

AEMI Essentials: A Guide for Off-Floor Participants

1 Welcome to AEMI!

The American Stock Exchange is launching the **Auction and Electronic Market Integration (AEMISM)** platform. This state-of-the-art trading platform:

- Unifies the best qualities of the electronic market and the auction market.
- Offers competitive execution speed with continued support of auction market capabilities at times of order imbalances, complex trades or when natural liquidity cannot be found.
- Will qualify the Amex as an automated trading center under Regulation NMS.
- Provides Amex customers more connectivity options, trading alternatives, new order types and flexibility.

2 The Amex – An Automated Trading Center

Under a new market structure and as a state of the art trading platform, AEMI will operate as follows:

- The Amex will publish automated quotes for all securities on the AEMI platform. Incoming executable orders will be processed *immediately* and *automatically* against automated quotations.
- If the Amex is displaying an automated quotation and the Amex is not the National Best Bid or Best Offer (“NBBO”), the incoming executable order will be routed out immediately and automatically, in whole or in part, to the trading center(s) with better priced automated quotations.
- AEMI contains predetermined parameters that will automatically disable automated execution (“auto-ex”) when breached, and the Amex will publish a manual, non-firm quotation until auto-ex is re-enabled in this security.

3 AEMI Pre RegNMS

Up until February 5th, 2007, AEMI will act similarly to a RegNMS environment with several exceptions:



- 1) AEMI will send out away market obligations through Lava/Citigroup to all firm quotations that are at a better price than the next trade that would occur on AEMI and that are the best bid or offer of a national securities exchange or a national securities association. This includes both completely automated markets and those providing manual executions.
- 2) Each away market obligation will be sent as an immediate-or-cancel order. If there is no response from an away market after 35 seconds, the Amex will trade through that market.
- 3) Intermarket sweep orders (ISOs) will not be sent to away markets until each market says it is ready to receive and trade them.

4 Sending Orders to AEMI

How Do I Send Orders to AEMI?

Off-floor members may send orders to the electronic environment in two main ways:

- 1) Send orders directly to the AEMI Book.

OR

- 2) Direct orders to booths on the floor. This will allow Floor Brokers to represent their orders on the floor and use their point-of-sale privileges as members of the crowd to obtain best execution for their customers. Orders sent to the Exchange that must be handled manually will be directed to the order entry firm's broker booth to be managed by booth personnel or redirected to Floor Brokers.

For example, "Not Held" and Rule 144 orders will be handled outside the AEMI Book and must be sent to a booth.

In contrast, orders that may not be handled manually must be sent automatically to the AEMI Book, such as odd-lot orders.

It is the customer's choice whether to route to a broker booth, or to AEMI. To route to a booth, the Line 1A in CMS or the Booth ID in FIX must be populated. If the routing destination is left blank, the order will be routed directly to the AEMI book.

How Do I Connect to AEMI?

Members can use CMS or FIX to connect to AEMI.

- **CMS:** Members may connect via existing CMS connections, and the new order type Intermarket Sweep Order is accepted via CMS.
- **FIX:** Alternatively, members may take advantage of new functionality and faster turnaround times by using the FIX protocol.

Looking Ahead ...

In the future, some features will be offered to FIX users only. For the initial rollout, this includes the six electronic cross order types, Hit or Take orders, and manually handled order types with specific execution instructions which are directed to the booth (Not Held, Prospectus, 144, 145, Company Buyback).

The Intermarket Sweep Order (ISO) is the only new order type that will be offered to CMS users in order to fulfill regulatory obligations under Regulation NMS.

5 Order Types and Execution

This section outlines all order types offered with the AEMI platform which can be sent to the AEMI book or to a Booth.

	CMS	FIX	AEMI Book	Booth
Market	√	√	√	√
Limit	√	√	√	√
Stop Market	√	√	√	√
Stop Limit	√	√	√	√
OPG	√	√	√	√
Cash Close	√	√	√	√
MOC	√	√	√	√
LOC	√	√	√	√
ISO	√	√	√	∅
Hit or Take	∅	√	√	∅
Not Held	∅	√	∅	√
Prospectus	∅	√	∅	√
144, 145	∅	√	∅	√
Company Buyback	∅	√	∅	√
Cross Order	∅	√	√	∅

5.1 NEW Order Types

Hit or Take (HoT)

A Hit or Take order is an order that may be sent via FIX and trades at



the best available bid or offer at Amex and then expires. It is similar to an immediate-or-cancel order but all or part of a HoT order may be sent out to satisfy an away market's protected quotation.

Intermarket Sweep Order (Inbound - sent to the Amex)

An Intermarket Sweep Order (ISO) is an immediate-or-cancel order received from a member or trading center in order to fulfill RegNMS obligations. When sending an ISO to the Amex, it is the member or trading center's responsibility to clear other protected quotes. An ISO sent by a member may sweep the book and trade at multiple price points up to its limit price.

ISO orders received via the NMS Linkage plan trade at the best price at the Amex and do not sweep the book.

Intermarket Sweep Order (Outbound - sent by the Amex)

Starting February 5th 2007, Amex will send out Intermarket Sweep Orders to all markets to fulfill its obligations under RegNMS. When an order is received and (i) auto-ex is on, and (ii) the incoming order is not an ISO, an immediate-or-cancel, a fill-or-kill order or an odd lot, Amex will send out an ISO to any away market displaying a better-priced automated quotation and simultaneously trade the balance or post in the quote ("Ship and Post"). Prior to February 5th 2007, Amex may elect to send ISOs to execute against protected quotations of away markets that are ready to receive and trade them.

5.2 Electronic Crosses

The Amex is offering new electronic cross order types in ETF and NASDAQ UTP securities. The new electronic cross orders will be available to on-floor brokers, and to off-floor members who connect to AEMI directly via FIX. The new electronic cross orders supplement the existing crosses transacted by Floor Brokers in all Amex listed products.

A cross order comprises a buy and a sell order, which must be of equal size and for the same give-up. The sender of the order establishes the conditions and qualifiers of the order. These predefined parameters determine the behavior of the cross relative to the NBBO, the Amex Published Quote (APQ), and any balance that could not be crossed. Cross order types may interact with existing orders on the AEMI book and/or be subject to away market obligations.

The available cross order types with their attributes are listed below.

New Electronic Cross Orders (ETF & Nasdaq UTP securities)						
	Cross	Cross Only	Midpoint Cross	Immediate or Cancel (IOC) Cross	Post No Preference (PNP) Cross	Auction Cross
Definition	May be broken up by existing orders on the book or away market obligations.	The cross is completed at the designated price or rejected. May not be broken up.	Crossed at the midpoint price on receipt. May not be broken up.	Any uncrossed balance is expired.	Executed at Amex only. Any balance may be posted on the AEMI book.	Either or both sides are actively seeking price improvement
Cross is published in the Amex quote	∅	∅	∅	∅	∅	√
Requires the sender to specify the cross price	√	√	∅	√	√	√
May be entered outside the NBBO	√	∅	∅	∅	∅	∅
May have one side routed away if there is a better protected quote	√	∅	N/A	∅	∅	N/A
May receive price improvement inside the APQ	√	∅	∅	∅	√	√
Any unfilled balance may be posted on the AEMI book	If specified on the order	∅	∅	N/A	If specified on the order	√

5.3 *The APQ and the NBBO*

During the regular trading session, AEMI will publish automated quotes for all securities. AEMI will immediately and automatically ship to any away market that displays a better-priced quotation. Auto-ex depends on whether the incoming order:

Locks the APQ: If an incoming order would lock the APQ, it will automatically execute against any contra-side interest resident on the AEMI Book. Any unexecuted balance will be posted simultaneously on the AEMI Book and reflected immediately in the new APQ.

Crosses the APQ: If an incoming order would cross the APQ, it will automatically execute against orders at each price point up to its limit price, or until it is filled or breaches a tolerance. All liquidity at each price point is cleared before the next price point may trade. This is known as sweeping the book, and during the sweep the incoming order may access other points of liquidity prior to reaching its limit price, such as a percentage order or a Specialist's emergency quote, both of which are described later in this document. If the range of the sweep includes better-priced protected quotations at other markets, AEMI will clear those better prices simultaneously with performing the sweep. Assuming no breach of a tolerance has caused Auto-Ex to be disabled, any unexecuted balance will be posted simultaneously on the AEMI Book and reflected immediately in the new APQ.

Locks the NBBO: If an incoming order would lock the NBBO, AEMI will immediately seek to clear the displayed quantity. If the displayed quantity is less than the size of the order, AEMI will simultaneously post any balance on the AEMI Book and reflect this immediately in the new APQ.

Crosses the NBBO: If an incoming order would cross the NBBO, AEMI will immediately issue intermarket sweep orders for the displayed quantities of those protected quotations. Therefore, AEMI will sweep the protected quotations of away markets at the same time as it sweeps in full size the same price points on the AEMI Book. As above, during the sweep the incoming order may access other points of liquidity prior to reaching its limit price, such as a percentage order or a Specialist's emergency quote. Assuming no breach of a tolerance has caused Auto-Ex to be disabled, any unexecuted balance will be posted simultaneously on the AEMI Book and reflected immediately in the new APQ.

5.4 Routing Orders Away

AEMI is fully compliant with the Order Protection Rule of Regulation NMS, which becomes effective on February 5th 2007, and which requires that the visible size of all best automated quotes of all away markets be cleared in order to execute or print a trade at a worse price. *Incoming orders at the Exchange will be routed out automatically if an away market with an automated quotation is displaying a better price.*

5.5 Routing Charges

Amex will route to away markets using routing facilities provided by Lava Trading and clearing facilities provided by Citigroup. This facility ensures that member anonymity is maintained at all times and that the highest standards are maintained for routing.

Amex will pass on the charges that are incurred in this process. These charges include a clearing fee, a market access fee imposed by the away market, and any other pass-through fees, such as Section 31. The fee schedule for clearing is published on the AmexTrader website. The charges for each away market are found on each trading center's own website.

5.6 Priority and Parity – How Orders Execute in the AEMI Book

In general, AEMI will execute orders at a single price point according to Amex parity, priority and precedence rules.

Priority and Parity determines the ranking and execution priority of orders and quotes within the AEMI order book.

Prioritization of interest within the AEMI book is determined based upon capacity (for Exchange Traded Funds only), price and time, and parity status (in-parity or not in-parity).

An order or quote within the AEMI book is considered "in-parity" if:

- A trade takes place after a quote or order was received by AEMI; *or*
- A new market is established (e.g. the Amex Published Quote is improved) and orders or quotes with prices equal to the new market are received within two seconds of the new market being established.

Orders and quotes are differentiated by their parity status, with in-parity orders and quotes ranked above not in-parity orders and quotes at the same price level. Parity allocation, the process of allocating an aggressing order according to a predefined priority, will take place if

there is insufficient quantity to satisfy ALL of the in-parity interest at a price point.

Equities

- Equity Specialists yield to public orders (i.e., orders initiated from off-floor). Regardless of its parity status, the Specialist's quote will not trade until all public interest is satisfied at the same price level.
- The quantity parity allocated will be even split among the participants.
- When parity allocation takes place, the Specialist and any public orders are considered equivalent to a single crowd participant in terms of determining the allocation splits. Each crowd participant is then given an individual allocation.

ETFs

- All broker/dealer (i.e. principal) orders and quotes, including that of the Specialist and Market Makers, yield to all customer (i.e. non-broker/dealer capacity) interest, regardless of their in-parity status.
- When parity allocation takes place, public orders received from a broker/dealer are considered a single participant in terms of determining the allocation split.
- A parity allocation table is utilized for ETFs.

Parity allocation is applied differently for equities and ETFs. For more information on parity and priority, please see the AEMI Rule Filings on:

http://www.amex.com/amextrader/sysInfo/AEMI/facts/sysInfo_AEMIRuleFilings.html

6 Disabling Auto-ex

Auto-ex in AEMI will be disabled during the regular trading session under the following circumstances:

- A breach of spread tolerance has occurred (see table)
- A breach of momentum tolerance has occurred (see table)
- A gap trade has occurred (see table)
- The Specialist has gapped the quote due to an imbalance presented in the crowd
- Trading Halts
- System Malfunction

The table below provides additional information on the conditions under which Auto-Ex is disabled.

Disabler	Occasion	Parameter	Determinant
Spread Tolerance	A single order causes a large price movement	5 cents if first execution is <\$5 15 cents if first execution is \$5-15 25 cents if first execution is >\$15	Automated
Momentum Tolerance	A series of orders cause a large price swing	The greater of 15 cents or 1% high/low swing within a 30-second time span	Automated
Gap Trade (equities)	A trade exceeds the maximum specified range from last sale	1%, \$2, \$1, \$0.50 away from the last sale, depending on the price of the security	Automated
Gapped Quote	An oversized order is walked into the crowd	Normal minimum imbalance is 10,000 shares or \$200,000 value	Specialist

7 Auctions

Auctions may occur when auto-ex is either enabled or disabled.

If a breach of tolerance or a gap trade has occurred, auto-ex is disabled automatically, the Amex Published Quote is manual/non-firm, and the Specialist has 10 seconds to act. He may:

- Re-quote the market, if there is no imbalance (e.g. the incoming order was an IOC)
- Pair off a small imbalance (e.g. there is no crowd)
- Conduct an auction for a larger imbalance
- Gap the quote, in the case of a larger imbalance, which keeps auto-ex disabled for up to an additional 2 minutes to allow offsetting interest to be sent into AEMI.

During the disablement, the Amex Published Quote is a manual/non-firm quote and is not updated.

When the Specialist has acted, by conducting an auction and pairing-off the imbalance, auto-ex is automatically re-enabled and the Amex Published Quote is updated. Alternatively, the Specialist may gap the quote if market conditions require it.

If, at the end of the ten seconds, the Specialist has not acted, and the AEMI book is not locked or crossed, then auto-ex is automatically re-enabled.

8 Broker Functions in the Crowd

In AEMI, Floor Brokers maintain their value-added services through:

- Their point-of-sale proximity,
- Their participation in auctions,
- Trading on parity,
- Their provision of liquidity in the form of crowd orders to the electronic environment. They receive orders from customers electronically via the floor booth automated routing systems and manage their order flow using hand held terminals.

The combination of these elements results in faster execution reports to customers. Further, Floor Brokers may represent customer orders as crowd members electronically, trade on parity in the electronic environment, and initiate and participate in auctions, using their judgment to obtain best execution for their customers.

The following order types may be sent to a Booth for manual handling by Floor Brokers on the floor: Not Held, 144, 145, Company Buy Back, Prospectus.

Floor Brokers will also have two new electronic order types to facilitate their floor trading:

- **Reserve Order**
A Reserve order comprises a displayed quantity and an undisplayed (reserve) quantity. As the displayed size is executed, it is replenished from the reserve size until the order is filled. The Specialist may only see the aggregate reserve size at any given price point.
- **Percentage**
A Percentage order is an order that is submitted by a Floor Broker to the AEMI book and to which the Specialist has an agency obligation. This order trades through conversion and election, and is also known as a “go-along” order as it seeks to trade a percentage of the volume, based on criteria set by the Floor Broker.

9 Order Amendments

Change	Will You Lose Priority?
Reduce size to a partial round lot	No
Expiry from GTC to Day (auto-ex on)	No
Expiry from Day to GTC (auto-ex on)	No
Symbol	Yes
Side	Yes
Owning User	Yes
Clearing acronym	Yes
Clearing Firm ID	Yes
Expiries other than GTC/Day (auto-ex on)	Yes
Order Type (e.g. (Stop to regular Limit)	Yes
Execution qualifier (e.g. HoT)	Yes
Limit price	Yes
Stop price	Yes
Reduce size to an odd lot	Yes
Increase size to a partial round lot	Yes
Change any other expiry (e.g. GTC to Close)	Yes

10 Learn More – Amex Contacts

For more information on AEMI including rule filings, please visit the AEMI website at <http://www.amex.com/aemi>. Additional Contacts are as follows:

For AEMI and general Amex information:

Dan Petrie	dan.petrie@amex.com	212-306-1206
Rich Russo	richard.russo@amex.com	212-306-1844

Issuer Services Contact:

Prospective companies or their agents

John McGonegal	john.mcgonegal@amex.com	212-306-7807
----------------	--	--------------

ETF Services Contact

Clifford Weber	cliff.weber@amex.com	212-306-2154
Al Gasparic	al.gasparic@amex.com	212-306-2273
Mitch Litke	mitch.litke@amex.com	212-306-8346