

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the 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**

The foregoing proposed rule change has been designated as a fee change pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>10</sup> and Rule 19b-4(f)(2)<sup>11</sup> thereunder, because it establishes or changes a due, fee, or other charge imposed by the Exchange. Accordingly, the proposal will take effect upon filing with the Commission. At any time within 60 days of the filing of such proposed rule change the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### **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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Amex-2007-12 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 20549-1090.

All submissions should refer to File Number SR-Amex-2007-12. 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 (<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. Copies of such filing also will be available for inspection and copying at the principal office of Amex. 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 Number SR-Amex-2007-12 and should be submitted on or before March 2, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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### **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-55226; File No. SR-Amex-2007-15]

#### **Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Extend a Pilot Program That Increases Position and Exercise Limits for Equity Options and Options on the Nasdaq-100 Tracking Stock**

February 1, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 30, 2007, the American Stock Exchange LLC ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in

<sup>12</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

Items I, II, and III below, which Items have been substantially prepared by Amex. The Exchange has filed the proposal as a "non-controversial" rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. 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 seeks a six-month extension of its pilot program increasing the standard position and exercise limits for options on the QQQQ and equity option classes traded on the Exchange ("Pilot Program"). The text of the proposed rule change is available at Amex, the Commission's Public Reference Room, and <http://www.amex.com>.

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

In its filing with the Commission, Amex included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

###### 1. Purpose

The Exchange is requesting to extend its current Pilot Program increasing the standard position and exercise limits for options on the QQQQ and equity option classes traded on the Exchange for a time period of six months from March 1, 2007, through and including September 1, 2007.

In March 2005, the Exchange established the Pilot Program for a six-month period.<sup>5</sup> Under the Pilot

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> See Securities Exchange Act Release No. 51316 (March 3, 2005), 70 FR 12251 (March 11, 2005) (SR-Amex-2005-029). The Pilot Program was extended three times and is due to expire on March 1, 2007. See Securities Exchange Act Release Nos. 54386 (August 30, 2006), 71 FR 52831 (September 7, 2006) (SR-Amex-2006-75); 53349 (February 22, 2006), 71 FR 10571 (March 1, 2006) (SR-Amex-2006-07); and 52260 (August 15, 2005), 70 FR 48991 (August 22, 2005) (SR-Amex-2005-082).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>11</sup> 17 CFR 240.19b-4(f)(2).

Program, position and exercise limits for options classes traded on the Exchange options on the QQQQ and equity were increased to the following levels:

Current equity option contract limit <sup>6</sup>	Pilot program equity option contract limit
13,500	25,000
22,500	50,000
31,500	75,000
60,000	200,000
75,000	250,000
Current QQQQ Option Contract Limit	Pilot Program QQQQ Option Contract Limit
300,000	900,000

The standard position limits were last increased on December 31, 1998.<sup>7</sup> Since that time there has been a steady increase in the number of accounts that: (a) Approach the position limit; (b) exceed the position limit; and (c) are granted an exemption to the standard limit. Several member firms have petitioned the options exchanges to either eliminate position limits, or in lieu of total elimination, increase the current levels and expand the available hedge exemptions. In addition, a significant number of accounts that maintain sizable positions are utilizing the Pilot Program's increased equity option contract limits. Furthermore, overall volume in the options market has continually increased over the past five years. The Exchange believes that the increase in options volume and lack of evidence of market manipulation occurrences over the past twenty years justifies the proposed increases in the position and exercise limits.

The Exchange has not encountered any problems or difficulties relating to the Pilot Program since its inception. The instant proposed rule change makes no substantive change to the Pilot Program other than to extend it for six months through and including September 1, 2007.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>8</sup> in general and furthers the objective of Section 6(b)(5) of the Act<sup>9</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the

mechanism of a free and open market and a national market system.

### B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes that the proposed rule change would impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the 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 by the Exchange on this proposal.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing rule change does not: (1) Significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for 30 days from the date of this filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>10</sup> and Rule 19b-4(f)(6) thereunder.<sup>11</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the Act.

## 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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-Amex-2007-15 on the subject line.

### Paper Comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE., Washington, DC 20549-1090. All submissions should refer to File No. SR-Amex-2007-15. 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 (<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. Copies of such filing will also be available for inspection and copying at the principal office of Amex. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You

rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. Amex has satisfied the five-day pre-filing requirements.

<sup>6</sup> Except when the Pilot Program is in effect.

<sup>7</sup> See Securities Exchange Act Release No. 40875 (December 31, 1998), 64 FR 1842 (January 12, 1999) (SR-Amex-98-22).

<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f)(6). Rule 19b-4(f)(6) also requires the self-regulatory organization to give the Commission notice of its intent to file the proposed

should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-Amex-2007-15 and should be submitted on or before March 2, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55230; File No. SR-BSE-2006-16]

### Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto To Adopt a Universal Price Improvement Period for Public Customer Orders

February 2, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 11, 2006, the Boston Stock Exchange, Inc. ("BSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been substantially prepared by the BSE. On February 1, 2007, BSE filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to amend the rules of the Boston Options Exchange ("BOX") to adopt a Universal Price Improvement Period ("UPIP") to offer the opportunity for price improvement for eligible Public Customer<sup>4</sup> orders. The text of the proposed rule change is available at BSE, the Commission's Public Reference Room, and [http://www.bostonstock.com/legal/pending\\_rule\\_filings.html](http://www.bostonstock.com/legal/pending_rule_filings.html).

[www.bostonstock.com/legal/pending\\_rule\\_filings.html](http://www.bostonstock.com/legal/pending_rule_filings.html).

#### 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 BSE 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 BSE has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

###### 1. Purpose

Currently, the BOX offers Options Participants, who wish to price improve their Customer Orders, access to a price improvement auction referred to as the "PIP" (Price Improvement Period). In order for a Customer Order to be entered into a PIP auction, Options Participants must be willing to improve the execution price themselves or seek price improvement through the PIP via a Directed Order. In either instance, initial access to the PIP is dependent upon the ability of at least one party to guarantee price improvement for the full size of the Customer Order. UPIP, however, is a *universal* price improvement mechanism such that all Public Customer Orders submitted to the BOX Trading Host will be eligible for potential price improvement in the UPIP auction, subject to the eligibility requirements discussed below. UPIP is similar to the PIP and other price improvement mechanisms, such as the Price Improvement Mechanism ("PIM") of the International Stock Exchange, Inc. ("ISE") and the Simple Auction Liaison system ("SAL") of the Chicago Board Options Exchange, Incorporated ("CBOE"), that initiate auctions in penny increments through which exchange participants compete to potentially price improve a customer order above the National Best Bid or Offer ("NBBO"). Unlike the PIP and other similar price improvement mechanisms, however, UPIP permits a broader universe of orders to obtain price improvement.

In the discussion to follow, BSE provides an overview of the UPIP auction and discusses some of the more salient features and benefits of the UPIP. In addition, BSE addresses the

underlying purpose of the UPIP by, in part, comparing the UPIP to the industry practice of "paying for order flow," and by discussing the overall effectiveness of UPIP in the context of the Commission's Penny Pilot.<sup>5</sup>

*a. UPIP Eligibility.* Under the proposed rule, a Public Customer Order will be eligible for the UPIP auction ("Eligible Order") provided certain conditions have been satisfied.<sup>6</sup> For example, the Eligible Order must be a Limit, Market or BOX-Top Order that is marketable against the NBBO.<sup>7</sup> In addition, the Trading Host will not permit the commencement of a UPIP auction in the following scenarios: (1) If a PIP or UPIP in the same series is already underway, or (2) if the NBBO is locked or crossed and the BOX Best Bid or Offer ("BBO") on the same side of the market as the Eligible Order equals the NBBO.

*b. The UPIP Order<sup>8</sup> and the Auction.* Upon satisfaction of the foregoing conditions, the BOX Trading Host will proceed to automatically commence a UPIP auction. Prior to the commencement, however, the BOX Trading Host will transmit a broadcast message ("Broadcast Message") to Options Participants informing them of the auction's initiation, the relevant details of the UPIP Order (*i.e.*, the UPIP Order's series, size and side of the market), the end time of the auction, and the applicable Start Price.<sup>9</sup> The Start Price for each auction is driven primarily by the price of the BBO on the opposite side of the market from the UPIP Order vis-à-vis the NBBO such that if the BBO is equal to the NBBO, the Start Price will be one improvement increment (*e.g.*, a penny) better than the NBBO. Conversely, if the BBO does not equal the NBBO, the Start Price will be the NBBO. The same conditions apply with respect to the Start Price whether or not the NBBO is locked or crossed.

The rule proposal allows UPIP Orders to be modified and cancelled at any time prior to the conclusion of the UPIP auction. The cancellation of a UPIP Order will result in the subsequent

<sup>5</sup> See Securities Exchange Act Release No. 54789 (November 20, 2006), 71 FR 68654 (November 27, 2006) (SR-BSE-2006-49).

<sup>6</sup> See proposed rule Section 29(e) of Chapter V of the BOX Rules.

<sup>7</sup> The Exchange also notes that an Eligible Order must be for a series of options that is open for trading and can not indicate a minimum quantity condition or be an Inbound Inter-Market Linkage P/A order.

<sup>8</sup> Under the proposal, upon commencement of the UPIP auction the "Eligible Order" shall be referred to as the "UPIP Order."

<sup>9</sup> The Start Price is defined as the minimum/maximum (buy/sell) price at which an Improvement Order must be submitted.

<sup>12</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> In Amendment No. 1, BSE granted the Commission an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

<sup>4</sup> Capitalized terms not otherwise defined herein shall have the meanings prescribed under the BOX rules.