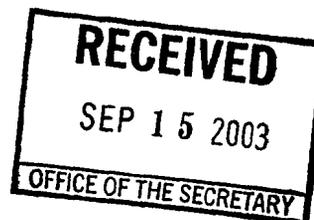


#230



September 12, 2003

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 5th Street, NW
Washington, DC 20549



Re: SR-BSE-2002-15 and amendments thereto

Dear Sirs,

Citigroup Global Markets Inc. welcomes the opportunity to submit this comment letter on the Boston Stock Exchange Inc.'s Petition for Rule Making (the "BOX Proposing Release") regarding the operation of the Boston Options Exchange ("BOX"). We urge the Commission to approve the BOX Proposing Release and allow BOX to begin operating as soon as possible.

BOX represents the next step in the evolution from a traditional exchange model in which certain trading rights are granted to a few participants, to a more transparent and competitive model open to many. We believe that the BOX will be a lower cost trading platform for many of our clients because of its all-electronic execution and minimal distinctions between participants. The BOX model allows all types of market participants to interact directly with other order flow on a price/time priority basis without the intervention of exchange specialists or designated options market makers. It will also allow order flow providers to interact with their own order flow on a limited basis, but only at prices better than the best bid or offer (the "BBO") and after allowing other market makers adequate opportunity to compete on the basis of price. We also believe that the low cost of entry for participants on the BOX will attract many liquidity providers and will thereby increase liquidity and execution quality.

Some commenters¹ have asserted that because the BOX model promotes internalization, it is inherently disadvantageous for investors. Citigroup disagrees because we feel that best execution is the single most important criteria in evaluating market structure for equality and fairness to investors. Therefore, we urge the Commission to evaluate the proposal solely based on the standards of best execution. On that basis, Citigroup supports the BOX Proposing Release because we believe that the BOX offers a unique

¹ See comments of Meyer S. Frucher, Chairman and Chief Executive Officer, Philadelphia Stock Exchange, Inc., February 12, 2003 and comments of William J. Brodsky, Chicago Board Options Exchange, Incorporated, February 14, 2003.

market mechanism for providing best execution and price improvement in the options market.

The traditional options exchange model is based on the assumption that orders are sent to the floor where they are exposed to other orders and the potential for price improvement. The supporters of the traditional exchange model argue that the existing model provides superior execution to the automated execution system proposed by the BOX. However, all of the traditional options exchanges have an automated system for executing small orders that arrive electronically, which represents the vast majority of retail orders. These systems execute these electronic orders at the current BBO with no exposure to, nor any opportunity for, price improvement. As a result, any order that is exposed to the Price Improvement Period (the "PIP") electronic auction process on the BOX (which guarantees at least \$1 per contract of price improvement) would be a better execution from the client perspective.

The commentary by the traditional exchanges also ignores current payment for order flow practices. Currently, many market makers pay (either directly or indirectly) for orders to be directed to the venue in which they are the automated execution counterparty or where they can execute them at the BBO. In that case, the sending broker/dealer receives incremental income. On the BOX, it is the retail client and not the broker/dealer who benefits from price improvement. We believe, therefore, that the BOX represents a breakthrough for the retail option investor. Citigroup does not and never has accepted payment for options order flow, a practice we believe could result in a conflict of interest in the options routing process. Our options order flow routing is based solely upon a best execution analysis. The BOX provides participants the ability to pass on savings directly to clients in the form of price improvement. This is the primary motivation for Citigroup's investment in the BOX and support of the BOX Proposing Release.

If you would like to discuss any of the points raised in this letter or have any other questions, please do not hesitate to contact me at (212) 723-1331.

Very truly yours,



David Weisberger
Managing Director