

Proposed Rule Change by American Stock Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

The American Stock Exchange LLC ("Amex" or "Exchange") proposes to adopt rules for the purpose of implementing the Amex New Trading Environment ("ANTE") Price Improvement Auction ("PIA").

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Jeffrey"/>	Last Name	<input type="text" value="Burns"/>
Title	<input type="text" value="Associate General Counsel"/>		
E-mail	<input type="text" value="jeffrey.burns@amex.com"/>		
Telephone	<input type="text" value="(212) 306-1822"/>	Fax	<input type="text" value="(212) 306-5724"/>

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date	<input type="text" value="12/22/2004"/>
By	<input type="text" value="Geraldine Brindisi"/>
	(Name)
	<input type="text" value="Vice President and Corporate Secretary"/>
	(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. **Text of the Proposed Rule Change**

(a) The American Stock Exchange LLC (“Amex” or “Exchange”) proposes to adopt rules for the purpose of implementing the Amex New Trading Environment (“ANTE”)¹ Price Improvement Auction (“PIA”). The text of the proposed rule changes appears in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. **Procedures of the Self-Regulatory Organization**

(a) The proposed rule change was approved by the Exchange’s Board of Governors on January 21, 2004. No further action by the Board or by the membership of the Exchange is required to be taken.

(b) The following Exchange staff member is prepared to respond to questions and comments on the proposed rule change:

Jeffrey P. Burns
Associate General Counsel
(212) 306-1822

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

(a) *Purpose*

The purpose of the proposed rule change is to adopt rules implementing the Exchange’s Price Improvement Auction (“PIA”). PIA would give all market participants² who can quote through ANTE, the ability to provide price improvement of their quote, on public customer orders³, delivered electronically into ANTE, in \$0.01 increments. The Amex believes that PIA as proposed is superior to other similar price improvement methods that have either

¹ The Commission approved the ANTE system in May 2004. See Securities Exchange Act Release No. 49747 (May 20, 2004), 69 FR 30344 (May 27, 2004). The rollout of ANTE is expected for completion by the end of the third quarter 2005 with the top 300 option classes on ANTE by the end of January 2005.

² For purposes of PIA, “market participants” are defined as specialists and ROTs who are quoting in ANTE.

³ The term “public customer” is a customer that is neither a member nor a broker/dealer. See Commentary .02 to Rule 950(d)—ANTE.

been proposed or that are available.⁴ First, PIA does not require the order entry firm to designate or preference any one ROT, i.e. market maker, or to change the manner in which they send orders to the Exchange. Second, every public customer order electronically entered into ANTE has the potential to receive price improvement not just those customer orders that are routed to a select group of market makers. Third, price improvement may be offered by any and all market participants, quoting in a series through ANTE, on any and all public customer orders entered electronically into ANTE. In other versions only those orders routed to certain market makers are eligible for price improvement and the decision to offer price improvement for a given order rests solely with the market maker in receipt of the directed order, not the entire trading crowd. In the proposed PIA, price improvement, may be offered by any market participant quoting in that series through ANTE.

Market participants, quoting in a series through ANTE, who are willing to offer price improvement, must submit to the Exchange an “Improvement Quantity” on a series by series basis. An Improvement Quantity may be amended or withdrawn at any time prior to the commencement of the PIA and cannot be viewed by other specialists, ROTs or member firms. The Improvement Quantity is the number of contracts that a market participant is willing to trade at a price of at least \$.01 better than their quote. The Improvement Quantity may be one or two-sided (i.e. market participants may elect to indicate a willingness to improve either the bid, the offer, both sides of the market, or neither) and is not subject to a minimum size. Executions in PIA are available only to public customer orders that have been electronically delivered into ANTE.

Electronically entered public customer orders in ANTE will be filtered to determine whether the order is eligible for price improvement. First, ANTE will determine whether the Amex market is the national best bid or offer (the “NBBO”). It is proposed that

⁴ See Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004)(approval of BOX Trading Rules) and 50819 (December 8, 2004)(approval of ISE’s Price Improvement Mechanism, ISE File No. 2003-06).

price improvement through PIA can only take place when the Amex is at the NBBO. Second, ANTE will then determine whether or not the inbound public customer order could trade with a public customer or non-member broker dealer order that is resting on the order book. The Exchange has proposed not to allow price improvement in increments of \$0.01 in PIA when public customer or non-member broker dealer contra orders rest on the book (i.e. the Amex disseminated market includes a public customer or non-member broker dealer limit order on the bid and/or offer side). Since all ANTE participants can view the full depth of the book and see when a public customer or non-member broker dealer order represents the top of the book, price improvement, especially in increments of \$0.01, could provide a mechanism for specialists and ROT's to step ahead of public customer orders on the book. Third, ANTE will determine whether the aggregate size of the Improvement Quantity is greater than or equal to the size of the inbound public customer order. It is proposed that PIA will only commence if the entire size of the public customer order can be filled at least \$.01 better than the NBBO. If the inbound public customer order, fails any of these three (3) conditions, PIA will not be initiated and the order will be routed for normal ANTE processing. Orders eligible for PIA are not subject to a minimum size requirement.

In cases where the PIA eligibility criteria have been met and the PIA is initiated, the market participants who had submitted Improvement Quantities prior to the start of PIA are automatically included in the PIA \$.01 better than the NBBO, for their quantity. All market participants currently quoting in that series through ANTE, including those who have submitted Improvement Quantities, are notified of the commencement of a PIA and then have three (3) seconds to place bids or offers in increments of \$0.01. The notification message includes the series, price, size and whether the order is a bid or offer. Bids and offers placed in PIA cannot subsequently be canceled during the PIA. In addition, quantities during the PIA cannot be decreased but may be increased. Once PIA has commenced, prices may be further improved for quantities less than the initial Improvement Quantity. During PIA, bids and

offers, may not exceed the size of their original Improvement Quantity or the size of the public customer order, whichever is larger. During the PIA bids and offers are continuously updated and disclosed to all market participants active in the PIA. At the end of the three (3) second time period, PIA terminates and the order executes at the best prices quoted within the PIA.

The three (3) second PIA will be immediately terminated upon receipt of orders delivered electronically into ANTE under the following circumstances: (i) if a market or marketable limit order in the same series is delivered electronically into ANTE or (ii) if a non-marketable limit order, in the same series, is electronically entered into ANTE, that would cause an execution in the PIA to be outside of the best bid or offer on the Exchange. Only one (1) PIA may be ongoing at any time in a given options series. PIAs will not queue or overlap in any manner.

The Exchange submits that it shall be considered conduct inconsistent with just and equitable principles of trade for any member to enter orders, quotes and/or PIA Quotes for the purpose of disrupting or manipulating the PIA.

ANTE will allocate the execution of public customer orders in PIA as follows: (1) if the market participant quoting in the PIA and the order entry firm are the same entity or affiliates, and the market participant quoting in the PIA is at the best price, said participant will receive 40% of the public customer order; (2) if the specialist is at the NBBO and 40% has not been allocated to the member firm, the standard parity/allocation set forth in Rule 935—ANTE is applicable⁵; and (3) if the order entry firm receives 40% of the public customer order, the specialist is treated as a market maker in connection with the allocation set forth in Amex Rule 935—ANTE.

The Exchange proposes an eighteen (18) month pilot program be instituted in connection with PIA. In this manner, the Exchange and the Commission will be able to monitor the operation of PIA and assess the benefit to public customers and the options market. In order

⁵ See Rule 935(a)—ANTE.

to provide adequate information for the evaluation of PIA, the Exchange represents that during this pilot period it will provide the Commission with the following information on a monthly basis: (1) The number of orders receiving price improvement via the PIA; and (2) The number of contracts receiving price improvement via the PIA.

(b) *Basis*

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act⁶ in general and furthers the objectives of Section 6(b)(5)⁷ 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.

4. **Self-Regulatory Organization's Statement on Burden on Competition**

The proposed rule change will impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the 1934 Act.

5. **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.

6. **Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period for Commission consideration of the proposed rule change specified in Section 19(b)(2) of the 1934 Act.⁸

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78f(b)(2).

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on the rules of another self-regulatory organization nor of the Commission.

9. **Exhibits**

List of Exhibits Filed:

- 1. Notice of Proposed Rule Change for publication in the **Federal Register**.
- 2. Not applicable.
- 3. Not applicable.
- 4. Not applicable.
- 5. Text of Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-Amex-2004-107)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by American Stock Exchange LLC Relating to Establish Rules Implementing an ANTE Price Improvement Auction

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on _____, 2004, the American Stock Exchange LLC ("Amex" or "Exchange") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. 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 rules for the purpose of implementing the Amex New Trading Environment ("ANTE")¹ Price Improvement Auction ("PIA").

The text of the proposed rule change is available at the Office of the Secretary, Amex, and at the Commission.

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. The self-regulatory organization has

¹ The Commission approved the ANTE system in May 2004. See Securities Exchange Act Release No. 49747 (May 20, 2004), 69 FR 30344 (May 27, 2004). The rollout of ANTE is expected for completion by the end of the third quarter 2005 with the top 300 option classes on ANTE by the end of January 2005.

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 purpose of the proposed rule change is to adopt rules implementing the Exchange's Price Improvement Auction ("PIA"). PIA would give all market participants² who can quote through ANTE, the ability to provide price improvement of their quote, on public customer orders³, delivered electronically into ANTE, in \$0.01 increments. The Amex believes that PIA as proposed is superior to other similar price improvement methods that have either been proposed or that are available.⁴ First, PIA does not require the order entry firm to designate or preference any one ROT, i.e. market maker, or to change the manner in which they send orders to the Exchange. Second, every public customer order electronically entered into ANTE has the potential to receive price improvement not just those customer orders that are routed to a select group of market makers. Third, price improvement may be offered by any and all market participants, quoting in a series through ANTE, on any and all public customer orders entered electronically into ANTE. In other versions only those orders routed to certain market makers are eligible for price improvement and the decision to offer price improvement for a given order rests solely with the market maker in receipt of the directed order, not the entire trading crowd. In the proposed PIA, price improvement, may be offered by any market participant quoting in that series through ANTE.

² For purposes of PIA, "market participants" are defined as specialists and ROTs who are quoting in ANTE.

³ The term "public customer" is a customer that is neither a member nor a broker/dealer. *See* Commentary .02 to Rule 950(d)—ANTE.

⁴ *See* Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004)(approval of BOX Trading Rules) and 50819 (December 8, 2004)(approval of ISE's Price Improvement Mechanism, ISE File No. 2003-06).

Market participants, quoting in a series through ANTE, who are willing to offer price improvement, must submit to the Exchange an “Improvement Quantity” on a series by series basis. An Improvement Quantity may be amended or withdrawn at any time prior to the commencement of the PIA and cannot be viewed by other specialists, ROTs or member firms. The Improvement Quantity is the number of contracts that a market participant is willing to trade at a price of at least \$.01 better than their quote. The Improvement Quantity may be one or two-sided (i.e. market participants may elect to indicate a willingness to improve either the bid, the offer, both sides of the market, or neither) and is not subject to a minimum size. Executions in PIA are available only to public customer orders that have been electronically delivered into ANTE.

Electronically entered public customer orders in ANTE will be filtered to determine whether the order is eligible for price improvement. First, ANTE will determine whether the Amex market is the national best bid or offer (the “NBBO”). It is proposed that price improvement through PIA can only take place when the Amex is at the NBBO. Second, ANTE will then determine whether or not the inbound public customer order could trade with a public customer or non-member broker dealer order that is resting on the order book. The Exchange has proposed not to allow price improvement in increments of \$0.01 in PIA when public customer or non-member broker dealer contra orders rest on the book (i.e. the Amex disseminated market includes a public customer or non-member broker dealer limit order on the bid and/or offer side). Since all ANTE participants can view the full depth of the book and see when a public customer or non-member broker dealer order represents the top of the book, price improvement, especially in increments of \$0.01, could provide a mechanism for specialists and ROT’s to step ahead of public customer orders on the book. Third, ANTE will determine whether the aggregate size of the Improvement Quantity is greater than or equal to the size of the inbound public customer order. It is proposed that PIA will only commence if the entire size of the public customer order can be filled at least \$.01 better than the NBBO. If

the inbound public customer order, fails any of these three (3) conditions, PIA will not be initiated and the order will be routed for normal ANTE processing. Orders eligible for PIA are not subject to a minimum size requirement.

In cases where the PIA eligibility criteria have been met and the PIA is initiated, the market participants who had submitted Improvement Quantities prior to the start of PIA are automatically included in the PIA \$.01 better than the NBBO, for their quantity. All market participants currently quoting in that series through ANTE, including those who have submitted Improvement Quantities, are notified of the commencement of a PIA and then have three (3) seconds to place bids or offers in increments of \$0.01. The notification message includes the series, price, size and whether the order is a bid or offer. Bids and offers placed in PIA cannot subsequently be canceled during the PIA. In addition, quantities during the PIA cannot be decreased but may be increased. Once PIA has commenced, prices may be further improved for quantities less than the initial Improvement Quantity. During PIA, bids and offers, may not exceed the size of their original Improvement Quantity or the size of the public customer order, whichever is larger. During the PIA bids and offers are continuously updated and disclosed to all market participants active in the PIA. At the end of the three (3) second time period, PIA terminates and the order executes at the best prices quoted within the PIA.

The three (3) second PIA will be immediately terminated upon receipt of orders delivered electronically into ANTE under the following circumstances: (i) if a market or marketable limit order in the same series is delivered electronically into ANTE or (ii) if a non-marketable limit order, in the same series, is electronically entered into ANTE, that would cause an execution in the PIA to be outside of the best bid or offer on the Exchange. Only one (1) PIA may be ongoing at any time in a given options series. PIAs will not queue or overlap in any manner.

The Exchange submits that it shall be considered conduct inconsistent with just and equitable principles of trade for any member to enter orders, quotes and/or PIA Quotes for the purpose of disrupting or manipulating the PIA.

ANTE will allocate the execution of public customer orders in PIA as follows:

(1) if the market participant quoting in the PIA and the order entry firm are the same entity or affiliates, and the market participant quoting in the PIA is at the best price, said participant will receive 40% of the public customer order; (2) if the specialist is at the NBBO and 40% has not been allocated to the member firm, the standard parity/allocation set forth in Rule 935—ANTE is applicable⁵; and (3) if the order entry firm receives 40% of the public customer order, the specialist is treated as a market maker in connection with the allocation set forth in Amex Rule 935—ANTE.

The Exchange proposes an eighteen (18) month pilot program be instituted in connection with PIA. In this manner, the Exchange and the Commission will be able to monitor the operation of PIA and assess the benefit to public customers and the options market. In order to provide adequate information for the evaluation of PIA, the Exchange represents that during this pilot period it will provide the Commission with the following information on a monthly basis: (1) The number of orders receiving price improvement via the PIA; and (2) The number of contracts receiving price improvement via the PIA.

(2) Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act⁶ in general and furthers the objectives of Section 6(b)(5)⁷ in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable

⁵ See Rule 935(a)—ANTE.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

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 proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the 1934 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 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. 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 rulecomments@sec.gov. Please include File No. SR-Amex-2004-107 on the subject line.

Paper Comments: Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609.

All submissions should refer to File No. SR-Amex-2004-107. 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 at <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, 450 Fifth Street, NW., Washington, DC 20549. 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. 2004-107 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.⁸

Dated:

Jonathan G. Katz
Secretary

⁸ 17 CFR 200.30-3(a)(12).

Exhibit 5

AMERICAN STOCK EXCHANGE LLC
Text of Proposed Rule Change

It is proposed that the following provisions of the American Stock Exchange Rules be amended as set forth below. [Bracketing] indicates text to be deleted and underlining indicates text to be added.

Rule 937—ANTE. Price Improvement Auction

Rule 937—ANTE. (a) The Price Improvement Auction (“PIA”) is a mechanism by which market participants who can quote through ANTE have the opportunity to price improve incoming public customer orders. PIA would allow those market participants to provide price improvement in \$.01 increments on electronically delivered public customer orders. Those market participants seeking to improve public customer orders will have the ability to enter Improvement Quantities indicating their willingness to fill public customer orders at least \$.01 better than their quote.

(b) Improvement Quantity. The Improvement Quantity is the number of contracts that the participating member is willing to fill at a price of at least \$.01 better than their quote during the PIA. It is submitted to the Exchange on a series by series basis and may be withdrawn or amended at any time prior to the commencement of the PIA.

(c) PIA Eligibility. In order to initiate PIA, ANTE must determine whether the public customer order is properly eligible. ANTE will determine eligibility as follows: (i) verifies the Exchange is the national best bid or offer (“NBBO”); (ii) verifies that the Exchange’s best bid or offer (offers for inbound buy orders and bids for inbound sell orders) is not a booked public customer or non-member broker dealer order; and (iii) verifies that the aggregate Improvement Quantities are for sufficient size to improve the entire inbound order quantity. PIA will not be initiated if these criteria have not been satisfied resulting in the inbound order getting routed to ANTE for normal processing.

(d) Application of PIA. Upon the acceptance of a public customer order into the PIA, a notification message will be sent to all market participants quoting in that series. This broadcast message will not be included in the Exchange’s disseminated quote and will not be disseminated through OPRA.

(1) Members have three (3) seconds to place bids or offers, in increments of \$0.01, or improve an initial bid or offer during the PIA (“PIA Quote”).

(2) PIA Quotes may be entered by members at an improved price in increments of \$0.01 and for any size up to the larger of the size of the original public customer order or that participants original Improvement Quantity.

(3) During the PIA, PIA Quotes may not be cancelled, but may be modified to (i) increase the size at the same price or (ii) further improve the price in \$.01 increments.

(4) During the PIA, PIA Quotes will continually be updated and disclosed to all

participants quoting in that series.

(5) The PIA will automatically terminate (i) at the end of the three (3) second period, (ii) if a market or marketable limit order in the same series is delivered electronically into ANTE or (iii) if a non-marketable limit order, in the same series, is electronically entered into ANTE, that would cause an execution in the PIA to be outside of the best bid or offer on the Exchange.

(e) Allocation. At the end of the PIA, the public customer order will be executed in full at the best price(s) available. Public customer orders will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price. ANTE will then allocate the execution of the public customer order as follows:

- (1) If the market participant quoting in ANTE and the order entry firm are from the same entity or affiliates, and order entry firm or its affiliate is at the best price, it will receive 40% of the customer order;
- (2) If the specialist is at the Exchange's best bid or offer and 40% has not been allocated to the order entry firm or its affiliate, the standard allocation set forth in Rule 935—ANTE will be employed.
- (3) If the order entry firm or its affiliate receives 40% of the public customer order, the specialist is treated as a ROT in connection with the allocation set forth in Rule 935—ANTE.

Commentary.....

.01 It shall be considered conduct inconsistent with just and equitable principles of trade for any member to enter orders, quotes and/or PIA Quotes for the purpose of disrupting or manipulating the PIA.

.02 The PIA may only be used to improve public customer orders consistent with this Rule.

.03 During the initial eighteen (18) month pilot period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size order within the PIA, that there is significant price improvement for all orders executed through the PIA, and that there is an active and liquid market functioning on the Exchange outside of the PIA. Any data which is submitted to the Commission will be provided on a confidential basis.

.04 Only one PIA may be ongoing at any given time in a given options series. PIAs will not queue or overlap in any manner.