whether there has been impermissible reliance on the quote assist feature by specialists.

Automatic Matching and Execution of Eligible Orders in the Central Book

The ANTE Central Book would provide for the automatic matching and execution of eligible market and marketable limit orders at the ABBO provided that there

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is no better market at another options exchange, and the order is less than the auto-match size. Orders for the accounts of public customers would be eligible for automatic matching and execution in all option classes trading on the ANTE System, provided such order sizes are within the auto-match size.

As currently provided, the Options Trading Committee would determine on a class-by-class basis whether orders for the accounts of broker-dealers and competing market makers would be eligible for automatic matching and execution. The Options Trading Committee would also continue to determine the maximum order size eligibility for broker-dealer and competing market maker accounts. Orders greater than the public customer, broker-dealer or competing market makers maximum eligible auto-match size would be routed to the Display Book for full or partial execution at the disseminated bid or offer, if appropriate, up to the disseminated size. If the ABBO is not at the National best bid or offer ("NBBO") and the order is not eligible for automatic price matching at the NBBO as set forth in Amex Rule 933—ANTE, Commentary .01(b), the order would be routed to the specialist for handling through the Options Intermarket Linkage.

At all times during the trading day a quote with size would be required to be disseminated for each option series. The ANTE System's Specialist's Emergency Quote process would assure that a quote with size for each series would be available for dissemination. The Specialist's Emergency Quote would be disseminated whenever an execution results in the disseminated bid or offer size decrementing to zero. The Specialist's Emergency Quote would be disseminated until the specialist refreshes his bid or offer with size, a registered options trader disseminates a better bid or offer, or a limit order is received that betters the Specialist's Emergency Quote. The Specialist's

Emergency Quote would not be disseminated if there is a better bid or offer already being disseminated by a registered options trader or represented by a limit order.

The specialist could establish the Specialist's Emergency Quote parameters as often as the start of every trading day. The specialist would determine the number of minimum price variations[6] below the bid or above the offer and the size associated with that bid or offer. For example, assume the specialist (i) is disseminating a bid of $2.00 and an offer of $2.20 with a quote size of 50 contracts for both the bid and the offer, and (ii) has set his Specialist's Emergency Quote parameters at one minimum price variation below the bid or above the offer with a size of 20 contracts each for both the bid and the offer, the Specialist's Emergency Quote for a bid whose size has decremented to zero would be $.05 below that bid, and for an offer whose size has decremented to zero, the Specialist's Emergency Quote would be $.05 above that offer. Furthermore, assume that an order to buy 50 contracts is received by the ANTE System. Previously, such an order would be routed to the Display Book to be manually executed and allocated by the specialist. Under the proposal, the 50-contract order to buy would be auto-matched with the bid for 50 contracts. The $2.00 bid size would decrement to zero, and the bid would drop one minimum price variation, resulting in a quote of 1.95 bid and 2.20 offered with a quote size of 20 contracts.

As noted above, the Specialist's Emergency Quote would only be disseminated until the specialist either refreshes his bid or offer size or disseminates a better bid or offer. Since the Specialist's Emergency Quote would not represent a bid or offer created

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[6]   Amex Rule 952 would set forth the minimum price variations for options trading. For options series trading at $3.00 per share per option or higher the minimum price variation would be $.10, and for option series trading under $3.00 the minimum price variation would be $.05.

using the theoretical value calculated by the specialist's automated quote calculation system, the specialist would have an incentive to refresh his previous quote size or update his quote as quickly as possible. Therefore, it is expected that the Specialist's Emergency Quote would be disseminated for short periods of time only and would be replaced by the specialist or other market participants.

Priority and Allocation of Executed Contracts

Similar to proposed rules currently pending at the Commission, the ANTE System would provide that non-broker-dealer customer orders at the ABBO would always have priority over all other market participants (i.e., broker-dealers, competing market makers, specialists and registered options traders). Multiple public customer orders in ANTE at the ABBO would be ranked for allocation purposes based on time priority. An ANTE Participant quoting alone at the ABBO would be allocated all contracts executed at his disseminated bid or offer up to the disseminated size. When more than one ANTE Participant is quoting or has orders at the ABBO, executed contracts would be automatically allocated as follows: (i) all non-broker-dealer customer orders would be allocated first; (ii) specialist participating in the quote would be allocated executed contracts in accordance with the specialist participation schedule set forth in Amex Rule 935—ANTE; and (iii) remaining executed contracts would be allocated to broker-dealers and competing market makers as one ANTE Participant, and registered options traders as individual ANTE Participants in accordance with provisions also set forth in Amex Rule 935—ANTE. In addition, Quick Trade, an allocation system in place today to aid in allocating executed contracts, would continue to exist in the ANTE System to assist in the allocation of executed contracts resulting from transactions occurring outside the

ANTE System in the trading crowd. Rule provisions in place today for the operation of

Quick Trade would apply to the use of Quick Trade in the ANTE System.

In addition, ANTE Participants (specialists and registered options traders) and/or

floor brokers representing customer orders could submit orders into ANTE to trade with

orders in the ANTE Central Book. When an ANTE Participant's quote or order executes

against the order in the book, a trade would occur and be reported to the Amex's market

data system, and the disseminated size would be decremented to reflect the execution.

Executed contracts would be allocated to either a single ANTE Participant or multiple

ANTE Participants provided they have submitted an order within five seconds of the

initial ANTE Participant's submission of an order. The ANTE Participant that first

submits the order to trade would be allocated executed contracts up to a size established

on a class-by-class basis by the Options Trading Committee and referred to as the "Take

Size."

The Options Trading Committee would consider the option's liquidity and the

size of the trading crowd in determining the appropriate "Take Size" for each option

class. For example, more liquid option classes with larger trading crowds would be

assigned a larger "Take Size." The Options Trading Committee would review and in

some cases revise the assigned "Take Sizes" on a periodic basis, but would not change a

"Take Size" during the course of a trading day. The ability to establish the "Take Size"

for a given option class would not be used in a discriminatory manner by the Options

Trading Committee. If the specialist is entitled to be allocated the "Take Size," he would

be allocated the "Take Size" amount or the amount he would be entitled to pursuant to

Amex Rule 935—ANTE (a) 4, whichever amount is greater. The remaining executed

contracts would be allocated to those other ANTE Participants that have submitted an order within the five-second time frame. If the specialist is among those ANTE Participants, he would be allocated his portion of the remaining contracts in accordance with the percentages set forth in Amex Rule 935—ANTE (a) 4.

The Exchange believes that providing the initial ANTE Participant with executed contracts as a result of being first to submit an order would create further incentives for price improvement among market participants. Furthermore, the Exchange believes that providing a five second time period would prevent the ability of either the specialist or a well capitalized registered option trader to monopolize every order in the ANTE Central Book because they are able to provide the fastest proprietary quotation calculation system, thus creating a disincentive to other registered options traders unable to interact with orders in the ANTE Central Book. In addition, registered options traders would continue to have incentives to quote competitively since the process would only apply when the specialist and registered options traders attempt to access orders in the Central Book, that is, taking liquidity already in the marketplace. The Exchange represents that the process would have no effect on the specialist's and registered options traders' liquidity providing activities where they receive allocations of incoming orders based upon being at and/or the first to disseminate a competitive quote.

Initially, the ANTE System would not provide access to the Central Book for floor brokers representing or "working" a customer order in the trading crowd to participate in the post trade allocation of orders taken off the Central book. These floor broker working orders are generally for large numbers of contracts. For working orders, when the floor broker is unwilling to reveal the full size of his order (since BARS HHT

does not allow large orders to be broken down into smaller orders), the floor broker would remain in the trading crowd, and the specialist would represent the floor broker's customer interest as described below.

It is anticipated that the ANTE System would provide greater functionality in accessing the Central Book through a handheld device to floor brokers by the end of 2004. In the meantime, in order to provide a floor broker who has entered a trading crowd to work a customer order with alternate access, the Amex would require: (1) the specialist to disengage the post trade allocation feature in the options series represented by the floor broker's customer order, provided the floor broker has alerted the specialist that he is working a customer order in a specified series; (2) once the floor broker's customer order has been executed or the floor broker leaves the trading crowd, the specialist to re-engage the post trade allocation feature; (3) the floor broker to alert the specialist within the five-second timeframe whenever he wants to participate on behalf of his customer in the post trade allocation of orders taken off the specialist's book; (4) floor brokers to keep a written record of when they have alerted a specialist that they want to participate in the post trade allocation; and (5) the specialist to add the customer's interest being represented by the floor broker in the post trade allocation whenever appropriate.

To accomplish an allocation to the floor broker's order, the specialist could, on a series-by-series basis, shut off the automated post trade allocation feature and manually allocate the executed contracts. While the specialist would be required to keep track of the floor broker's allocation, the ANTE System would provide an auditable record of which ANTE Participants successfully submitted orders during the five-second period and were therefore entitled to participate in post trade allocation of executed contracts.

Automated Opening, Re-Opening and Closing Rotations

The ANTE System would provide for an automated, orderly and efficient process for the opening, re-opening after a trading halt, and closing of all option classes. The opening rotation would provide the specialist with all pre-opening orders, orders on the book from the previous trading day, and a theoretical quote, based on the previous closing price, for each option series he trades. The specialist always would be required to submit a two-sided quote for each option series to be used in the opening session.

Registered options traders would be able to view the same information as the specialist in what would be known as the opening session window. To participate at the opening, registered options traders could either: (1) submit quotes using either their Exchange provided or proprietary automated quote calculation system to calculate and submit quotes for use during the automated opening rotation; (2) join the specialist's quote; or (3) submit limit orders on a series by series basis. Registered options traders would not be able to submit market orders in the automated opening rotation.

Once the underlying stock opens, the options specialist would be able to open the overlying options by accessing the opening session window and allowing the submission of quotes and orders that have been entered. Once the opening session window is activated, no additional quotes, orders or cancellations would be permitted until the series opens. Once the series has opened, orders and quote updates would once again be permitted, and active trading would have begun. The ANTE System would automatically pair-off the opening orders at a suggested price based on previous day and pre-opening limit orders and the specialist's and registered options traders' theoretical quotes. In those situations when the ANTE System is unable to determine an appropriate opening

price, the system would present the series to the specialist for the manual setting of an opening price in that series.

The automated re-opening and closing rotations would be held in the same manner as the automated opening rotation. Amex Rule 918 (a)(4) provides for a closing rotation to be held on the last trading day for expiring option series. However, under proposed Amex Rule 918—ANTE(a)(4), the ANTE System would require an automated closing rotation to be held in all option series at the end of every trading day. Similar to the automated opening rotation, registered options traders would be able to view the same information as the specialist in what would be known as the closing session window. The automated closing rotation would be used to execute at-the-close orders received by the Exchange prior to the close. If no at-the-close orders are received in a particular option series, then the ANTE System's automated closing rotation would simply close trading in that series. Orders could be entered, modified or cancelled into the ANTE System up to 4:02 p.m., or 4:15 p.m. for options on Exchange Traded Fund Shares when the underlying Fund Share ceases trading at 4:15 p.m. Quotes could be submitted up until the commencement of the rotation in such series. The closing rotation could begin once the underlying security has closed. The specialist always would be required to submit a two-sided quote for each option series to be used in the closing session.

As noted above with respect to the automated opening rotation, to participate in the automated closing rotation, registered options traders could either: (1) submit quotes using either their Exchange provided or proprietary automated quote calculation system to calculate and submit quotes for use during the automated closing rotation; (2) join the specialist's quote; or (3) submit limit orders on a series by series basis.

Implementation of the ANTE System

The Exchange currently anticipates to begin its rollout of the ANTE System during the first quarter of 2004 and to complete the rollout by the third quarter of 2005. The Exchange plans to roll out the ANTE System on a specialist's post-by-specialist's post basis. For example, beginning on or about March 1, 2004, the ANTE System would be rolled out to all specialists and registered options traders trading some or all of the 71 option classes. Approximately two weeks later, the next specialist post would be put on the ANTE System, and during the following two weeks after that, the third specialist's post would be put on the System. Altogether, the total number of classes at these three posts is 258. Assuming the ANTE System performs well at the three posts, by the end of March 2004, option classes on additional specialist's posts would begin to be rolled-out, and, by the end of April 2004, it is anticipated that three additional specialists' posts and another 200 classes would be roll-out.

The Exchange expects that by the end of the first six months (August 31, 2004), its 300 most actively traded option classes would be trading on the ANTE System. Additional specific plans for the roll-out are being developed by the Exchange with the intention to have all equity and index option classes on the ANTE System by the second quarter of 2005.

Once rolled out, the new system would be used for all option classes traded on the Exchange. Therefore, during the roll-out period, while the Exchange has option classes trading on both systems, current rules (as they are amended from time to time) would apply to those option classes continuing to trade on its current system, while the ANTE rules (as they are amended from time to time) would apply to those option classes trading

on the new trading system. Once the roll-out of ANTE is complete, the amendments to

the Exchange's options rules reflecting the implementation of ANTE would replace,

where applicable, the corresponding provisions in Amex Rules 900 through 958A. Once

the roll-out period has ended and all option classes are trading on the ANTE System, the

Exchange would submit a "house-keeping" filing pursuant to Rule 19b-4 of the Act,[7]

which would delete rules that would not be applicable to the Exchange's then current

trading environment.

The following is a brief discussion of each of the proposed ANTE rules.

Rule 900—ANTE

The implementation of ANTE would require the adoption of the definition of the

terms "ANTE System," "ANTE Participant" and "Outside the ANTE System." The

ANTE System would be defined as the trading system used by the Exchange to trade

options contracts. The ANTE System would provide for the automatic match and

execution of orders and the collection and dissemination of quotes from specialists and

registered options traders. An ANTE Participant would be defined to include both the

specialist and registered options traders using the ANTE System in their assigned option

classes. The term "Outside the ANTE System" would mean those orders that occur in a

crowd trade and include orders of size, spread, straddle and combination orders, solicited

orders, facilitation orders and other types of orders as determined by the order flow

providers.

Rule 918—ANTE

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[7]   17 CFR 240.19b-4.

The Exchange proposes to amend Amex Rule 918 to eliminate the requirement that a specialist announce to the trading crowd: (i) any material imbalances prior to the opening; and (ii) a price indication prior to effecting any transactions during a rotation. The Exchange believes that these announcements would not be necessary in the ANTE System since this information would be displayed to the registered options traders on their handheld devices during the opening, re-opening and closing rotations. Amex Rule 918—ANTE would set forth the automated opening, reopening and closing rotation procedures. In addition, Amex Rule 918 would be amended to reflect that a closing rotation would be held at the end of every trading day in each option series for the execution of at-the-close orders. If there are no at-the-close orders in a given option series, the closing rotation would be used to close trading in that series.

Rule 933—ANTE

The Exchange proposes to amend Amex Rule 933 to generally reflect that there would no longer be a separate Auto-Ex System, but that automatic matching and execution of eligible orders would be part of the ANTE System's Central Book. A discussion of the use of the auto-match size would be included in Amex Rule 933—ANTE (a).

Furthermore, the Options Trading Floor Committee would be renamed the Options Trading Committee. Current provisions of Amex Rule 933 relating to the Automatic Price Matching and the Automatic Price Improvement features of the Auto-Ex system refer to the Auto-Ex Enhancement Committee. The determinations made by this Committee would be given to the Options Trading Committee, and the Auto-Ex Enhancements Committee would be disbanded. Both Committees are comprised of the

chairmen of the Specialists' Association, the Options Market Maker Association and the Floor Brokers Association and the Floor Governors. Therefore, to simplify the administration of the various automatic matching and execution determinations (e.g., whether Automatic Price Matching offered in certain option classes or whether orders for the accounts of broker-dealers should be eligible for automatic matching and execution) the Auto-Ex Enhancement Committee would be combined with the Options Trading Committee.

In addition, paragraph (e) of Amex Rule 933 would be amended: (1) to eliminate subparagraph (i) (E) to reflect that the ANTE System would not disengage its automatic matching and execution feature when a specified number of automatic executions occur in an option class or series; and (2) to eliminate the references in subparagraph (i) (F) (i) and (ii) to reflect that the ANTE System would automatically execute orders when the bid or offer in a specific option series represents a limit order on the specialist's book.

The discussion of the allocation of contracts executed in Auto-Ex found in paragraph (h) of Amex Rule 933 would be deleted since new Amex Rule 935—ANTE and Amex Rule 958—ANTE would set forth the provisions for the allocation of executed contracts in the ANTE system. Commentary .02 to Amex Rule 933 would also be revised and Commentary .03 to Amex Rule 933 would be replaced to reflect that the eligible order size for automatic matching and executions would be set by the Options Trading Committee and could be up to the size disseminated by the Exchange. New Commentary .03 would set forth the requirement that the specialist establish for each option series the parameters for the emergency quote to be used in situations where the disseminated bid or offer size has decremented to zero.

In addition, the ANTE System would continue to provide both automatic price matching (the matching of the best bid or offer displayed by a competing exchange) and automatic price improvement (when the ABBO is also the NBBO, price improvement is provided based upon a predefined number of "ticks" and for orders within the established order size parameter). For example, assuming that the Amex displayed quote of 2-2.10 is the NBBO, the predefined number of ticks is one, and the order size parameter is five, when an order is received on the Amex to buy 5 contracts at the market, the order would be automatically executed at an improved price of 2.05. If the buy order size is for a number of contracts that exceeds the order size parameters, then such order would be automatically executed at 2.10.

Finally Amex Rule 933—ANTE provides that the Options Trading Committee could determine on a class-by-class basis whether broker-dealer orders may be eligible for automatic matching and execution in the ANTE System. The Options Trading Committee would make this determination for all broker-dealers as a group and would not differentiate among broker-dealer firms or types of broker-dealers. The determination of the Options Trading Committee would apply to all broker-dealers equally, except that broker dealers who are market makers or specialists on an exchange and who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Act could be treated differently than all other broker-dealers.

Rule 934—ANTE

Paragraph (a) of Amex Rule 934 would remain unchanged in ANTE and paragraph (b) would be amended to reflect the elimination of a separate automatic execution system in ANTE.

Rule 935—ANTE

Amex Rule 935—ANTE provides for the allocation of all contracts executed through the ANTE System as discussed above.

Rule 941—ANTE

The text of Amex Rule 941 regarding the operation of the Options Intermarket Linkage has been included to reflect a change in the reference to Amex Rule 933—ANTE (f)(i) found in Amex Rule 941—ANTE (e).

Rule 950—ANTE

Paragraph (b) of Amex Rule 950—ANTE would provide rules for priority and parity at the opening. Many of the provisions found in the Commentary to Paragraph (d) of Amex Rule 950—ANTE would not apply to orders executed through the ANTE System (for example, the facilitation and solicitation rules) since those types of orders would need to be presented by a floor broker during crowd trading. Paragraph (e) of Amex Rule 950—ANTE would provide for two additional order types applicable to option transaction through the ANTE System—"Immediate or Cancel" and "Fill or Kill". Paragraph (f) of Amex Rule 950—ANTE would eliminate the requirement that stop and stop limit orders elected by a quotation not be executed without prior approval of a floor official.

The Exchange believes that the elimination of the requirement is necessary given the high level of automation in the ANTE System. At the time the Exchange received

approval to allow stop and stop limit orders to be elected by a quotation, the Exchange

did not have automated quotation systems in place, and was concerned that a manually

quoting specialist could inappropriately move his quote to elect a stop or stop limit order.

With the advent of automated quotation systems, specialists rarely, if ever, quote

manually. Further automation of the quoting and execution process in ANTE would

further limit the ability of the specialist to manually quote. In those situations where the

specialist is able to quote manually, surveillance would be able to detect if stop and stop

limit order were elected inappropriately. The Exchange believes that obtaining floor

official approval for the election of stop and stop limit orders by a quotation would be

cumbersome and at times impossible for the specialist given the automated processes in

the ANTE System.

Paragraph (g) of Amex Rule 950—ANTE, Commentary .01 would be added to

reflect the specialist's obligation to maintain and keep active the ANTE limit order quote

assist feature. The Exchange would establish the time frame within which the quote

assist feature would display eligible customer limit orders. The specialist could

deactivate the quote assist feature provided Floor Official approval is obtained. Such

approval would be required to be obtained no later than three minutes after deactivation.

Paragraph (l) of Amex Rule 950—ANTE, Commentary .03 would be revised to reflect

that it remains the specialist's obligation to allocate executed contracts when an execution

has occurred outside the ANTE System. Specialists would be obligated to use best

efforts to attempt to ensure that the registered options trader responsible for announcing

the best bid or offer during a crowd trade be appropriately allocated executed contracts in

accordance with the participation provisions found in Amex Rule 950—ANTE (d),

Commentary .07.

The ANTE System would automatically allocate all executed contracts when

executions occur within the system. Amex Rule 950 (m), which applies Amex Rule 116

to the trading of option contracts on the Exchange, would be eliminated, since Amex

Rule 116 sets forth the procedures for the Opening Automated Report Service, a system

that facilitates the efficient and accurate processing of eligible orders received by the

Exchange prior to the opening or reopening of trading in designated securities. The

ANTE System would replace the Opening Automated Report Service.

Rule 951—ANTE

The Exchange is revising this rule to add a new Commentary .01 discussing how

the ANTE System would handle a bid or offer submitted by a specialist or registered

options trader that locks or crosses the ABBO.

Rule 955—ANTE

 The Exchange is revising this rule to reflect that documentation of a report being

sent would include electronic records within the ANTE System.

Rule 958—ANTE

New paragraph (h) would provide that registered options traders may choose to

either use an Exchange provided or proprietary automated quote calculation system to

calculate and disseminate quotes, or join the specialist's disseminated quotation in some

or all of his assigned classes or series. Registered options traders would have to be

physically present at the specialist's post on the floor of the Exchange whenever they use

the ANTE System to enter quotes, join the specialist's quote or enter an order in an

option class through the ANTE System. Amex Rule 958 is also being amended to reflect: (1) the assignment of ANTE classes to registered options traders, and (2) the additional requirements and obligations for registered options traders quoting and trading through the ANTE System.

Rule 958A—ANTE

The firm quote rule would be amended to provide: (1) that the registered options traders inputting their own quotes, either manually on a series by series basis or through the use of an Exchange-provided or proprietary automated quote calculation system, would be considered the responsible broker or dealer for the purposes of the rule, and (2) while the responsible broker or dealer would continue to be required to quote a minimum of ten contracts, customer limit orders representing the best bid or offer may be disseminated at less than ten contracts.

Rule 1   Hours of Business

The Exchange also proposes to amend Amex Rule 1 regarding the Exchange's hours of business to provide that the ANTE System would conduct a closing rotation after the close of trading on each trading day. The closing rotation would commence as soon as practicable after 4:02 p.m. or 4:15 p.m. depending on the option class. In addition, the Exchange takes this opportunity to correct the opening paragraph of Commentary .02 to reflect that options on select Exchange Traded Fund Shares should freely trade until 4:15 p.m. each business day.

The Exchange believes that the ANTE System would provide investors with deeper and more liquid markets, market participants with substantially enhanced

incentives to quote competitively, and order entry firms with a trading system that would

increase their ability to meet their best execution and due diligence obligations.

2.	Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent

with Section 6(b) of the Act[8] in general, and furthers the objectives of Section 6(b)(5) of

the Act[9] in particular, because it is designed to prevent fraudulent and manipulative acts

and practices, to promote just and equitable principles of trade, to foster cooperation and

coordination with persons engaged in regulating, clearing, settling, processing

information with respect to, and facilitating transactions in securities, 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, and is not

designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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

The Exchange believes that the proposed rule change, as amended, will impose no

burden on competition.

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 with respect to the proposed rule

change, as amended.

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

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[8]	15 U.S.C. 78f(b).

[9]	15 U.S.C. 78f(b)(5).

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, or

    (B)   institute proceedings to determine whether the proposed rule change should be disapproved.

IV.   <u>Solicitation of Comments</u>

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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Comments may also be submitted electronically at the following e-mail address: rule-comments@sec.gov. All comment letters should refer to File No. SR-Amex-2003-89. 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, comments should be sent in hard copy or by e-mail but not by both methods. 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 Room. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should

refer to file number SR-Amex-2003-89 and should be submitted by [insert date 21 days from date of publication].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[10]

Margaret H. McFarland
Deputy Secretary

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[10]   17 CFR 200.30-3(a)(12).