

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54181; File No. SR-Amex-2006-61)

July 20, 2006

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to the Handling of Immediate or Cancel Orders in Options

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 June 26, 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, II and III below, which Items have been substantially prepared by the Exchange. On July 18, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.³ The Exchange has designated this proposal as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the Exchange pursuant to Section 19(b)(3)(A)(i) of the Act⁴ and Rule 19b-4(f)(1) thereunder,⁵ which renders the proposal effective upon filing with the Commission.⁶ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange proposes to revise the proposed rule text to make it more clear.

⁴ 15 U.S.C. 78s(b)(3)(A)(i).

⁵ 17 CFR 240.19b-4(f)(1).

⁶ For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change the Commission considers the period to commence on July 18, 2006, the date on which the Exchange filed Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

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

The Exchange proposes to clarify the appropriate handling of immediate or cancel (“IOC”) orders in options.

The text of the proposed rule change is available on the Exchange's Web site at <http://www.amex.com>, at the Office of the Secretary of the Exchange, 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 Exchange 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 Exchange proposes to provide an interpretation in connection with the appropriate handling of IOC orders in options for the benefit of its members and the marketplace.

An IOC order in options, as set forth in Amex Rule 950 – ANTE (e)(v), is defined as a market or limited price order which is to be executed in whole or in part as soon as such order is represented in the ANTE System. Any portion of an IOC order that is not so executed is treated as cancelled.

Consistent with Amex Rule 958A—ANTE (“Firm Quote Rule”), IOC orders must be executed as soon as they are represented in ANTE. Amex Rule 958A—ANTE(c) provides that

the responsible broker or dealer⁷ must execute customer orders in an amount up to their published quotation size. In connection with broker dealer orders, the responsible broker or dealer is obligated to execute broker-dealer orders up to the quotation size established by the Exchange, which quotation size must be at least one (1) contract.

The appropriate handling of IOC orders in a linked environment has become increasingly complex. Section 8(c) of the intermarket options linkage plan⁸ (“Linkage Plan” or “Linkage”) and Amex Rule 942(a)(1) both provide that, absent reasonable justification and during normal market conditions, members should not effect trade-throughs. A recent change to the Linkage Plan and Amex Rule 940 provides a limited exception to trade-through liability under “trade and ship.”⁹ Under “trade and ship,” an Amex member may trade an order at a price that is one-tick inferior to the national best bid or offer (“NBBO”) if the member contemporaneously transmits to the market(s) disseminating the NBBO, Linkage Order(s)¹⁰ to satisfy all interest at the NBBO price. Any execution the member receives from the NBBO market must then (pursuant to agency obligations) be reassigned to any customer order underlying the Linkage Order that was transmitted to trade against the market disseminating the NBBO. As a result, if an executable

⁷ Amex Rule 958A-ANTE(a)(ii) includes specialists and registered options traders in the definition of a responsible broker or dealer. Remote registered options traders and supplemental registered options traders are also included in the definition of responsible broker or dealer, subject to certain conditions.

⁸ See Plan for the Purpose of Creating and Operating an Intermarket Options Linkage, Securities Exchange Act Release Nos. 43086 (July 28, 2000), 65 FR 48023 (August 4, 2000) (Amex, CBOE and ISE) ; 43573 (November 14, 2000), 65 FR 70851 (November 28, 2000) (Phlx); 43574 (November 16, 2000), 65 FR 70850 (November 28, 2000) (PCX n/k/a NYSEArca) and 49198 (February 5, 2004) 69 FR 7029 (February 12, 2004) (BSE).

⁹ See Securities Exchange Act Release No. 52414 (September 13, 2005), 70 FR 55186 (September 20, 2005).

¹⁰ A “Linkage Order” is defined in Amex Rule 940(b)(10) to mean an immediate or cancel order routed through the Linkage as permitted under the Linkage Plan.

order is received when the Amex is not the NBBO, the specialist is required to either “step-up” and execute at the NBBO, use the “trade or ship” option or route the order away, via the Linkage, to the options exchange(s) disseminating the NBBO. The “trade or ship” option may be of limited use because the member may be unwilling to trade at a price one-tick inferior to the NBBO and “take out” the NBBO market. In addition, because of the IOC condition, the Exchange believes routing the order to another options exchange quoting at the NBBO would not be consistent with the obligation to provide an immediate execution, while executing the order at the Amex best bid or offer would result in a trade-through.¹¹

Both the Linkage Plan and related Amex Rule 942 provide that, absent reasonable justification and during normal market conditions, Exchange members should not effect trade-throughs. Therefore, a pattern or practice of trading through bids and offers will subject a member to disciplinary action pursuant to Amex Rule 942(d).

Currently, when an IOC order is routed to the specialist, ANTE will cancel the order if it is not marketable.¹² However, if the order is marketable on the Amex but would result in a trade-through because the Amex is not at the NBBO when the order is represented, such order will be routed to the ANTE display book for manual handling by the specialist. At this point, if the specialist is not willing to “step up” and match the NBBO or employ “trade and ship,” the specialist is faced with the choice of either trading-through the away market or not executing the order, in violation of the Commission’s Quote Rule. Consistent with the “immediate” condition

¹¹ A trade through is defined in Amex Rule 940(b)(19) as a transaction in an options series at a price that is inferior to the NBBO, but shall not include a transaction that occurs at a price one minimum quoting increment inferior to the NBBO provided a Linkage Order is contemporaneously sent to each Participant Exchange disseminating the NBBO for the full size of the Participant Exchange’s bid (offer) that represents the NBBO.

¹² The ANTE system immediately executes marketable IOC orders that are routed to the specialist book. If an IOC order is not marketable, ANTE will cancel the order.

of an IOC order, the Exchange believes that the specialist should have the ability to cancel such orders if the responsible broker or dealer is not willing to match the NBBO or “trade and ship.” The Exchange believes that this interpretation is consistent with the definition and expected operation of IOC order types. Accordingly, the proposed interpretation of the definition of an options IOC order would clarify that such a cancellation is permissible. Because of the dual obligations to honor disseminated quotes and to avoid a pattern or practice of effecting trade-throughs of superior bids and offers, the Exchange believes this interpretation is warranted.

The amendment to paragraph (v) of Amex Rule 950 – ANTE(e) would provide legal and regulatory certainty for IOC orders to be cancelled when they are represented in the ANTE system, if the Amex were not quoting at the NBBO.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act¹³ in general and furthers the objectives of Section 6(b)(5)¹⁴ in particular, in that 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 facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, 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 proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

¹³ 15 U.S.C. 78f(b).

¹⁴ 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 with respect to the proposed rule change.

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

Because the foregoing proposed rule change relates to a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the Exchange, the proposed rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the Act¹⁵ and Rule 19b-4(f)(1) thereunder.¹⁶

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 purposes of the Act.¹⁷

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-2006-61 on the subject line.

¹⁵ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁶ 17 CFR 240.19b-4(f)(1).

¹⁷ See supra at note 6.

Paper comments:

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

All submissions should refer to File Number SR-Amex-2006-61. 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 also will be available for inspection and copying at the principal office of the Exchange. 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-2006-61 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.¹⁸

Nancy M. Morris
Secretary

¹⁸ 17 CFR 200.30-3(a)(12).