

trader's disseminated size if that size is less than the size of the next Auto-Ex execution. With respect to subparagraph (i), if the size of the next Auto-Ex execution is less than the minimum quote size established pursuant to paragraph (a)(vi) above, the price improving registered options trader shall receive priority on subsequent Auto-Ex executions until he has received the minimum quote size.

(e) If more than one registered options trader and/or the specialist has disseminated or caused to be disseminated the same price improving quote, priority will be established for the registered options traders and specialist in the order in which the quotes were loudly and audibly announced to the crowd. If, however, the sequence in which the disseminated quotes were made cannot be reasonably determined, priority will be afforded to the price improving registered options traders and/or the specialist as a group. In accordance with paragraphs (a)(vi) and (d)(i) above, the minimum quote size for the price improving registered options traders and/or the specialist participating as a group shall be 20 contracts unless the Auto-Ex eligible size parameter for that option class is less than 20 contracts, in which case the minimum quote size would be the same as the lesser Auto-Ex eligible size parameter for that option class. Exchange rules shall cover allocations of contracts when more than one registered options trader and/or the specialist has disseminated the same price improving quote and time priority can not be established.

(f) The price improving registered options trader's quote will retain priority until one of the following occurs: (i) Auto-Ex executions deplete the disseminated size; (ii) an amount equal to the minimum quote size has been allocated; (iii) the registered options trader withdraws the quote; (iv) the quote is matched or improved by the specialist's automated quotation system quote, provided specialists using an Exchange-approved proprietary automated quotation updating system have not programmed the system to immediately match or improve the price improving registered options trader's quote; (v) the quote is improved by another registered options trader; or (vi) the market is improved by an order placed on the limit order display book.

(g) Notwithstanding the foregoing, (i) pursuant to Rule 111, Commentary .07 and Rule 950(c) a registered options trader, when establishing or increasing a position, may not retain priority over or have parity with an off-Floor order and, thus, only registered options

traders closing or decreasing a position may be on parity with a customer order; (ii) paragraph (d) above, supersedes Rule 126(e) and (f), which provide that a trade removes all bids and offers from the floor, to the extent that a price improving registered options trader's priority is not satisfied with the next Auto-Ex execution(s); and (iii) Rule 950(d), Commentary .05 regarding purchase priority and sale priority, will apply to any remaining contracts in the improving trader's disseminated size. Finally, Rule 958A shall apply to quotes disseminated pursuant to this Commentary.

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.04 Temporary Commentary—As of the date of the adoption of this Commentary, the Exchange is in the process of developing a new integrated trading system that will replace many of its existing floor trading systems. Current systems, which include order routing, automated quotation calculation and dissemination, specialist "book" functions including limit order display, automatic order execution and allocation of trades are to be replaced by a fully integrated and automated system. The system will continue to have an "auto-quote" function similar to XTOPS, which will be made available to both the specialist and registered options traders for the inputting of competitive quotes. The auto-quote function will be available to registered options traders through their hand-held devices. Unlike XTOPS, the specialist's auto-quote in a given option series will represent only the specialist's trading interest. In order to enter quotes for dissemination through the Exchange's Market Data System to the Options Price Reporting Authority, the registered options trader must (i) be physically present in the trading crowd; and (ii) disseminate a quote for at least the minimum quote size. The required minimum size of the improved bid or offer shall not be less than 10 contracts. The improved quotes will have an identifier so that orders executed against such quotes can be allocated automatically to the appropriate registered options trader. To reduce the possibility of remote market making, registered options traders will only be allowed to place one order or quote per series on the same side of the market. If the registered options trader leaves the trading crowd, he must remove his quotes in all series. If the registered options trader fails to remove his quotes and an incoming order executes against one or more of those quotes, the registered options trader will not be able to participate in the trade. Unless,

however, the system is unable to otherwise allocate the trade to other market participants at the same price, the registered options trader responsible for causing the quote to be disseminated shall be assigned as contra-party to the incoming trade.

The system, which will include algorithms established according to Exchange rules of priority and parity for customers, and the participation rights of registered options traders and specialists then in effect, will automatically allocate executed trades to each market participant. It is anticipated that these algorithms together with Exchange rules will provide that: (i) When the specialist or registered options trader (price improver) is quoting alone at the best bid or offer, he will be automatically allocated 100% of incoming orders for as long as he is alone at the best bid or offer and up to his disseminated size; and (ii) if any other trading crowd participants subsequently join or match the initial price improver's best bid or offer, contracts executed at that price will be allocated in accordance with priority and parity rules then in effect.

This Temporary Commentary will be replaced upon the adoption of rules and procedures governing the new integrated trading system. It is anticipated that this new system will begin to be implemented on the trading floor in November 2003. When fully implemented, which is expected to occur over an eighteen-month period, the system and the provisions discussed above will apply to all option classes and series traded on the Exchange.

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

In its filing with the Commission, the Amex included statements concerning the purpose of, and statutory 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 Amex 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

In order to substantially increase incentives to quote competitively and reduce disincentives for market