

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53588; File No. SR-Amex-2006-28)

April 3, 2006

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt Rules and Procedures Governing the Execution of Complex Orders Involving Options and Securities Futures

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 March 24, 2006, 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 and II below, which Items have been prepared by the Amex. The Exchange has filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange seeks to adopt rules governing the execution of complex orders⁵ involving stock-option orders and security future-option orders, and to adopt definitions of additional types of complex orders. Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in [brackets].

Rule 900—ANTE

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ Complex orders include those orders which are defined in 950 – ANTE(e)(i)-(iii) and 950 – ANTE(e)(vii), and proposed 950 – ANTE(e)(viii)- (xii).

Applicability, Definitions and References

(a) Applicability— The Exchange's new trading system (known as the ANTE System or ANTE) will be rolled-out over a period of time (approximately eighteen months) on a specialist post-by-specialist post basis. The roll-out began on May 25, 2004 and will continue until June 30, 2006 at which time all equity and index option classes traded by the Exchange will be on the ANTE System. 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) will apply to those option classes continuing to trade on its current system while the following ANTE rules will 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 set forth below will replace, where applicable, the corresponding provisions in Rules 900 through 958A. The following Trading of Option Contracts Rules shall apply to the trading of option contracts on the ANTE System: 901, 902, 903, 904, 905, 906, 907, 908, 909, 915, 916, 917, 920, 921, 922, 923, 924, 925, 926, 927, 928, 930, 932, 940, 942, 943, 944, 952, [953,] 954, 956, 957, 959, 960, 961, 962, 963, 964, 965, 966, 967, 970, 971, 972, 980, 981, 982, 990, 991, and 992. In addition, the following Trading of Option Contract Rules, which have been amended to reflect usage in the ANTE System, shall apply to the trading of options contracts on the ANTE System. Moreover, the Rules in this Chapter (Trading of Options Contracts) shall be applicable to (i) the trading on and through the facilities of the Exchange of option contracts issued by the Options Clearing Corporation and the terms and conditions thereof; and (ii) the exercise and settlement, the handling of orders, and the conduct of accounts and other matters, relating to option contracts dealt in by any member or member organization. Except to the extent that specific Rules in this Chapter govern, or unless the context otherwise requires, the provisions of the Constitution and

of all other Rules and policies of the Board of Governors shall be applicable to the trading on the Exchange of option contracts. Pursuant to the provisions of Article I, Section 3(i) of the Constitution, option contracts (as defined below) are included within the definition of “security” or “securities” as such terms are used in the Constitution and the Rules of the Exchange.

(b) – (d) No change.

Commentary...

.01 No change.

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Rule 950 - ANTE

Rules of General Applicability

(a) – (c) No change.

(d) The provisions of Rule 126, with the exception of subparagraphs (a) and (b) thereof, shall apply to Exchange option transactions and the following additional commentary shall also apply:

Commentary ...

.01 When a member holding a spread order, a straddle order, ratio order, [or] a combination order, a stock-option order, or a security future-option order and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with or within the bids and offers established in the marketplace, then the order may be executed as a spread, straddle, ratio, [or] combination, stock-option, or security future-option order at the total credit or debit with one other member without giving priority to either bids or offers established in the marketplace that are not better than the bids or offers comprising such total credit or debit, provided that, (i) in executing a spread order, the member does not buy at the established bid for the option contract to be bought and sell at the

established offer for the option contract to be sold or, (ii) in executing a straddle or combination order, the member does not either buy both sides of the order at the established bids or sell both sides of the order at the established offers. Stock-option orders and security future-option orders have priority over bids or offers of the trading crowd but not over bids or offers of public customers in the limit order book.

.02 - .07 No change.

(e) The types of orders specified in Rule 131 and the following additional types of orders shall be applicable to Exchange option transactions:

(i)- (vii) No change.

(viii) Combination Orders with Non-Equity Options Legs – One or more legs of an order may be to purchase or sell a stated number of units of another security.

(1) Stock-Option Order – A stock-option order is an order to buy or sell a stated number of units of an underlying or related security coupled with either (a) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying or related security or the number of units of the underlying security necessary to create a delta neutral position; or (b) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock, as and on the opposite side of the market from, the underlying or related security portion of the order.

(2) Security Future-Option Order – A security future-option order is an order to buy or sell a stated number of units of a single stock future or a security convertible into a security future (“convertible security future”) coupled with

either (a) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of the underlying for the security future or convertible security future, or the number of units of the underlying for the security future or convertible security future necessary to create a delta neutral position; or (b) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of underlying for the security future or the convertible security future, as and on the opposite side of the market from, the stock underlying for the security future or convertible security future portion of the order.

(ix) **Strangle Order** – A strangle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts in the same underlying security, which contracts have the same expiration date (e.g., an order to buy two XYZ June 35 calls and to buy two XYZ June 40 puts).

(x) **Butterfly Spread Order** – A butterfly spread order is an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the interval between the exercise price of each series is equal, which orders are structured as either (i) a “long butterfly spread” in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (ii) a “short butterfly spread” in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price.

(xi) **Box/Roll Spread Order:** Box spread means an aggregation of positions in a long call option and short put option with the same exercise price (“buy side”) coupled with a long put option and short call option with the same exercise price (“sell side”) all of which have the same aggregate current underlying value, and are structured as either: A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price.

(xii) **Collar and Risk Reversal Orders** – A collar order (risk reversal) is an order involving the sale (purchase) of a call (put) option coupled with the purchase (sale) of a put (call) option in equivalent units of the same underlying security having a lower (higher) exercise price than, and same expiration date as, the sold (purchased) call (put) option.

(f) – (n) No change.

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Rule 953 – ANTE

Acceptance of Bid or Offer

(a) All bids or offers for option contracts dealt in on the Exchange made and accepted in accordance with these Rules shall constitute binding contracts between the parties thereto but shall be subject to the exercise by the Board of Governors of the powers in respect thereto vested in said Board by the Constitution, and to the Rules of the Exchange, and said contracts shall also be subject to the rules of The Options Clearing Corporation and to the exercise by The Options Clearing Corporation of the powers reserved to it in the rules of The Options Clearing Corporation.

(b) Stock-option orders and security future-option orders.

(i) A bid or offer that is identified to the Exchange trading crowd as part of a stock-option order, as defined in Rule 950 – ANTE (e)(viii)(1) or, or a security future-option order, as defined in Rule 950 – ANTE (e)(viii)(2), is made and accepted subject to the following conditions:

(A) at the time the stock-option order or security future-option order is announced, the member initiating the order must disclose to the crowd all legs of the order and must identify the specific market(s) on which and the price(s) at which the non-option leg(s) of the order is to be filled, and

(B) concurrent with execution of the options leg of the order, the initiating member and each member that agrees to be a contra-party on the non-option leg(s) of the order must take steps immediately to transmit the non-option leg(s) to the identified market(s) for execution.

(ii) A trade representing the execution of the options leg of a stock-option order or a security future-option order may be cancelled at the request of any member that is a party to that trade only if market conditions in any of the non-Exchange market(s) prevent the execution of the non-option leg(s) at the price(s) agreed upon.

(c) Failure to observe the requirements set forth in paragraph (b)(i)(A) and (B) above shall be considered conduct inconsistent with just and equitable principles of trade.

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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 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 Commodity Futures Modernization Act of 2000 lifted the ban on the trading of single stock futures and futures on narrow based security indices (together, "security futures") in the United States. The Amex is proposing to (i) adopt a new definition for stock-option orders and security futures option orders ("security future-option order"), (ii) grant certain execution priorities to stock-option orders and security future-option orders, (iii) authorize the execution of stock-option orders and security future-option orders, and (iv) add additional language to the Amex rules regarding different types of complex orders.

The Exchange proposes to adopt language to allow for the execution of stock-option orders and security future-option orders. The Exchange believes that complex orders involving orders consisting of stock or securities futures and option legs are effective hedging strategies that would permit members to initially offset the risk of price movements in an option position with a corresponding purchase or sale of stock underlying the option position or securities futures. Therefore, complex orders consisting of stock or security futures and options legs that fall within their proposed definition would be entitled to the same priorities that spreads, straddles, ratio, and combination orders are afforded.

The Exchange proposes to amend Commentary .01 to Amex Rule 950—ANTE(d), to permit members to execute stock-option orders and security future-option orders, the options legs of which will have priority over bids or offers of the trading crowd but not over bids or

offers of public customers in the limit order book. The proposed rules also provide that members holding stock-option orders or security future-option orders and bidding or offering on a net debit or credit basis may execute the order with another member without giving priority to equivalent bids or offers in the trading crowd or the book, provided that at least one leg of the order betters the corresponding bid or offer in the book.

The Exchange further proposes to adopt new Amex Rule 953—ANTE to provide execution procedures for stock-option orders and security future-option orders. The proposed rule text provides that the initiating member and the contra-parties with respect to the non-option leg(s) must take steps to transmit the non-option leg(s) to the appropriate market concurrently with the execution of the options leg(s) of the order. Because security futures products may not be fungible between markets, the member initiating the security future-option order must identify the specific market of execution. If the security or security futures leg of the order cannot be executed at the price(s) agreed upon due to market conditions, a trade representing the execution of the options leg of the transaction may be cancelled at the request of any member that is a party to that trade.

Furthermore, the Exchange proposes to amend Amex Rule 950 – ANTE(e) to include the definitions of additional types of complex orders. Specifically, a strangle order, a butterfly spread order, a box/roll spread order, and a collar and risk reversal order. The proposed rule defines a strangle order as an order to buy or sell a certain number of call option contracts and the same number of put option contracts in the same underlying security, which have the same expiration date. A butterfly spread order is defined as an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the interval between the exercise price of each series is

equal. These orders are structured as either (i) a “long butterfly spread” in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (ii) a “short butterfly spread” in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price. A box/roll spread order is defined as an aggregation of positions in a long call option and short put option with the same exercise price (“buy side”) coupled with a long put option and short call option with the same exercise price (“sell side”) all of which have the same aggregate current underlying value, and are structured as either: A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price. A collar and risk reversal order is defined as an order involving the sale or purchase of a call or put option, coupled with the purchase or sale of a put or call option in equivalent units of the same underlying security having a lower a lower or higher exercise price than, and same expiration date as, the sold or purchased call or put option.

Finally, the Exchange seeks to make housekeeping changes to the rules: 1) to add an additional reference to “ratio order” into Commentary .01 of Amex Rule 950—ANTE(d), that was inadvertently omitted when the Exchange originally sought immediate effectiveness to trade ratio orders⁶ and 2) to remove the reference to Amex Rule 953 in Amex Rule 900—ANTE, as an option rule that will be applicable to the trading of options contracts on the ANTE System because the Amex has proposed to adopt new Amex Rule 953—ANTE.

⁶ See Securities Exchange Act Release No. 50525 (October 13, 2004), 69 FR 61875 (October 21, 2004) (Notice of Filing and Immediate Effectiveness of SR-Amex-2004-77).

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁷ in general and furthers the objective of Section 6(b)(5) of the Act⁸ in particular in that it is designed to perfect the mechanisms of a free and open market and the national market system, protect investors and the public interest, and promote just and equitable principles of trade.

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

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

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.

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

Because the forgoing rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁹ and Rule 19b-4(f)(6) thereunder.¹⁰

A proposed rule change filed under 19b-4(f)(6) normally may not become operative prior to 30 days after the date of filing.¹¹ However, Rule 19b-4(f)(6)(iii)¹² permits the Commission to

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ 17 CFR 240.19b-4(f)(6)(iii).

¹² Id.

designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange provided the Commission with written notice of its intent to file this proposed rule change at least five business days prior to the date of filing the proposed rule change. In addition, the Exchange has requested that the Commission waive the 30-day pre-operative delay. The Commission believes that waiving the 30-day pre-operative delay is consistent with the protection of investors and in the public interest because it will allow the Amex to immediately implement rules and procedures governing the execution of complex orders involving options and securities futures that are substantially similar to the rules of other exchanges.¹³

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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 No. SR-Amex-2006-28

¹³ See Securities Exchange Act Release Nos. 46390 (August 21, 2002), 67 FR 55290 (August 28, 2002) (Order approving File No. SR-ISE-2002-18); and 49367 (March 5, 2004), 69 FR 11678 (March 11, 2004) (Notice of Filing and Immediate Effectiveness of SR-CBOE-2004-14). For the purposes only of waiving the pre-operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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 No. SR-Amex-2006-28. 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 Room. Copies of such filing will also 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 No. SR-Amex-2006-28 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.¹⁴

Nancy M. Morris
Secretary

¹⁴ 17 CFR 200.30-3(a)(12).