

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54866; File No. SR-Amex-2006-111)

December 4, 2006

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Odd-Lot Rejections by Away Markets in the AEMI-One Pilot

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 29, 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. Amex has filed this proposal pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(5) 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 proposes to adopt changes to its AEMI-One rules to provide for the execution of an unexecuted odd-lot balance on an aggressing order as the result of an unexecuted odd-lot balance on an away market obligation that was routed to another market by the AEMI platform to access a better-priced protected quotation.

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)(5).

The text of the proposed rule change is available on the Amex's Web site at <http://www.amex.com>, the Exchange's principal office, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization 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. Amex has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange has recently adopted new rules to implement an initial version of AEMI, its proposed new hybrid market trading platform for equity products and exchange-traded funds.⁵ This initial version of AEMI is referred to as AEMI-One and is operational on a pilot basis through February 4, 2007. Under the AEMI-One pilot, the AEMI platform will route orders to better-priced protected quotations of away markets. Such "away market obligations" (as defined in Exchange Rule 131-AEMI-One) are sent only in round lots. Although the quotation of an away market that AEMI is attempting to execute against is also expressed in a round lot, the possibility exists that fills at certain away markets may include odd lots since AEMI uses private linkages instead of ITS to access such quotations in the AEMI-One pilot. For example, if Nasdaq is displaying a better bid than Amex for 200 shares of XYZ Corp. and there is an

⁵ See Securities Exchange Act Release No. 54709 (November 3, 2006), 71 FR 65847 (November 9, 2006).

aggressing sell order in AEMI, Amex will send an away market obligation to Nasdaq (in the form of an immediate or cancel order or an intermarket sweep order) and could receive back an execution in the form of two trades for 160 shares and 40 shares, respectively.

Consequently, the possibility exists that, under unusual circumstances, AEMI might receive only a partial fill on a round-lot order and be left with a rejected odd-lot portion of a round-lot order that was suspended on the AEMI Book. In the example cited above, it is possible that 160 shares out of the 200 shares routed away would be filled but that the balance of 40 shares would be rejected. The Exchange's current Rule 205-AEMI-One addresses odd-lot orders that are submitted to AEMI as such, but it is not applicable to a rejected odd-lot portion of an order submitted for a round lot, since the latter was not intentionally for an odd lot but became an odd lot due to the action of another market.

The Exchange believes that the situation described above, in which the Exchange would be left with a rejected odd-lot portion of an away market obligation that was transmitted to another market as a round-lot order, will be a rare event. However, it is necessary to make appropriate changes to the AEMI platform and to the Exchange's AEMI-One rules to provide for this possibility.

The Exchange is therefore proposing to add language to Rule 205-AEMI-One (Manner of Executing Odd-Lot Orders) to distinguish such occurrences from the treatment of odd-lot orders that are submitted as such and to provide for the proper treatment of such odd-lot rejections by other markets. Proposed new paragraph (b)(viii) of the rule would provide that, if a partial-lot trade is received from an away market in response to an away market obligation sent by AEMI, resulting in an unexecuted balance which comprises an odd lot, then any unexecuted odd-lot balance on the aggressing order (including the unexecuted odd-lot balance from the away

market obligation) shall be traded immediately against the Specialist at the last trade price of the away market obligation, and any remaining unexecuted round-lot balance shall reaggross the AEMI Book in accordance with Rule 126A-AEMI-One.⁶

The following examples illustrate how the proposed additional rule provision would operate:

Example 1: Assume an incoming client order to buy 100 shares of XYZ Corp. AEMI routes the entire order to Nasdaq to access a better-priced offer. If the Exchange receives back a trade for only 80 shares at the limit price and a rejection for 20 shares, that 20-share odd-lot balance would trade against the Specialist at the same price as the 80-share execution on Nasdaq.

Example 2: Assume an incoming client order to buy 130 shares of XYZ Corp. AEMI routes 100 shares to Nasdaq to access a better-priced offer. If the Exchange receives back a trade for only 80 shares at the limit price and a rejection for 20 shares, the unexecuted odd-lot balance on the order of 50 shares (including the unexecuted odd-lot balance of 20 shares from the away market obligation) would trade against the Specialist at the same price as the 80-share execution on Nasdaq. This is the same outcome for the order that would have resulted if the execution at the away market had been for the entire 100 shares that was routed to that market.

Example 3: Assume an incoming client order to buy 280 shares of XYZ Corp. AEMI routes 200 shares to Nasdaq to access a better-priced offer. If the Exchange receives back a trade

⁶ In a situation where the original aggressing order in AEMI was a non-exempt short sale and the aforementioned unexecuted odd-lot balance from the away market obligation could not be traded against the Specialist at the last trade price of the away market obligation without violating the Exchange's short sale tick test (Amex Rule 7), the Exchange would need to have received exemptive or no-action relief from the Commission from the requirements of Rule 10a-1 under the Act and the Exchange's related short sale rule in order to avoid leaving that odd-lot balance unexecuted. The Exchange has prepared a request for such relief and is submitting it to the Commission separately.

for 70 shares at the limit price, followed by a trade for 100 shares at the limit price and a rejection for 30 shares, the remaining unexecuted 110-share balance of the order would include an odd-lot balance of 10 shares that would trade against the Specialist at the same price as the 100-share execution on Nasdaq and a round-lot balance of 100 shares that would reaggregate the AEMI Book.

The Exchange asserts that the proposal to effect the foregoing change to the AEMI trading system does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and does not have the effect of limiting the access to or availability of the system.

2. Statutory Basis

The proposed rule change is designed to be consistent with Regulation NMS,⁷ as well as consistent with Section 6(b) of the Act,⁸ in general, and furthers the objectives of Section 6(b)(5),⁹ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

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.

⁷ 17 CFR 242.600 et seq.

⁸ 15 U.S.C. 78f(b).

⁹ 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 proposed rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) have the effect of limiting the access to or availability of an existing order entry or trading system of the Exchange, the foregoing rule change has become effective immediately pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁰ and Rule 19b-4(f)(5)¹¹ thereunder. At any time within 60 days of the filing of such 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 the furtherance of the purposes 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 at <http://www.sec.gov/rules/sro.shtml>; or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-Amex-2006-111 on the subject line.

¹⁰ 15 U.S.C. 78s(b)(3)(A)(iii).

¹¹ 17 CFR 240.19b-4(f)(5).

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-2006-111. 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 No. SR-Amex-2006-111 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

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

Florence E. Harmon
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).