

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"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
Date Expires <input type="text"/>			<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).

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="William"/>	Last Name	<input type="text" value="Love"/>
Title	<input type="text" value="Assistant General Counsel"/>		
E-mail	<input type="text" value="william.love@amex.com"/>		
Telephone	<input type="text" value="(212) 306-1789"/>	Fax	<input type="text" value="(212) 306-5438"/>

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="01/19/2007"/>
By	<input type="text" value="Jeffrey Burns"/>
	(Name)
	<input type="text" value="Vice President and Associate General Counsel"/>
	(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.

Jeffrey P Burns, jeffrey.burns@amex.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information

Add Remove View

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

Add Remove View

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 (the “Amex” or the “Exchange”) proposes to amend its rules with respect to its new AEMISM trading platform and hybrid market structure for equity products and Exchange Traded Funds (“ETFs”), recently approved by the Commission, to add a new Passive Price Improvement (“PPI”) order type in order to encourage Specialists and Registered Traders to provide aggressing orders with increased opportunities for price improvement. PPI orders will be the only method by which Specialists and Registered Traders may offer price improvement electronically and will provide undisplayed liquidity that reacts to aggressing orders according to criteria met at the time of order entry. PPI orders are intended to replicate in part the dynamics of floor-based trading in an electronic environment and the Exchange believes that they will act as an incentive for the Exchange’s Specialists and Registered Traders to quote more aggressively and add liquidity to the market. This should serve to assist the specialists and market makers in maintaining the continuity and depth of the marketplace, as well as increase the quality of the market and dampen volatility. The text of the proposed rule changes appears in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self -Regulatory Organization

The proposed rule change was approved by the Exchange’s Board of Governors on April 20, 2005. No further action is required to be taken.

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

(a) *Purpose*

In order to encourage Specialists and Registered Traders to provide aggressing orders with increased opportunities for price improvement, the Exchange is proposing to adopt a new Passive Price Improvement (“PPI”) order type. This is the only method by which Specialists and Registered Traders may offer price improvement electronically. This interest is undisplayed and resides inside the APQ, and its purpose is to offer price improvement to an aggressing order. The ability to offer price improvement will be linked to the competitiveness and size of the Amex liquidity provider’s own displayed quote. PPI orders are intended to replicate in part the dynamics of floor-based trading in an electronic environment and the Exchange believes that they will act as an incentive for the Exchange’s Specialists and Registered Traders to quote more aggressively and add liquidity to the market. This should also serve to maintain continuity and depth in the marketplace as well as to increase the quality of the market and dampen volatility.

A Specialist or Registered Trader may only have a single, undisplayed PPI order per side in a particular security on the AEMI Book at any point in time, which must be inside the APQ and will only be permitted if the user has at least one quote for that side in the AEMI Book. A PPI order will not form part of the APQ and will only be visible to the entering Specialist or Registered Trader or his firm or group. A PPI order on the AEMI Book may be of any size, but its eligibility for execution is assessed at the time of execution against an incoming order, and is based on the competitiveness of the participant’s quote at that time.

AEMI will make a PPI order eligible for execution if at least one of the following two conditions is met; otherwise AEMI will ignore the PPI order:

1. The Specialist's or Registered Trader's displayed quote is at the APQ on the side of the PPI order that would be executed. In this case, the PPI order will be executed up to (a) the size of the Specialist's or Registered Trader's displayed quote or (b) the size of the incoming order, whichever is smaller. Any balance of the PPI order will be considered ineligible to trade against the incoming order and will be ignored.
2. The Specialist's or Registered Trader's displayed quote is (i) one tick away from the APQ on the side of the PPI order that would be executed, and (ii) at least double the size of the APQ on the side of the PPI order that would be executed. In this case, the PPI order will be executed up to (a) half of the size of the Specialist's or Registered Trader's displayed quote or (b) the size of the incoming order, whichever is smaller. Any balance of the PPI order will be considered ineligible to trade against the incoming order and will be ignored.

In both cases, as with other aggressing orders, intermarket sweep orders will be generated to clear any better-priced protected quotations at other markets.

The two conditions above balance the need to provide meaningful price improvement opportunities in the form of undisplayed liquidity with the need to ensure the competitiveness of displayed quotations.

The AEMI platform will ignore (i.e., make ineligible for execution against an aggressing order, without canceling) a PPI order on the AEMI Book that locks or crosses the automated NBBO or APQ as a result of a change in the automated NBBO or APQ or equals the APQ on the same side of the market. If there are multiple PPI orders at the same price, the Specialist's PPI order will take priority over a Registered Trader's PPI order. This provision recognizes the fact that Specialists have higher capital requirements, more stringent quoting obligations and more trading obligations (both negative and affirmative) and responsibilities to maintain a fair and orderly market and seeks to reward the Specialist for his central role in providing liquidity to the marketplace. It also encourages Registered Traders to make tighter markets and enhances competition among the liquidity providers. PPI orders will not participate in

negotiated trades, and they will be ignored when auto-ex is disabled.

For example, assume that the NBB is \$6.90 bid for 2,500 shares, comprising NYSE and ARCA for 1,000 shares each, and INET for 500 shares. The Specialist is bidding \$6.89 for 2,000 shares, and represents the Amex best bid which is published in the APQ. Registered Traders #1, #2 and #3 are each quoting \$6.87 bid for 500 shares each. The Specialist has a PPI order at \$6.91 bid for 3,000 shares; Registered Traders #1 and #2 each have a PPI order at \$6.91 bid for 500 shares; and Registered Trader #3 has a PPI order at \$6.91 bid for 300 shares. An incoming order to sell 3,000 shares at \$6.90 will trade 2,000 shares against the Specialist at \$6.91, since the Specialist's quote is at the APQ and the PPI order may only be executed up to the size of the Specialist's displayed quote. The remaining balance of 1,000 shares is routed away at \$6.90. The PPI orders of the Registered Traders were ignored in this case since none of their displayed quotes were either at the APQ or a tick away from the APQ.

As a second example, assume that the NBB is \$6.89 bid for 3,000 shares, comprising the Amex best bid. The Specialist is bidding \$6.89 for 2,000 shares and a Registered Trader is bidding \$6.89 for 1,000 shares. The Specialist has a PPI order at \$6.91 bid for 3,000 shares and the Registered Trader has a PPI order at \$6.91 bid for 1,000 shares. An incoming limit order to buy 100 shares at \$6.90 arrives on the AEMI Book, creating a new NBB and Amex best bid. This is followed by an incoming order to sell 2,500 shares at the market. At the time of execution of the incoming order, the Specialist and the Registered Trader are a tick away from the APQ, and their PPI orders may therefore each trade up to only half of the size of the participant's displayed quote. Both PPI orders are eligible since both participants are quoting at least double the size of

the APQ. The incoming order trades 1,000 shares at \$6.91 against the Specialist's PPI order, 500 shares at \$6.91 against the Registered Trader's PPI order, 100 shares at \$6.90 against the order on the AEMI Book, and the balance of 900 shares at \$6.89 against the displayed quotes of the Specialist and the Registered Trader. The unexecuted balances of the PPI orders remain on the AEMI Book.

The specific AEMI rules to which changes are being proposed are discussed below.

Rule 123–AEMI. Manner of Bidding and Offering

An additional phrase is being added to section (e) of Rule 123–AEMI to provide that AEMI will not display a PPI order.

Rule 131–AEMI. Types of Orders

The Exchange is proposing to add the definition of a PPI order to section (q) of 131–AEMI. The proposed definition would contain the two conditions under which a PPI order would be eligible for execution by AEMI, as described above. Under the proposed definition, a PPI order would be an order submitted to AEMI by a Specialist or a Registered Trader to buy or sell a stated amount of a security at a specified, undisplayed price. A Specialist or Registered Trader could only have one PPI order to buy and/or one PPI order to sell a particular security on the AEMI Book at any point in time. A Registered Trader must be actively quoting a security in order to enter a PPI order in the security.

The proposed definition would provide that AEMI will reject a new PPI order (i) if it is not priced inside the APQ (above the bid and below the offer) at the time of entry into AEMI, (ii) if it is marked "sell short" (except for certain securities that have been

granted no-action relief from a short sale price test, such as ETFs and Regulation SHO Pilot securities), although not if it is marked “sell short exempt” or (iii) if the order would lock or cross the automated NBBO.

AEMI will cancel a PPI order on the AEMI Book (i) if the Specialist’s or Registered Trader’s best quote is withdrawn, (ii) at the end of the day, or (iii) if there is a trading halt in the security.

AEMI will ignore (i.e., make ineligible for execution against an aggressing order, without canceling) a PPI order on the AEMI Book (i) if the two conditions for execution eligibility described above are not met, (ii) if automatic execution becomes disabled, (iii) if the price of the PPI order locks or crosses the automated NBBO or APQ as a result of a change in the automated NBBO or APQ, or (iv) if the price of the PPI order equals the APQ on the same side of the market. With respect to (iii) and (iv) in the previous sentence, AEMI will continue to ignore the PPI order and prevent the person who entered it from entering a new PPI order on the same side of the market until the automated NBBO or APQ changes so that the PPI order no longer locks or crosses the automated NBBO or APQ or no longer is equal to the APQ on the same side of the market, or the person who entered the PPI order cancels it.

The proposed rule change also provides that, if there is more than one PPI order in the AEMI Book, AEMI will execute the orders in price/time priority, provided, however, that Specialist PPI orders will be given priority over Registered Trader PPI orders at the same price. A PPI order will not be displayed in the APQ and will only be visible to the Specialist or Registered Trader who entered it or to his or her firm. AEMI will only execute PPI orders when automatic execution is enabled. AEMI will execute PPI orders

only against aggressing orders (or elected or converted stop and percentage orders). PPI orders will *not* participate in the execution of cross-only or mid-point cross orders or in the execution of auction trades.

Finally, the proposed definition provides that a PPI order may only be entered during the regular trading session and will *not* participate in an opening, a reopening, a cash closing or a regular closing.

The proposed rule change will also add language to section (r) of 131–AEMI relating to cross orders in order to clarify how PPI orders will interact with the new electronic cross order types that will be available in AEMI. While “cross-only” or “mid-point” cross orders will not execute against PPI orders, “IOC cross,” “cross,” and “PNP cross” orders may execute against any executable PPI orders at the price of the PPI orders. In the case of auction cross orders, the displayed order may be price improved by PPI orders in the AEMI Book as well as by new bids, offers or orders entering the AEMI Book, during the three-second auction cross duration.

Rule 157–AEMI. Orders with More than One Broker

The Exchange is proposing to add a phrase to section (b) of Rule 157–AEMI to clarify that a Registered Trader may maintain a PPI order in AEMI while he is maintaining a bid or offer for the same security in AEMI.

Rule 170–AEMI. Registration and Functions of Specialists

The Exchange is proposing to add language to Commentaries .01 and .02 of Rule 170–AEMI to allow transactions by the Specialist in certain “tick” situations without the approval of a Floor Official if the Specialist effects the transaction by means of a PPI order.

(b) Statutory Basis

The proposed rule change is designed to be consistent with Regulation NMS, as well as consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),¹ in general, and furthers the objectives of Section 6(b)(5),² in particular, in that it is designed to 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.

4. 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 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 Act.

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.

¹ 15 U.S.C. 78f(b)

² 15 U.S.C. 78f(b)(5)

(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 or of the Commission.

9. Exhibits

List of Exhibits Filed:

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

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION****(Release No. 34- ; File No. SR-Amex-2007-08)****Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by American Stock Exchange LLC Relating to Passive Price Improvement**

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 _____, 2007, 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 American Stock Exchange LLC (the “Amex” or the “Exchange”) proposes to amend its rules with respect to its new AEMISM trading platform and hybrid market structure for equity products and Exchange Traded Funds (“ETFs”), recently approved by the Commission, to add a new Passive Price Improvement (“PPI”) order type in order to encourage Specialists and Registered Traders to provide aggressing orders with increased opportunities for price improvement. PPI orders will be the only method by which Specialists and Registered Traders may offer price improvement electronically and will provide undisplayed liquidity that reacts to aggressing orders according to criteria met at the time of order entry. PPI orders are intended to replicate in part the dynamics of floor-based trading in an electronic environment and the Exchange believes that they will act as

an incentive for the Exchange's Specialists and Registered Traders to quote more aggressively and add liquidity to the market. This should serve to assist the specialists and market makers in maintaining the continuity and depth of the marketplace, as well as increase the quality of the market and dampen volatility.

The text of the proposed rule change is available on the Amex's website at <http://www.amex.com>, the Office of the Secretary, the Amex and at the Commission's Public Reference Room.

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 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

In order to encourage Specialists and Registered Traders to provide aggressing orders with increased opportunities for price improvement, the Exchange is proposing to adopt a new Passive Price Improvement ("PPI") order type. This is the only method by which Specialists and Registered Traders may offer price improvement electronically. This interest is undisplayed and resides inside the APQ, and its purpose is

to offer price improvement to an aggressing order. The ability to offer price improvement will be linked to the competitiveness and size of the Amex liquidity provider's own displayed quote. PPI orders are intended to replicate in part the dynamics of floor-based trading in an electronic environment and the Exchange believes that they will act as an incentive for the Exchange's Specialists and Registered Traders to quote more aggressively and add liquidity to the market. This should also serve to maintain continuity and depth in the marketplace as well as to increase the quality of the market and dampen volatility.

A Specialist or Registered Trader may only have a single, undisplayed PPI order per side in a particular security on the AEMI Book at any point in time, which must be inside the APQ and will only be permitted if the user has at least one quote for that side in the AEMI Book. A PPI order will not form part of the APQ and will only be visible to the entering Specialist or Registered Trader or his firm or group. A PPI order on the AEMI Book may be of any size, but its eligibility for execution is assessed at the time of execution against an incoming order, and is based on the competitiveness of the participant's quote at that time.

AEMI will make a PPI order eligible for execution if at least one of the following two conditions is met; otherwise AEMI will ignore the PPI order:

1. The Specialist's or Registered Trader's displayed quote is at the APQ on the side of the PPI order that would be executed. In this case, the PPI order will be executed up to (a) the size of the Specialist's or Registered Trader's displayed quote or (b) the size of the incoming order, whichever is smaller. Any balance of the PPI order will be considered ineligible to trade against the incoming order and will be ignored.
2. The Specialist's or Registered Trader's displayed quote is (i) one tick away from the APQ on the side of the PPI order that would be executed, and (ii) at least double the size of the APQ on the side of the PPI order that would be executed. In this case, the PPI order will be executed up to (a) half of the size of the

Specialist's or Registered Trader's displayed quote or (b) the size of the incoming order, whichever is smaller. Any balance of the PPI order will be considered ineligible to trade against the incoming order and will be ignored.

In both cases, as with other aggressing orders, intermarket sweep orders will be generated to clear any better-priced protected quotations at other markets.

The two conditions above balance the need to provide meaningful price improvement opportunities in the form of undisplayed liquidity with the need to ensure the competitiveness of displayed quotations.

The AEMI platform will ignore (i.e., make ineligible for execution against an aggressing order, without canceling) a PPI order on the AEMI Book that locks or crosses the automated NBBO or APQ as a result of a change in the automated NBBO or APQ or equals the APQ on the same side of the market. If there are multiple PPI orders at the same price, the Specialist's PPI order will take priority over a Registered Trader's PPI order. This provision recognizes the fact that Specialists have higher capital requirements, more stringent quoting obligations and more trading obligations (both negative and affirmative) and responsibilities to maintain a fair and orderly market and seeks to reward the Specialist for his central role in providing liquidity to the marketplace. It also encourages Registered Traders to make tighter markets and enhances competition among the liquidity providers. PPI orders will not participate in negotiated trades, and they will be ignored when auto-ex is disabled.

For example, assume that the NBB is \$6.90 bid for 2,500 shares, comprising NYSE and ARCA for 1,000 shares each, and INET for 500 shares. The Specialist is bidding \$6.89 for 2,000 shares, and represents the Amex best bid which is published in the APQ. Registered Traders #1, #2 and #3 are each quoting \$6.87 bid for 500 shares

each. The Specialist has a PPI order at \$6.91 bid for 3,000 shares; Registered Traders #1 and #2 each have a PPI order at \$6.91 bid for 500 shares; and Registered Trader #3 has a PPI order at \$6.91 bid for 300 shares. An incoming order to sell 3,000 shares at \$6.90 will trade 2,000 shares against the Specialist at \$6.91, since the Specialist's quote is at the APQ and the PPI order may only be executed up to the size of the Specialist's displayed quote. The remaining balance of 1,000 shares is routed away at \$6.90. The PPI orders of the Registered Traders were ignored in this case since none of their displayed quotes were either at the APQ or a tick away from the APQ.

As a second example, assume that the NBB is \$6.89 bid for 3,000 shares, comprising the Amex best bid. The Specialist is bidding \$6.89 for 2,000 shares and a Registered Trader is bidding \$6.89 for 1,000 shares. The Specialist has a PPI order at \$6.91 bid for 3,000 shares and the Registered Trader has a PPI order at \$6.91 bid for 1,000 shares. An incoming limit order to buy 100 shares at \$6.90 arrives on the AEMI Book, creating a new NBB and Amex best bid. This is followed by an incoming order to sell 2,500 shares at the market. At the time of execution of the incoming order, the Specialist and the Registered Trader are a tick away from the APQ, and their PPI orders may therefore each trade up to only half of the size of the participant's displayed quote. Both PPI orders are eligible since both participants are quoting at least double the size of the APQ. The incoming order trades 1,000 shares at \$6.91 against the Specialist's PPI order, 500 shares at \$6.91 against the Registered Trader's PPI order, 100 shares at \$6.90 against the order on the AEMI Book, and the balance of 900 shares at \$6.89 against the displayed quotes of the Specialist and the Registered Trader. The unexecuted balances of the PPI orders remain on the AEMI Book.

The specific AEMI rules to which changes are being proposed are discussed below.

Rule 123–AEMI. Manner of Bidding and Offering

An additional phrase is being added to section (e) of Rule 123–AEMI to provide that AEMI will not display a PPI order.

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The Exchange is proposing to add the definition of a PPI order to section (q) of 131–AEMI. The proposed definition would contain the two conditions under which a PPI order would be eligible for execution by AEMI, as described above. Under the proposed definition, a PPI order would be an order submitted to AEMI by a Specialist or a Registered Trader to buy or sell a stated amount of a security at a specified, undisplayed price. A Specialist or Registered Trader could only have one PPI order to buy and/or one PPI order to sell a particular security on the AEMI Book at any point in time. A Registered Trader must be actively quoting a security in order to enter a PPI order in the security.

The proposed definition would provide that AEMI will reject a new PPI order (i) if it is not priced inside the APQ (above the bid and below the offer) at the time of entry into AEMI, (ii) if it is marked “sell short” (except for certain securities that have been granted no-action relief from a short sale price test, such as ETFs and Regulation SHO Pilot securities), although not if it is marked “sell short exempt” or (iii) if the order would lock or cross the automated NBBO.

AEMI will cancel a PPI order on the AEMI Book (i) if the Specialist’s or Registered Trader’s best quote is withdrawn, (ii) at the end of the day, or (iii) if there is a

trading halt in the security.

AEMI will ignore (i.e., make ineligible for execution against an aggressing order, without canceling) a PPI order on the AEMI Book (i) if the two conditions for execution eligibility described above are not met, (ii) if automatic execution becomes disabled, (iii) if the price of the PPI order locks or crosses the automated NBBO or APQ as a result of a change in the automated NBBO or APQ, or (iv) if the price of the PPI order equals the APQ on the same side of the market. With respect to (iii) and (iv) in the previous sentence, AEMI will continue to ignore the PPI order and prevent the person who entered it from entering a new PPI order on the same side of the market until the automated NBBO or APQ changes so that the PPI order no longer locks or crosses the automated NBBO or APQ or no longer is equal to the APQ on the same side of the market, or the person who entered the PPI order cancels it.

The proposed rule change also provides that, if there is more than one PPI order in the AEMI Book, AEMI will execute the orders in price/time priority, provided, however, that Specialist PPI orders will be given priority over Registered Trader PPI orders at the same price. A PPI order will not be displayed in the APQ and will only be visible to the Specialist or Registered Trader who entered it or to his or her firm. AEMI will only execute PPI orders when automatic execution is enabled. AEMI will execute PPI orders only against aggressing orders (or elected or converted stop and percentage orders). PPI orders will *not* participate in the execution of cross-only or mid-point cross orders or in the execution of auction trades.

Finally, the proposed definition provides that a PPI order may only be entered during the regular trading session and will *not* participate in an opening, a reopening, a

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The proposed rule change will also add language to section (r) of 131–AEMI relating to cross orders in order to clarify how PPI orders will interact with the new electronic cross order types that will be available in AEMI. While “cross-only” or “mid-point” cross orders will not execute against PPI orders, “IOC cross,” “cross,” and “PNP cross” orders may execute against any executable PPI orders at the price of the PPI orders. In the case of auction cross orders, the displayed order may be price improved by PPI orders in the AEMI Book as well as by new bids, offers or orders entering the AEMI Book, during the three-second auction cross duration.

Rule 157–AEMI. Orders with More than One Broker

The Exchange is proposing to add a phrase to section (b) of Rule 157–AEMI to clarify that a Registered Trader may maintain a PPI order in AEMI while he is maintaining a bid or offer for the same security in AEMI.

Rule 170–AEMI. Registration and Functions of Specialists

The Exchange is proposing to add language to Commentaries .01 and .02 of Rule 170–AEMI to allow transactions by the Specialist in certain “tick” situations without the approval of a Floor Official if the Specialist effects the transaction by means of a PPI order.

(2) Statutory Basis

The proposed rule change is designed to be consistent with Regulation NMS, as well as consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “1934 Act”),¹ in general, and furthers the objectives of Section 6(b)(5),² in particular, in

¹ 15 U.S.C. 78f(b).

that it is designed to 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.

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 self-regulatory organization 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 1934 Act. Comments may be submitted by any of the following methods:

² 15 U.S.C. 78f(b)(5).

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-2007-08 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 20549-0609.

All submissions should refer to File No. SR-Amex-2007-08. 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, 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 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. SR-Amex-2007-08 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.³

Dated:

Nancy M. Morris
Secretary

³ 17 CFR 200.30-3(a)(12).

AMERICAN STOCK EXCHANGE LLC

Proposed Rule Change

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

* * * * *

Rule 123—AEMI. Manner of Bidding and Offering

(a) – (d) No Change.

(e) Except when Auto-Ex is disabled, AEMI shall immediately display any regular way limit order, bid or offer that would improve or add to the size of the APQ that is not executed upon receipt in the AEMI Book except for immediate or cancel, fill or kill, on-close, 4:00 p.m. cash close, or odd lot orders. AEMI also shall not display (i) the reserve size of a Crowd Order until it is eligible for display or (ii) any passive price improvement order.

(f) – (h) No Change.

•••Commentary

.01 –.02 No Change.

* * * * *

Rule 131—AEMI. Types of Orders

(a) – (p) No Change.

Passive price improvement order

(q) [Reserved.] A passive price improvement (“PPI”) order is an order submitted to AEMI by a specialist or a Registered Trader to buy or sell a stated amount of a security at a specified, undisplayed price. A specialist or Registered Trader may only have one PPI order to buy and/or one PPI order to sell a particular security on the AEMI Book at any point in time. A Registered Trader must be actively quoting a security in order to enter a PPI order in the security.

Rejection of PPI Orders

AEMI will reject a new PPI order:

- if it is not priced inside the APQ (above the bid and below the offer) at the time of entry into AEMI;

- if it is marked “sell short” (except for certain securities that have been granted no-action relief from a short sale price test, such as ETFs and Regulation SHO Pilot securities), although not if it is marked “sell short exempt”; or
- if the order would lock or cross the automated NBBO.

Cancellation of PPI Orders

AEMI will cancel a PPI order on the AEMI Book:

- if the specialist’s or Registered Trader’s best quote is withdrawn;
- at the end of the day; or
- if there is a trading halt in the security.

Ignored PPI Orders

AEMI will ignore (i.e., make ineligible for execution against an aggressing order, without canceling) a PPI order on the AEMI Book:

- if the conditions for execution eligibility listed below are not met;
- if automatic execution becomes disabled;
- if the price of the PPI order locks or crosses the automated NBBO or APQ as a result of a change in the automated NBBO or APQ; or
- if the price of the PPI order equals the APQ on the same side of the market (e.g., the price of a PPI order to buy equals the Amex Published Bid).

With respect to the last two bullet points above, AEMI will continue to ignore the PPI order and prevent the person who entered it from entering a new PPI order on the same side of the market until the automated NBBO or APQ changes so that the PPI order no longer locks or crosses the automated NBBO or APQ or no longer is equal to the APQ on the same side of the market, or the person who entered the PPI order cancels it.

Eligibility for Execution

AEMI will make a PPI order eligible for execution if at least one of the following two conditions is met; otherwise AEMI will ignore the PPI order:

1. The specialist’s or Registered Trader’s displayed quote is at the APQ on the side of the PPI order that would be executed. In this case, the PPI order will be executed up to (a) the size of the specialist’s or Registered Trader’s displayed quote or (b) the size of the incoming order, whichever is smaller. Any balance of the PPI order will be considered ineligible to trade against the incoming order and will be ignored.
2. The specialist’s or Registered Trader’s displayed quote is (i) one tick away from the APQ on the side of the PPI order that would be executed, and (ii) at least double the size of the APQ on the side of the PPI order that would be executed. In this case, the PPI order will be executed up to (a) half of the size of the specialist’s or Registered Trader’s displayed quote or (b) the size of the incoming order, whichever is smaller. Any balance of the PPI order will be considered ineligible to trade against the incoming order and will be ignored.

In both cases, as with other aggressing orders, intermarket sweep orders will be generated to clear any better-priced protected quotations at other markets.

If there is more than one PPI order in the AEMI Book, AEMI will execute the orders in price/time priority, provided, however, that specialist PPI orders will be given priority over Registered Trader PPI orders at the same price. A PPI order is not displayed in the APQ and only is visible to the person who entered it or to his or her firm. AEMI will only execute PPI orders when automatic execution is enabled. AEMI will execute PPI orders only against aggressing orders (or elected or converted stop and percentage orders). PPI orders will not participate in the execution of cross-only or mid-point cross orders or in the execution of auction trades.

A PPI order may only be entered during the regular trading session and will not participate in an opening, a reopening, a cash closing or a regular closing.

Cross order

(r) A cross order is an order submitted by a member or member organization to AEMI with buy and sell interest specified in a single order. AEMI shall only accept the following types of electronic cross orders in ETFs and Nasdaq securities admitted to dealings on an unlisted basis. Members and member organizations must submit the following information with each cross order:

Price (unless the order is designated as a mid point cross)

Size (the buy and sell size must be the same)

Type of cross order (cross, cross only, mid-point cross, IOC cross, PNP cross, and auction cross)

Qualifier (Cross and Post (“CNP”) or not)

Give up(s)

AEMI shall automatically execute the following types of electronic cross orders at the cross price as follows:

Cross If the cross price is equal to or better than the automated NBBO and is between the APQ, AEMI shall execute the cross order at the cross price.

If the cross price is equal to the automated NBBO and equal to the APQ, AEMI shall (1) execute one side of the cross against pre-existing bids, offers, and orders in the AEMI Book at the APQ, (2) execute the remainder of the cross order, if any, at the cross price, and (3) cancel the remainder of the cross order unless it is designated CNP in which case the unexecuted balance of the cross order shall be added to the AEMI Book.

If the cross price is outside the automated NBBO and between the APQ, AEMI shall (1) send intermarket sweep orders to markets displaying protected quotations, (2) execute the remainder of the cross order, if any, at the cross price, and (3) cancel the remainder of the cross order unless it is designated CNP in which case the unexecuted balance of the cross order shall be added to the AEMI Book.

If the cross price is outside the automated NBBO and equal to the APQ, AEMI shall (1) send intermarket sweep orders to markets displaying protected quotations, (2) execute one side of the cross against pre-existing bids, offers,

and orders in the AEMI Book at the APQ, (3) execute the remainder of the cross order, if any, at the cross price, and (4) cancel the remainder of the cross order unless it is designated CNP in which case the unexecuted balance of the cross order shall be added to the AEMI Book.

If the cross price is outside the automated NBBO and outside the APQ, AEMI shall reject the order.

If there are one or more PPI orders in the AEMI Book when a cross order is received, and the execution conditions are such that one or more PPI orders could trade with one or both sides of the cross order in whole or part, AEMI shall execute the cross order against the executable PPI orders at the price of the PPI orders. After executing the PPI orders against the cross order, AEMI shall execute the balance of the cross order at the cross price and cancel the remainder of the cross order unless it is designated CNP in which case the unexecuted balance of the cross order shall be added to the AEMI Book.

Cross only	<p>If the cross price is equal to or better than the automated NBBO and is between the APQ, AEMI shall execute the cross order at the cross price.</p> <p>If the cross price is equal to the automated NBBO and equal to the APQ, AEMI shall reject the order.</p> <p>If the cross price is outside the automated NBBO and between the APQ, AEMI shall reject the order.</p> <p>If the cross price is outside the automated NBBO and equal to the APQ, AEMI shall reject the order.</p> <p>If the cross price is outside the automated NBBO and outside the APQ, AEMI shall reject the order.</p> <p><u>A cross only order shall not trade with PPI orders in the AEMI Book.</u></p>
Midpoint cross	<p>AEMI shall execute a midpoint cross order at the mid-point of the automated NBBO. The midpoint is the arithmetic mean of the automated NBBO. If the arithmetic mean is not a valid trading increment, AEMI shall round up the value to the nearest valid trading increment. If the rounded up nearest valid trading increment matches the APQ, AEMI shall cancel the cross order.</p> <p><u>A mid point cross order shall not trade with PPI orders in the AEMI Book.</u></p>
IOC cross	<p>If the cross price is equal to or better than the automated NBBO and is between the APQ, AEMI shall execute the cross order at the cross price.</p> <p>If the cross price is equal to the automated NBBO and equal to the APQ, AEMI shall execute one side of the cross against pre-existing bids, offers, and orders in the AEMI Book at the APQ, execute the remainder of the cross order, if any, at the cross price, and cancel the remainder of the cross order</p> <p>If the cross price is outside the automated NBBO and between the APQ, AEMI shall reject the order.</p>

If the cross price is outside the automated NBBO and equal to the APQ, AEMI shall reject the order.

If the cross price is outside the automated NBBO and outside the APQ, AEMI shall reject the order.

If there are one or more PPI orders in the AEMI Book when an IOC cross order is received, and the execution conditions are such that one or more PPI orders could trade with one or both sides of the cross order in whole or part, AEMI shall execute the cross order against the executable PPI orders at the price of the PPI orders. After executing the PPI orders against the cross order, AEMI shall execute the balance of the cross order at the cross price and cancel the remainder of the cross order.

PNP Cross

If the cross price is equal to or better than the automated NBBO and is between the APQ, AEMI shall execute the cross order at the cross price.

If the cross price is equal to the automated NBBO and equal to the APQ, AEMI shall execute one side of the cross against pre-existing bids, offers, and orders in the AEMI Book at the APQ, execute the remainder of the cross order, if any, at the cross price, and cancel the remainder of the cross order unless it is designated CNP in which case the unexecuted balance of the cross order shall be added to the AEMI Book.

If the cross price is outside the automated NBBO and between the APQ, AEMI shall reject the order.

If the cross price is outside the automated NBBO and equal to the APQ, AEMI shall reject the order.

If the cross price is outside the automated NBBO and outside the APQ, AEMI shall reject the order.

If there are one or more PPI orders in the AEMI Book when a PNP cross order is received, and the execution conditions are such that one or more PPI orders could trade with one or both sides of the cross order in whole or part, AEMI shall execute the cross order against the executable PPI orders at the price of the PPI orders. After executing the PPI orders against the PNP cross order, AEMI shall execute the balance of the cross order at the cross price and cancel the remainder of the cross order unless it is designated CNP in which case the unexecuted balance of the cross order shall be added to the AEMI Book.

Auction Cross

A person entering an auction cross order must specify the side(s) of the cross that shall be displayed at a better price than the cross price. One or both sides of an auction cross may be displayed at a price that is better than the cross price.

AEMI shall display the side(s) specified for possible price improvement for the three second Auction Cross Duration. The side(s) of the cross selected for price improvement must be displayed one minimum trading increment worse than the cross price (i.e., the buy side of the cross must be displayed one tick below the cross price and/or the sell side of the cross must be displayed one tick above the cross price). During the three second Auction Cross Duration, the displayed order may be price improved by PPI orders in the AEMI Book or by new bids, offers or orders entering the AEMI Book. If the cross price is

equal to or better than the automated NBBO and is between the APQ at the end of the Auction Cross Duration, AEMI shall execute the auction cross at the cross price, otherwise the order is cancelled to avoid trading through the automated NBBO or the APQ. If one or both sides selected for display are executed in part during the Auction Cross Duration, the unfilled balance shall continue to be displayed and shall be executed at the end of the Auction Cross Duration at the cross price, and any remainder shall be cancelled at the end of the Auction Cross Duration unless the order is designated CNP, in which case the unexecuted balance of the cross order shall be added to the AEMI Book. If a side selected for display is executed in full during the Auction Cross Duration, the other side of the auction cross order shall be cancelled unless the order is designated CNP.

AEMI shall reject auction cross orders if the cross price is equal to the APQ or outside the automated NBBO at the time of the cross order entry, and shall cancel auction cross orders if the cross price is equal to the APQ or outside the automated NBBO at the time of the cross being effected.

(s) – (y) No Change.

•••Commentary

.01 – .03 No Change.

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Rule 157—AEMI. Orders with More than One Broker

(a) No Change.

(b) A Registered Trader shall neither maintain a Crowd Order with a broker nor maintain an order on the Specialist Order Book while the Registered Trader is either bidding or offering for the security in the open outcry market, or is maintaining a bid or offer for the security in AEMI provided, however, that a Registered Trader may maintain a PPI order in AEMI while he is maintaining a bid or offer for the security in AEMI.

...Commentary

.01 No Change.

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Rule 170—AEMI. Registration and Functions of Specialists

(a) – (f) No Change.

••• Commentary

.01 In effecting transactions for his own account for the purpose of establishing or increasing a position, a specialist is to effect such transactions in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular stock and the adequacy of his position to the immediate and reasonably anticipated needs of the full lot and the odd-lot market. The following types of transactions to establish or increase a position are not to be effected except when they are reasonably necessary to render the specialist's position adequate to such needs:

- (a) a purchase on the offer at a price above the last regular way trade in the same trading session, or a sale short to the bid at a price below the last regular way trade in the same trading session where permitted by SEC short sale regulations;
- (b) the purchase of all or substantially all the stock offered on the AEMI Book on a zero plus tick, when the stock so offered represents all or substantially all the stock offered in the market;
- (c) the supplying short of all or substantially all the stock bid for on the AEMI Book on a zero minus tick where permitted by SEC short sale regulations, when the stock so bid for represents all or substantially all the stock bid for in the market;
- (d) failing to re-offer or re-bid where necessary after effecting transactions described in (a), (b) or (c) above.

Transactions of these types may, nevertheless, be effected with the approval of a Floor Official or in relatively inactive markets where they are an essential part of a proper course of dealings and where the amount of stock involved and the price change, if any, are normal in relation to the market. In addition, transactions by the specialist in the tick situations described above may be effected without the approval of a Floor Official if the stock is subject to auto-ex in AEMI and the specialist (i) purchases on the Amex Published Bid (which must be equal to his bid) when his bid is accessed by an aggressing sell order, [or] (ii) sells on the Amex Published Offer (which must be equal to his offer) when his offer is accessed by an aggressing buy order, or (iii) effects the transaction by means of a PPI order.

.02 Transactions by a specialist for his own account in liquidating or decreasing his position in a stock in which he is registered are to be effected in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular stock and the adequacy of the specialist's positions to the immediate and reasonably anticipated needs of the full lot and the odd-lot market, and, in this connection:

- (a) the specialist may liquidate a position by selling stock to the bid on a direct minus tick or by purchasing stock on the offer on a direct plus tick only if such transactions are reasonably necessary in relation to the specialist's overall position in the stocks in which he is registered, and the specialist has obtained the prior approval of a Floor Official; provided, however, that transactions by the specialist in these tick situations may be effected without the approval of a Floor Official if the stock is subject to auto-ex in AEMI and the specialist (i) purchases on the Amex Published Bid (which must be equal to his bid) when his bid is accessed by an aggressing sell order, [or] (ii) sells on the Amex Published Offer (which must be equal to his offer) when his offer is accessed by an aggressing buy order, or (iii) effects the transaction by means of a PPI order;

- (b) the specialist should maintain a fair and orderly market during liquidation and, after reliquifying, should re-enter the market to offset imbalances between supply and demand. The selling of stock to the bid on a direct minus tick or a zero minus tick, or the purchasing of stock on the offer on a direct plus tick or a zero plus tick should be effected in conjunction with the specialist's re-entry in the market on the opposite side of the market from the liquidating transaction where the imbalance of supply and demand indicates that immediately succeeding transactions may result in a lower price (following the specialist's sale of stock to the bid on a direct minus tick or a zero minus tick) or a higher price (following the specialist's purchase of stock on the offer on a direct plus tick or a zero plus tick). During any period of volatile or unusual market conditions resulting in a significant price movement in the subject security, the specialist's transactions re-entering the market following a liquidating transaction effected by selling stock to the bid on a direct minus tick or zero minus tick, or purchasing stock on the offer on a direct plus tick or zero plus tick, should, at a minimum, reflect the specialist's usual level of dealer participation in the subject security. During such periods of unusual price movement in a security, any series of such transactions which may be effected in a brief period of time should be accompanied by the specialist's re-entry in the market and effecting transactions which reflect a significant degree of dealer participation.

.03 – .11 No Change.

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