

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-57384; File No. SR-Amex-2007-95]

Self-Regulatory Organizations; American Stock Exchange, LLC; Order Granting Approval of a Proposed Rule Change Relating to the Execution of NDX and RUT Combination Orders

February 26, 2008.

On August 20, 2007, the American Stock Exchange, LLC ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder, a proposed rule change regarding the definitions and the execution procedure for NDX and RUT combination orders.² The proposed rule change was published for comment in the **Federal Register** on September 7, 2007, for a 15-day comment period.³ The Commission received no comments regarding the proposal. This order approves the proposed rule change.

The Exchange proposes to adopt Commentary .01 to Amex Rule 950-ANTE(e) to add the definitions pertaining to NDX and RUT combination orders.⁴ Pursuant to proposed Commentary .01(a) to Amex Rule 950-ANTE(e), a "NDX Combination" is a long (short) NDX call and a short (long) NDX put having the same expiration date and strike price. An "RUT Combination" is a long (short) RUT call and a short (long) RUT put having the same expiration date and strike price. As defined in proposed Commentary .01(c) to Amex Rule 950-ANTE(e), a "NDX combination order" is an order to purchase or sell NDX options and the offsetting number of NDX Combinations defined by the delta. Further, an "RUT combination order" is an order to purchase or sell RUT options and the offsetting number of RUT Combinations defined by the delta. The "delta" is defined in proposed Commentary .01(b) to Amex Rule 950-ANTE(e) as the positive (negative) number of NDX or RUT combinations that must be sold (bought) to establish a market neutral hedge with the corresponding NDX or RUT option position.

The Exchange further proposes to adopt execution procedures regarding

NDX and RUT combination orders. The proposed Amex Rule 953-ANTE(c) would enable a member holding a NDX or RUT combination order, and bidding or offering in a multiple of the minimum price variation on the basis of a total debit or credit for the order, to execute the NDX or RUT combination order even if the member has determined that the combination order may not otherwise be executable (*e.g.*, the bids and offers displayed in the Amex limit order book or in the trading crowd will not satisfy the net debit or credit price of the combination order). Pursuant to proposed Amex Rule 953-ANTE(c)(i), a member may execute an NDX or RUT combination order at the best net debit or credit price, so long as no leg of the order would trade at a price outside the currently displayed bids or offers in the trading crowd or bids or offers in the limit order book, and at least one leg of the order would trade at a price that is better than the corresponding bid or offer in the Amex limit order book.

Further, the Exchange proposes that if an NDX or RUT combination order is not executed immediately, that same order may be executed and printed at the price originally quoted for each component option series within two (2) hours after the original quote, provided the prices originally quoted satisfied the requirements of proposed Amex Rule 953-ANTE(c)(i), and, at the time of execution, no individual leg of such order trades ahead of the corresponding bid or offer in the NDX or RUT limit order book. Amex will report to the trading floor, and the Options Price Reporting Authority, component legs of an NDX or RUT combination order executed in such manner using a sold sale indicator to notify the public that the reported prices are part of an out-of-range combination trade.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁶ which requires that the rules of exchange be 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 securities

system, and, in general, to protect investors and the public interest.

According to Amex, it may be difficult in a volatile market to complete trades on options tied to an NDX Combination or an RUT Combination, because the originally quoted price for a component leg may be out-of-range by the time market participants are prepared to complete the transaction. By permitting execution and printing of NDX and RUT combination orders two hours from the original quote, the proposed rule change may help market participants complete such trades.

The Commission notes that the proposed rule change takes into account the protection of public customer orders by providing that no individual leg of the NDX or RUT combination order may trade ahead of the corresponding bid or offer in the NDX or RUT limit order book. Further, the Commission notes that Amex will issue a regulatory circular reminding its members that the adoption of Amex Rule 953-ANTE(c) does not minimize the best execution obligations for customer orders. The Commission also notes that Amex will report to the trading floor, and the Options Price Reporting Authority, component legs of out-of-range NDX or RUT combination orders with a sold sale indicator. The Commission believes that the indicator should help to avoid investor confusion regarding such trades and minimize any negative impact on price discovery. In addition, the indicator should help the Exchange monitor the trading of NDX and RUT combination orders.

The Commission expects the Exchange to monitor compliance with the proposal. In particular, the Commission expects the Exchange to monitor compliance with the requirement in proposed Amex Rule 953-ANTE(c)(ii) that at time of the execution no individual leg of NDX or RUT combination order trades ahead of the corresponding bid or offer in the NDX or RUT limit order book.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (SR-Amex-2007-95) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁸

Florence E. Harmon,
Deputy Secretary.

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¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 56343 (August 30, 2007), 72 FR 51481.

⁴ NDX is the NASDAQ-100 Index; RUT is the Russell 2000 Index.

⁵ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁶ 15 U.S.C. 78f(b)(5).

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12).