

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53148; File No. SR-Amex-2005-131)

January 19, 2006

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Order Granting Accelerated Approval to a Proposed Rule Change and Amendment No. 1 Thereto Relating to the Implementation of a Quote Risk Manager

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 December 27, 2005, 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 Exchange. On January 13, 2006, the Amex filed Amendment No. 1 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. In addition, the Commission is granting accelerated approval of the proposed rule change, as amended.

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

The Amex proposes to amend Exchange Rule 958 – ANTE to codify a change to the Exchange’s ANTE System to allow specialists and registered options traders (“ROTs”) to establish an options “Quote Risk Manager.” The text of the proposed rule change, as amended, is below. Proposed new language is in italics.

Rule 958 - ANTE Options Transactions of Registered Options Traders

(a) – (h) No Change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1, which replaced and superseded the original filing in its entirety, made certain additions to the purpose section and minor changes to the text of the proposed rule change.

••• **Commentary**

.01 - .09 No Change.

.10 ANTE Participant Quotations

Automated Quotation Adjustments -- An ANTE Participant may establish parameters by which ANTE will automatically restate the prices of ANTE Participant quotations in all series of an options class, at prices specified by the ANTE Participant, if within an Exchange-specified time period such ANTE Participant, in the aggregate, executes a number of trades, specified by the ANTE Participant, for that options class. The threshold number of trades shall be pre-established by the ANTE Participant for each options class.

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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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it had received on the proposed rule change. The text of these statements may be examined at the places specified in Item III below. The 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

Exchange rules require option specialists to continuously provide and maintain a two-sided market of at least ten contracts for every series of every option class they are allocated.⁴

⁴ See Exchange Rule 950 – ANTE (I).

Although not required, ROTs often continuously provide and maintain two-sided markets in every series of every option class they are assigned.⁵ This continuous quoting obligation can, at times, subject specialists and ROTs to unintended and often unacceptable levels of risk. Each option class has at least twelve (12) series and many option classes have significantly more series.⁶

The Exchange's ANTE System, which provides for the nearly simultaneous execution of orders in these numerous series, subjects specialists and ROTs to executions at their quoted market with little or no ability to adjust the quote in response to the number of contracts traded at a given price, particularly if orders arrive in quick succession from multiple sources in various related option series. Accordingly, specialists and ROTs are vulnerable to the risk that, through an error in their pricing decisions or because of market developments, they will receive multiple executions at disadvantageous prices across all of the related option series in an option class—all before they are able to react and adjust their quotes. As a result, the quality of the markets available to customers may suffer because, under such circumstances, specialists and ROTs are likely to quote less aggressively and limit the size of their quotes to avoid the attendant risks and costs.

In order to protect specialists and ROTs from this unreasonable level of risk of multiple and nearly simultaneous executions in related options series, the Exchange has developed an

⁵ See Exchange Rule 958 – ANTE (h)(iii)(A).

⁶ For a typical equity option class, the Exchange lists both puts and calls in four expiration months with three strike prices within each expiration month. Many option classes also have puts and calls with numerous strike prices in two long-term expiration series. As the underlying stock price moves, additional strike prices are added for each expiration. Options on volatile stocks can have well over 100 different series trading at any given time. For example, there are over 400 different series traded in Google (GOOG).

enhancement to the ANTE System which is referred to as the “Quote Risk Manager.” The “Quote Risk Manager” would provide the ability for specialists and ROTs to automatically restate their quote to an inferior price (i.e., the widening of quotes).⁷ The result of this “widened quote” would be to prevent further executions, since in the ANTE System trades are subject to execution at a price no worse than the national best bid or offer.⁸

The Exchange’s proposed rule requires that a certain number of trades occur in an options class before the automatic widening of quotes takes place. Proposed Commentary .10 to Rule 958 – ANTE provides that a specialist or ROT may establish specific parameters by which their quotations in all series of an options class are automatically repriced. ANTE would widen the quotes at the specialist’s or ROT’s predetermined price, if the specialist or ROT executes a set number of trades, to be specified by the specialist or ROT, within an Exchange established time frame, in that class.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ in particular, in that it is designed 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.

⁷ Specialists and ROTs may not exceed the legal width requirements as set forth in Exchange Rule 958 – ANTE(c).

⁸ The Exchange established time period shall initially be five (5) seconds. If the Exchange were to change this time period it would provide notice to the specialists and ROTs.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

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 by the Exchange on this proposal.

III. 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-2005-131 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 20549-9303.

All submissions should refer to File Number SR-Amex-2005-131. 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 Section, 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 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 publicly available. All submissions should refer to File Number SR-Amex-2005-131 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder, applicable to a national securities exchange.¹¹ In particular, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹² which requires among other things, that the rules of the Exchange are designed to promote just and equitable principles of trade, 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. The Commission notes that the proposal does not alter the obligations of specialists and ROTs. The Commission believes that the proposed rule change should provide specialists and ROTs assistance in effectively managing their quotations.

¹¹ In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹² 15 U.S.C. 78f(b)(5).

The Amex has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after publication of notice thereof in the Federal Register. The Commission notes that similar proposals to provide protection from risk for market makers have been approved for other options exchanges.¹³ The Commission believes that granting accelerated approval of the proposal should provide specialists and ROTs with similar protections from the risk associated with an excessive number of near simultaneous executions in a single options class. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,¹⁴ for approving the proposed rule change, as amended, prior to the thirtieth day after the date of publication of notice thereof in the Federal Register.

¹³ See Securities Exchange Act Release Nos. 51049 (January 18, 2005), 70 FR 3756 (January 26, 2005) (SR-BSE-2004-52); 51050 (January 18, 2005), 70 FR 3758 (January 26, 2005) (SR-ISE-2004-31); and 51740 (May 25, 2005), 70 FR 32686 (June 3, 2005) (SR-PCX-2005-64).

¹⁴ 15 U.S.C. 78s(b)(2).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁵ that the proposed rule change (SR-Amex-2005-131) and Amendment No. 1 thereto be, and hereby are, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Nancy M. Morris
Secretary

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 17 CFR 200.30-3(a)(12).