

available for registered options traders to use in all option classes traded on the Exchange.¹¹ In active option classes where there is currently an Exchange-employed systems clerk, registered options traders would either input their own quotes or instruct a systems clerk to do so on their behalf. Only registered options traders physically located in the trading crowd would be permitted to directly input quotes into the EE Device or give such instructions to a systems clerk.

Once the registered options trader or systems clerk inputs the quote into the EE Device, the proposed rule would require that: (i) The price improving registered options trader announce loudly and audibly in the crowd that he has improved the displayed market to ensure that other crowd participants are aware that the market has been improved, enabling other crowd participants to also quote competitively; and (ii) the specialist be specifically alerted so that a "book bid or offer" indicator is activated and the next otherwise Auto-Ex eligible trade is routed directly to the Amex Options Display Book ("AODB") for allocation to the registered options trader that caused the improved quote to be disseminated. In addition to blocking an otherwise eligible Auto-Ex order from being executed and allocated by the Auto-Ex system, activation of the "book bid or offer" indicator would block an XTOPS calculated quote that is worse than the registered options trader's disseminated quote from being disseminated. Activation would not, however, block a quote that is better than the registered options trader's disseminated quote from being disseminated.

Once an execution occurs and/or the price improving registered options trader is no longer entitled to priority, the specialist would be required to remove the "best bid or offer" indicator so that Auto-Ex eligible orders would again be sent to Auto-Ex and the

dissemination of XTOPS calculated quotes is resumed. The EE Device would not automatically decrement the size of the disseminated quote when an execution occurs. The quote would be required to be manually adjusted to reflect any revision to the disseminated size.

The price improving registered options trader would be permitted to cancel his quote at any time prior to the execution of a trade through the use of the EE Device (regardless of whether inputted by the registered options trader or the systems clerk), if that was the method in which the quote was entered, or through the specialist, if that was the method chosen. The registered options trader would be required also to alert the specialist that he is removing his quote, so the specialist can in turn remove the "book bid or offer" indicator in XTOPS, and announce loudly and audibly that he is canceling his quote.

Pursuant to the requirements of the Quote Rule and Exchange Rule 958A, the registered options trader as the responsible broker or dealer is obligated to execute any customer order at his bid or offer up to the disseminated size. To be relieved of that obligation with respect to a specific quote, one of the exceptions to the Quote Rule must apply, which generally provide that the responsible broker or dealer must communicate a revised quotation to the Exchange prior to the presentation of an order. Thus, a registered options trader using the EE Device to disseminate quotes would continue to be obligated pursuant to the Quote Rule until he has communicated a revised quote to the Exchange through the removal or cancellation of the quote on the EE Device.

Registered options traders would be required to improve the best bid or offer by an amount equal to at least the minimum price variation as set forth in Exchange Rule 952 for the quote to be inputted into the EE Device. The minimum size quote that could be inputted into the EE Device by or on behalf of a registered options trader would 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. Currently, the EE Device disseminates a default size for each new quote. The disseminated size may be set at a higher or lower amount or increased by the specialist to reflect additional liquidity at that quote. The default size would be set at the minimum quote size as discussed above.

The Exchange represents that there is at least one EE Device unit at every trading post and multiple units at posts where active option classes trade and that the number of devices currently in place on the trading floor would be sufficient to provide registered options traders with ready and easy access to a means for disseminating their quotes. However, since this is a new use for the EE Device, the Exchange represents that it will monitor the uses of the EE Device by registered options traders and activity in the option classes at each trading post and will add additional devices when necessary. The Exchange is able to install additional EE Devices at the trading posts with, preferably, a one-day notice so that they can be installed either before or after trading hours.

The specialist in a given option class may also disseminate or cause to be disseminated his own individual, price improving quote separate from the XTOPS calculated quote, provided he is physically located at the trading post at the time he inputs his quote, has only disseminated one quote per series on the same side of the market, has announced loudly and audibly to the crowd that he has improved the disseminated bid or offer, has improved the best bid or offer by an amount equal to at least the minimum price variation set forth in Rule 952, and has disseminated the minimum quote size. The specialist would not be able to use the EE Device to disseminate his individual price improving quote since he already has the means to input a quote into the Market Data System through XTOPS in the same manner used today to disseminate a customer limit order. Once the specialist has caused his individual quote to be disseminated, he will activate the "book bid or offer" indicator and the next otherwise Auto-Ex eligible trade is routed directly to the AODB for allocation to the specialist.

The specialist would be required to use best efforts to attempt to ensure that the registered option trader responsible for disseminating the best bid or offer receives an allocation of the next incoming order for the amount he is entitled to pursuant to Exchange rules. A specialist who failed to use best efforts to attempt to ensure that the next Auto-Ex execution is appropriately allocated to the price improving registered options trader would be fined pursuant Amex Rule 590(g) of the Exchange's Minor Rule Violation Fine System. In addition to the fine assessed pursuant to the Minor Floor Violation Fine System, violations of this provision would require the payment of

automated quotation and execution systems which substantially enhance incentives to quote competitively and substantially reduce disincentives for market participants to act competitively." Order Instituting Public Administrative Proceedings Pursuant to Section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions. Securities Exchange Act Release No. 43268 (September 11, 2000).

¹¹ The EE Device is currently used by Exchange-employed systems clerks in busy option classes to input individual quotes from the specialist on a series by series basis that better the quote being calculated and disseminated by XTOPS. A quote entered using the EE Device is sent directly to the Exchange's Market Data System for immediate dissemination to the Options Price Reporting Authority. This quote, when it betters the market being disseminated by XTOPS, will override or displace the XTOPS quote.