

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54741; File No. SR-Amex-2006-106)

November 9, 2006

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing of Proposed Rule Change Relating to the Adoption of a Penny Quoting Pilot Program

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 November 9, 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 Amex. 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 is proposing to adopt a six month pilot program (the “Penny Quoting Pilot Program”) to quote a limited number of options classes in a minimum price variation (“MPV”) of \$0.01.

The text of the proposed rule change, including Exhibit 2 (a draft Regulatory Circular, which sets forth the list of the options classes that will be subject to the proposed Penny Quoting Pilot Program) to the proposed rule change is available on the Amex’s Web site at <http://www.amex.com>, at the Office of the Secretary, the Amex, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

On June 7, 2006, Commission Chairman Cox submitted a letter (the “June 7th Letter”) to each options exchange supporting the introduction and implementation of a pilot program for the quoting of a limited number of options classes in pennies (\$0.01 MPV). The Exchange, after meaningful discussion with the Commission staff, submits this proposed rule change for the purpose of adopting the Penny Quoting Pilot Program.

Options classes are currently quoted in MPVs in nickels (\$0.05) and dimes (\$0.10). Amex Rule 952 provides that the MPV for an option on a stock or ETF share is as follows: (i) for option issues quoted under \$3 a contract, \$0.05 MPV; and (ii) for option issues quoted at \$3 a contract or greater, \$0.10 MPV. As set forth in the June 7th Letter, quoting in penny increments (\$0.01 MPV) is expected to benefit investors by allowing options quotes to be expressed at better prices and options orders to be executed at the best possible price. Furthermore, the Exchange submits that quoting in pennies would further enhance competition among the option exchanges.

Proposed Penny Quoting Pilot Program

Selection of the Options Classes. The proposed Penny Quoting Pilot Program will initially consist of thirteen (13) options classes. Exhibit 2 to the proposed rule change is a draft Regulatory Circular which sets forth the list of the options classes that will be subject to the proposed Penny Quoting Pilot Program.

Minimum Price Variations (MPVs). The quoting requirements in connection with the Penny Quoting Pilot Program will be as follows:

- MPVs of \$0.01 for options with premiums of up to \$3
- MPVs of \$0.05 for options with premiums of \$3 or greater except for the QQQQ options which will trade at an MPV of \$0.01 for all premiums.

Because quoting options in pennies will increase quote message traffic, which may overwhelm certain data systems of the options exchanges, market data vendors and securities firms, quoting options in pennies will begin in a limited number of options classes. The Exchange believes that the proposed introduction of a limited number of options classes that may quote in pennies under the Penny Quoting Pilot Program is reasonable given the system capacity constraints and concerns that exist industry-wide. The Amex believes that once experience has been gained from the proposed Penny Quoting Pilot Program, the Commission and the industry will be better able to assess the impact on market quality and systems capacity.

The Commission's Office of Economic Analysis ("OEA") and each participating options exchange will perform individual analysis of the initial pilot program options classes after a three (3) month interval (the "Pilot Report"). The Pilot Report will be submitted to the Commission within thirty (30) days of the end of such three (3) month

time period. The Pilot Report will compare quotation and trading activity in the three (3) months prior to the Penny Quoting Pilot Program to the first three (3) months of the Penny Quoting Pilot Program as follows: (1) quotation spread, quotation size, average daily volume and other relevant factors; (2) the number of quotations in the Penny Quoting Pilot Program and the effect on Amex system's capacity; and (3) an assessment of trade-throughs and how they were addressed. The Exchange expects that the Pilot Report will be the subject of further discussions regarding status and next steps for the industry.

Quote Mitigation Strategy

As a condition to participation in the Penny Quoting Pilot Program, the Commission expects that each options exchange provide a rational quote mitigation strategy because of the concerns regarding system capacity. The Amex has in place several quote mitigation mechanisms and continues to evaluate its need for enhanced system capacity and management. The Exchange believes that its current quote mitigation strategies are effective as set forth below.

- **Join Quote.** The Amex, through the ANTE system,³ provides that registered options traders ("ROTs") may either stream their own quotes or join the specialist's disseminated quotation in some or all of his assigned classes or series ("join quote"). In order to participate in "join quote," a ROT must be physically present in the trading crowd. The purpose of allowing ROTs to piggyback on specialists' quotes is partly to reduce market data traffic by allowing ROTs to join the specialist's quote in the less actively traded series (far out months, etc.) while auto-quoting the more actively

³ See Securities Exchange Act Release No. 49747 (May 20, 2004), 69 FR 30344 (May 27, 2004) (SR-Amex-2003-89).

traded series.

- **Monitoring.** The Amex actively monitors the quotation activity of its market participants. When the Exchange detects that a market participant is disseminating significantly more quotes than the average market participant, the Exchange contacts the market participant and alerts them to potentially excessive quotation activity. Often such monitoring reveals that the market participant may have internal system issues or has incorrectly set system parameters. Alerting the market participant usually leads to the market participant to take steps to reduce the number of quotes for dissemination.

- **Holdback Timers.** The Amex has the systematic ability to limit the dissemination of quotations and other changes to the Amex Best Bid or Offer (“ABBO”) according to prescribed time criteria (“Holdback Timer”). For instance, if there is a change in the price of a security underlying an option, multiple market participants may adjust the price or size of their quotes. Rather than disseminating each individual change, the Holdback Timer permits the Exchange to wait until multiple market participants have adjusted their quotes and then to disseminate a new quotation. This helps to prevent the “flickering” of quotations. The Amex proposes to codify the Holdback Timer in this rule filing. As proposed in Amex Rule 958A—ANTE, the Exchange will utilize a Holdback Timer that delays quotation updates for no longer than one (1) second.

- **Delisting.** The Amex commits to the Commission that it will delist options with an average daily volume (“ADV”) of less than 25 contracts. However, it has been the policy of the Amex to be much more aggressive in delisting relatively inactive options, thereby eliminating the quotation traffic attendant to such listings.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁵ in particular, in that the proposed rule change is designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices, 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.

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

The Exchange does not believe that the proposed rule change will impose any 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

Written comments on the proposed rule change were neither solicited nor received.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

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. 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-2006-106 on the subject line.

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 No. SR-Amex-2006-106. 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 at <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, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of the 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 No. SR-Amex-2006-106 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.⁶

Nancy M. Morris
Secretary

⁶ 17 CFR 200.30-3(a)(12).