

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

1. Purpose

The Exchange is proposing to amend its Options Fee schedule to eliminate the licensing fee of \$0.10 a contract which is currently charged on options on the iShares Russell 1000 Index Fund (symbol: IWB), the iShares Russell 1000 Growth Index Fund (symbol: IWF), the iShares Russell 1000 Value Index Fund (symbol: IWD), the iShares Russell 2000 Index Fund (symbol: IWM), the iShares Russell 2000 Growth Index Fund (symbol: IWO), the iShares Russell 2000 Value Index Fund (symbol: IWN), and the iShares Russell 3000 Index Fund (symbol: IWV) (collectively, the "ETF Options").

The Exchange is proposing to eliminate the licensing fee applicable to the ETF Options as of January 3, 2007 due to the termination of existing licensing agreements on December 31, 2006.

The Exchange asserts that the proposal is equitable as required by Section 6(b)(4) of the Act.<sup>5</sup>

2. Statutory Basis

The proposed fee change is consistent with Section 6(b)(4) of the Act<sup>6</sup> regarding the equitable allocation of reasonable dues, fees, and other charges among exchange members and other persons using exchange facilities.

*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 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 become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>7</sup> and paragraph (f)(2) of Rule 19b-4

<sup>5</sup> Section 6(b)(4) requires that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities.

<sup>6</sup> 15 U.S.C. 78f(b)(4).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

thereunder<sup>8</sup> because it establishes or changes a member due, fee, or other charge. 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 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-2007-02 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-2007-02. 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 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

<sup>8</sup> 17 CFR 240.19b-4(f)(2).

available publicly. All submissions should refer to File Number SR-Amex-2007-02 and should be submitted on or before February 6, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-55048; File No. SR-Amex-2006-119]

**Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing of a Proposed Rule Change Relating to the Definition of Complex Trade as Applied to Trades Through the Options Intermarket Linkage**

January 5, 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 28, 2006, the American Stock Exchange LLC ("Amex" 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 prepared substantially by the Exchange. 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 Amex proposes to revise Amex Rule 940(b)(3) to amend the definition of "Complex Trade." The text of the proposed rule change appears below, with additions italicized and deletions in [brackets]:

**Options Intermarket Linkage**

Rule 940 (a) No Change

(b) Definitions—The following terms shall have the meaning specified in this Rule solely for the purpose of this Section 4:

(1)–(2) No Change

(3) "Complex Trade" means the execution of an order in an option series in conjunction with the execution of one or more related order(s) in different options series in the same underlying security occurring at or near the same

<sup>9</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.

time for the purpose of executing a particular investment strategy and for an equivalent number of contracts, provided that the number of contracts of the legs of a spread, straddle or combination order may differ by a permissible ratio [for the equivalent number of contracts and for the purpose of executing a particular investment strategy]. The permissible ratio for this purpose is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).

(4) through (20) No Change

\* \* \* \* \*

## 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 Exchange 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 substantially 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 Amex proposes to revise Amex Rule 940(b)(3) to amend the definition of "Complex Trade." For the purpose of the Options Intermarket Linkage (the "Linkage"), the Amex defines a "Complex Trade" as a trade reflecting the execution of an order in an options series in conjunction with one or more other orders in different series in the same underlying security "for the equivalent number of contracts." A Complex Trade is exempt from the trade-through rule provided by Amex Rule 942(b)(7).

In contrast to the Linkage definition of Complex Trade, the definition of "ratio order" set forth in Amex Rule 950—ANTE(e)(vii) does not require that there be an equivalent number of contracts in the orders. Specifically, Rule 950—ANTE(e)(vii) permits ratios that are equal to or greater than one-to-three and less than or equal to three-to-one. The Exchange applies modified priority rules to ratio orders as well as other complex orders, including spread orders, straddle orders, and combination orders.<sup>3</sup>

This proposal will conform the Linkage definition of Complex Trade in Amex Rule 940(b)(3) to the Amex's definition of a ratio order. According to the Amex, the other options exchanges also will adopt a similar definition, thereby resulting in a uniform application of the definition of Complex Trade across exchanges. The Amex believes that this uniformity will facilitate efficient executions of Complex Trades on all markets. In addition, the Exchange submits that the proposal will align the Linkage rules with the Amex's internal market rules to facilitate the trading of complex orders.

#### 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>4</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>5</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 remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

The Amex believes that the proposed rule change will 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

The Amex neither solicited nor received written comments 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 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-2006-119 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-2006-119. 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 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 Number SR-Amex-2006-119 and should be submitted on or before February 6, 2007.

<sup>3</sup> See Amex Rule 950—ANTE(d), Commentary .01.

<sup>4</sup> 15 U.S.C. 78f(b).

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

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>6</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55050; File No. SR-BSE-2006-03]

### Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto, Relating to the Treatment of Limit Orders That Are Submitted to the Boston Options Exchange During a Price Improvement Period

January 5, 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 8, 2006, the Boston Stock Exchange, Inc. ("BSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change. On January 4, 2007, the BSE filed Amendment No. 1 to the proposed rule change. The proposed rule change is described in Items I, II, and III below, which Items have been prepared substantially by the Exchange. 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

As described in more detail herein, the Exchange proposes to modify the Boston Options Exchange ("BOX") Rules to clarify the treatment of Limit Orders that are submitted to the BOX during a Price Improvement Period ("PIP").<sup>3</sup> In addition, this proposal clarifies that certain Improvement Orders (as explained below) are not accepted by the BOX Trading Host. The text of the proposed rule change is available at the Exchange, 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).

#### 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 Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The purpose of the proposed rule change is to clarify the treatment of Limit Orders that are submitted to the BOX during a PIP. In addition, this proposal clarifies that certain Improvement Orders (as explained below) are not accepted by the BOX Trading Host.

###### I. Background and Introduction

In general, the BOX PIP is a three-second auction starting at a price better than the current National Best Bid and Offer ("NBBO"), during which BOX Participants compete to participate in the execution of the Customer Order submitted to the PIP (the "PIP Order") by submitting specially designated orders called Improvement Orders in one penny increments that are only accepted in a PIP auction. A Limit Order, in the same series as the PIP Order, that is submitted to BOX during a PIP auction is considered an "unrelated order" pursuant to the BOX PIP Rules,<sup>4</sup> and under certain circumstances, may prematurely terminate the PIP or may immediately execute against the PIP Order. When the PIP is prematurely terminated, the PIP Order is matched against the best prevailing orders on BOX (whether Improvement Orders or unrelated orders received by BOX during the PIP).<sup>5</sup> Then the Limit Order is filtered from trading through the NBBO and executed accordingly.<sup>6</sup>

<sup>4</sup> See paragraph (a) of Section 18 of Chapter V of the BOX Rules.

<sup>5</sup> Pursuant to Paragraph (e)(iii) of Section 18 of Chapter V of the BOX Rules.

<sup>6</sup> Pursuant to Paragraph (b) of Section 16 of Chapter V of the BOX Rules ("Filter Rule"). Pursuant to the Filter Rule, a Limit Order that has a Buy (Sell) limit price equal to or better than the National Best Offer (Bid), and the Best BOX Offer

#### Competing Principles Underlying the Treatment of Unrelated Orders in a PIP

The BOX trading system operates under four main principles when handling the interaction of an unrelated Limit Order with the PIP process. Specifically, the BOX system:

1. Allows the PIP to continue for as long as possible. The BSE believes that in most cases this will maximize the price improvement potential to the PIP Order.
2. Maintains the relative price/time priority of all orders on the system, including Improvement Orders.
3. Will not allow Improvement Orders to lock or cross the BOX Book.
4. Never "holds-up" the processing of any order and seeks to execute an order as quickly as practicable in order to mitigate the risk of adverse market movements.

On the few occasions when these four principles intersect or are in conflict, BSE has sought to maintain a reasonable balance between the interests of all orders while offering each order the best available price, without violating any BOX Rules or the securities laws. Therefore, the first principle, allowing the PIP to continue for as long as possible, will apply until it conflicts with any of the other three (3) principles.

Consideration of the size of orders or the potential execution volume at any PIP price level is not one of these main principles of the BOX system. The BOX system does not consider the number of contracts that may be executed at the best PIP improvement price when determining priority or when the PIP should terminate. Having at least one contract available at the best improvement price is all that is required.

#### II. Same Side Limit Orders—Premature Termination Events

The submission to BOX of a Limit Order that is on the same side of the market as the PIP Order will prematurely terminate the PIP, allowing the PIP Order to be immediately executed against the best prevailing orders on BOX (whether Improvement Orders or unrelated orders received by BOX during the PIP), if at the time the Limit Order is submitted to BOX:

- i. The Buy (Sell) Limit Order price is equal to or higher (lower) than the National Best Offer (Bid) and either:

(Bid) is not equal to the National Best Offer (Bid), the Limit Order is "exposed" for three seconds to seek potential BOX orders that can match the National Best Offer (Bid) before the order is routed to an away market that is equal to the National Best Offer (Bid).

<sup>6</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 5 U.S.C. 78s(b)(1).

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

<sup>3</sup> Capitalized terms not otherwise defined herein shall have the meanings prescribed under the BOX Rules.