

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

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Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45180; File No. SR-Amex-2001-65]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange LLC Relating to the Implementation of Quick Trade

December 20, 2001.

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 August 22, 2001, 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 prepared by the Exchange. On October 19, 2001, and December 4, 2001, respectively, the Amex filed Amendment Nos. 1 and 2 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.

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

The Amex proposes to implement Quick Trade, an enhancement to the Amex Order File and Amex Options Display Book.

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

Currently, for orders executed through the specialist's book (known as the Amex Order Display Book or AODB) in which registered options traders are some or all of the contra-parties, the specialist or his clerk must manually allocate the contracts to those participating registered options traders. For option classes with large trading crowds, this can be a very time consuming process that can delay the processing of trades. As the Exchange continues to develop a number of competitive initiatives to further enhance the processing of customer option orders, it is now proposing to develop and implement Quick Trade, an enhancement to the Amex Order File (AOF) and AODB that will automate the process of allocating trades to participating registered options traders.

Quick Trade would provide for the efficient allocation of executed contracts as set forth below. Registered options traders would be able to log onto the Quick Trade ("QT") wheel through AOF. While registered options would not be required to participate in QT, they would be encouraged to sign on and remain on QT throughout the trading day. Each registered options trader signed on to QT would have the ability to advise the specialist prior to the usage of QT on any given trade that he does not want to receive an allocation through QT. In such a situation and in the situation where a registered options trader not signed on to QT wishes to participate in a given trade, the specialist would be unable to use QT to allocate the trade and the allocation would occur using the same manual process used today.

At the opening and throughout the trading day the QT wheel⁴ would be activated to allocate contracts among

registered options traders and the specialist in accordance with specific ratios set forth below.

ALLOCATION RATIO

| Number of traders on Quick Trade | Approximate number of contracts allocated to the specialist (In percent) | Approximate number of contracts allocated to the traders (as a group) (In percent) |
|----------------------------------|--|--|
| 1 | 60 | 40 |
| 2-4 | 40 | 60 |
| 5-7 | 30 | 70 |
| 8-15 | 25 | 75 |
| 16 or more | 20 | 80 |

The QT wheel would provide for the automatic allocation of contracts to the specialist and registered options traders at various times during the trading day when QT is used for the following four AODB features. Registered options traders who have signed on to QT would be allocated trades whenever QT is used for any of these four AODB functions:⁵

- Quick Opening for pre-opening quantity allocations by class;
- Block Window for post-opening quantity allocations by series;
- The Auto-Match feature for executions when there is an imbalance; and
- Sweep of the Book allocation of contracts from multiple order executions.

Quick Openings

A specialist opens trading in each option series by establishing an opening price for that series and executing all market and marketable limit orders at this price. If after all opening orders have been executed an imbalance exists, QT would automatically allocate the imbalance of executed contracts to the specialist and the registered options traders signed on to QT in accordance with the ratios set forth above.

Block Window

The Block Window permits a specialist, in situations when there are limit orders on the book at various prices, to execute such limit orders at a single price. For example, the specialist has limit orders on the book to sell at

¹³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The proposal was originally filed pursuant to Section 19(b)(3)(A) of the Act, 15 U.S.C. 78s(b)(3)(A) and Rule 19b-4(f)(5) thereunder, 17 CFR 240.19b-4(f)(5). Amendment No. 1 converted the filing to a proposal submitted pursuant to Section 19(b)(2) under the Act, 15 U.S.C. 78s(b)(2). Amendment No. 2 made various clarifying changes to the proposal that are incorporated in the description herein.

⁴ A rotational wheel is necessary because the allocation of the contracts in a trade exactly according to the percentages set forth in the accompanying table is not always possible, as in the case, for example, where the percentages would yield a fractional value for each trader. Telephone conversation between Claire P. McGrath, Vice President and Special Counsel, Amex, and Ira L. Brandriss, Special Counsel, Division of Market Regulation ("Division"), Commission, on October 17, 2001.

⁵ As indicated above, the specialist would have the ability to determine on a trade-by-trade basis whether to use QT or to allocate the contracts manually. However, once QT was turned on, it would be assumed to remain on, and would be used to allocate contracts in all four of the functions designated below unless the specialist informed the crowd that he was turning it off. Telephone conversation between Claire P. McGrath, Amex, and Ira L. Brandriss, Division, Commission, on November 21, 2001.

\$5.00, \$5.05, \$5.10, \$5.15, and \$5.20; in aggregate these orders represent 50 contracts. The specialist has determined to buy all 50 contracts at \$5.20. The contracts would be allocated by QT to the specialist and registered traders in accordance with the ratios set forth above.

Auto-Match

The Auto-Match feature currently in AODB, which automatically matches and executes market and marketable limit orders that have by-passed the Exchange's automatic execution system ("Auto-Ex") with limit orders on the AODB, would be modified to include registered trader participation when an imbalance exists.⁶ Imbalances would be distributed among the specialist and registered traders according to the above allocation ratio. For example, the best bid is represented by a limit order to buy 10 contracts in an option class whose Auto-Ex eligible size is 20 contracts. A market order of 20 contracts to sell by-passes Auto-Ex and is routed to the AODB; 10 contracts are matched and executed with the limit order. The remaining 10 contracts would be allocated through QT to the specialists and registered traders.

Sweep of the Book

The Sweep of the Book function allows a specialist to simultaneously execute orders in multiple series at the quoted market. Following implementation of Quick Trade, contracts executed through the Sweep of the Book function would be automatically allocated by QT on a per series basis to the specialist and registered traders in accordance with the above allocation ratio.⁷

The Exchange believes that implementation of Quick Trade would increase the Exchange's competitiveness while furthering the efficient processing of customer option orders. Further, the Exchange believes that Quick Trade would enhance the fair and orderly allocation of orders executed on the Exchange especially during times of high trading volume by automating the allocation process.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁸ in general and furthers the objectives of Section 6(b)(5)

of the Act⁹ 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, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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.

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

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 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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 the filing will also be available for inspection and copying at the principal offices of the Amex. All submissions should refer to File No. SR-Amex-2001-65 and should be submitted by January 22, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45181; File No. SR-NASD-00-12]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change and Amendments Nos. 1 and 2 Thereto by the National Association of Securities Dealers, Inc. Concerning Amendments to Rules Governing Member Communications with the Public

December 20, 2001.

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 9, 2000, NASD Regulation, Inc. ("NASD Regulation") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASD Regulation.³ On August 8, 2001, NASD Regulation filed Amendment No. 1 to the proposed rule change.⁴ On December 12, 2001, NASD Regulation filed Amendment No. 2 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

NASD Regulation is proposing to amend Rule 2210 and the Interpretive Materials thereunder, promulgate new Rule 2211, and renumber existing Rule 2211, of the National Association of Securities Dealers, Inc. ("NASD" or "Association"). Below is the text of the proposed rule change. Proposed new language is italicized; proposed deletions are in brackets.

⁶ See Securities Exchange Act Release No. 42652 (April 7, 2000) 65 FR 20235 (April 14, 2000).

⁷ QT would allocate the order(s) for each series separately. Telephone conversation between Claire P. McGrath, Amex, and Ira L. Brandriss, Division, Commission, on December 5, 2001.

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ 17 CFR 200.30-3(a)(12).