

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-61531; File No. SR-BX-2010-009)

February 17, 2010

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto Relating to the Directed Order Process on the Boston Options Exchange Facility

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 25, 2010, NASDAQ OMX BX, Inc. (the “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 by the self-regulatory organization. The Exchange filed Amendment No 1. to the proposed rule change on February 10, 2010.³ 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 Group, LLC (“BOX”) to modify the Directed Order process on BOX. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at

<http://nasdaqomxbx.cchwallstreet.com/NASDAQOMXBX/Filings/>.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 added clarifying language regarding the implementation of the proposed rule change and removed erroneously included information.

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 Exchange is proposing modifications to the Directed Order process on BOX.⁴ When a BOX Market Maker indicates its interest in receiving Directed Orders, the receiving Market Maker is referred to as the Executing Participant (“EP”). Specifically, the Exchange is proposing to automate the creation of the Guaranteed Directed Order (“GDO”) and the manner in which the quote of the EP is handled during the Directed Order process.

‘Quote Shelving’ and ‘GDO’

Upon receipt of a Directed Order an EP must either submit the Directed Order to the PIP⁵ or send the Directed Order to the BOX Book. Currently, when the EP sends the Directed Order to the BOX Book and the EP’s quotation on the opposite side of the market from the Directed Order is equal to the National Best Bid or Offer (“NBBO”) and the Directed Order is also executable against the NBBO, the EP must guarantee execution of the Directed Order at the current NBBO for at least the size of his quote. This guarantee is called the GDO. The EP must immediately send the Directed Order with the GDO to the

⁴ A Directed Order is any Customer Order to buy or sell which has been directed to a particular Market Maker by an OFP. See Chapter I, Section 1(21) (sic) of the BOX Rules. Terms not otherwise defined herein shall have the meaning assigned to them in the BOX Rules.

⁵ See Chapter V, Section 18 of the BOX Rules.

Trading Host. Sending the GDO to the Trading Host enables it to simultaneously take down or ‘shelve’ the EP’s quote and any pending quote updates while the Directed Order is being exposed on the BOX Book.⁶

Under the proposal, the GDO will be automatically created by the Trading Host instead of by the EP. The Trading Host will use the shelved EP quote as the GDO. In addition, the GDO creation and the EP’s quote shelving will be moved to an earlier point in the Directed Order process. Where presently they occur only when the Directed Order is sent to the BOX Book, they will now take place immediately upon the Trading Host’s receipt of the Directed Order from the submitting OFF. Once the GDO has been generated by the Trading Host, the EP will systemically be prohibited from posting a quotation. The EP’s pending quote will not be released until either (i) the Directed Order is modified by the submitting OFF;⁷ (ii) the EP PIPs the Directed Order;⁸ or (iii) the Directed Order is

⁶ The proposal clarifies in Section 5(c)(iii)(2)(b)(2) and (3) that when the EP does not PIP the Directed Order and releases it to the BOX Book, the Directed Order will immediately execute against the BOX Book if the BOX Best Bid or Offer is equal to or better than the NBBO and GDO. Any remaining quantity not executed will immediately be exposed to BOX Participants at the better of the NBBO or GDO price. This exposure period will last three (3) seconds, during which time any Options Participant, except for the EP, may submit an order to the BOX Book in response. Any orders submitted to the BOX Book during the three second period will execute immediately against any remaining quantity of the Directed Order, in time priority.

⁷ See Section 5(c)(ii)(5). If the Directed Order is modified once the Trading Host has automatically established the GDO, then the modified Directed Order shall no longer be considered a Directed Order and shall be immediately released to the BOX Book and treated as a regular order. Upon modification or cancellation of the Directed Order, the Trading Host will immediately reestablish the EP’s quote, including any of the EP’s pending quote modifications, with a new time priority; or in the case of a pending quote cancellation, the EP’s quote will be cancelled. If no GDO had been established, then the modified Directed Order shall be resubmitted to the EP pursuant to paragraph (c)(ii)(1). Also, it shall be considered conduct inconsistent with just and equitable principles of trade for any Options Participant or person to communicate with an EP about the terms or conditions of a Directed Order prior to its outcome in the BOX Trading Host (e.g. execution, cancellation).

⁸ Under the proposal the EP’s obligations when using the PIP remain the same, however in some instances the obligation will be met automatically by the Trading Host. Upon submission of the Directed Order to the PIP the Trading Host will only accept a Primary Improvement Order priced at or better than (i) the GDO or (ii) the NBBO at the time the EP sent the Directed Order to the PIP, whichever is better for the Directed/PIP Order. In addition, if a GDO has been automatically generated, then the Trading Host will prohibit the EP from adjusting his quotation prior to submitting the Directed Order to the PIP process.

submitted to the BOX Book, and either one of the following occurs: (a) the Directed Order trades in full; (b) the Directed Order exposition ends; or (c) the Directed Order is modified or cancelled by the submitting OFP during such exposition.

Under the proposal, if a GDO has been automatically generated and is pending, then upon receipt by the Trading Host of a subsequent Directed Order for the same EP for the same series and side of the market such subsequent order will not be considered a Directed Order but be treated as a regular order. The Trading Host will not send the order to the EP, but will immediately release it to the BOX Book as a regular order. If no GDO has been automatically generated, then such subsequent order will be sent to the EP and treated as a new Directed Order.

Directed Order Exposure Period

With this proposal the Exchange also wishes to add certain details in the rule regarding the treatment of Directed Orders that have been released to the BOX Book for exposure. If a GDO has been automatically generated and the Directed Order is **not** executable against the current NBBO, then the Trading Host will expose the order at the better GDO price for three (3) seconds.

During the exposure period when the Directed Order is executable against the current NBBO, the EP must not decrement the size, worsen the price of his GDO or submit a contra order. Because the Trading Host has automatically created the GDO and shelved the EP's quote, it will not process such changes to the GDO or pending quote, except a decrementation of the GDO size down to the size of the remaining Directed Order after execution with the BOX Book. The EP also may increase the size or better the price of his GDO. The EP may also modify his pending quote to be reestablished, but the Trading Host won't apply such modifications until the quote is reestablished.

Market Maker Quoting Obligations

The Exchange proposes to add new Supplementary Material .02 to Chapter VI, Section 5, stating that such time without posting a quote when a Market Maker's quote is shelved while acting as EP will not count towards fulfilling his obligations for purposes of the Market Maker's quoting obligations under Chapter VI, Section 6(d) of the BOX Rules.

Non-Substantive Changes

The Exchange proposes to change several references to 'Market Maker' in the Directed Order rules to 'EP'. The term 'EP' is first referenced in Chapter VI, Section 5(c)(i) as "a Market Maker who desires to accept Directed Orders...[by]... indicat[ing] that it is an Executing Participant ("EP")." This change is being made solely to provide greater clarity throughout the Directed Order rule and more closely aligns the rule text with the terminology used to describe the Directed Order process on BOX. In addition, the Exchange is adding the word "current" in the relevant instances of the use of the term NBBO in the Directed Order rules in order to clarify which NBBO is being referenced at a particular stage in the Directed Order process. Also, unnecessary and duplicative language about the function of the NBBO filter process pursuant to Chapter V, Section 16(b) will be removed from Section 5(c)(iii)(1). Finally, the proposal clarifies in Section 5(c)(iii)(2)(b)(4) that the Trading Host will reestablish the quote of the EP with a new time priority, decremented by any executed portion of the GDO or as modified by the EP. After Commission approval of the proposal, and at least one week prior to implementation of the rule change, BOXR will issue a regulatory circular to Participants. The regulatory circular will inform Participants of the implementation date. This will give Participants an opportunity to make any necessary modifications to coincide with the implementation date.

2. Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,⁹ in general, and Section 6(b)(5) of the Act,¹⁰ in particular, in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism for a free and open market and a national market system and, in general, to protect investors and the public interest. Specifically, under the proposal the BOX Trading Host will automate the creation of the GDO and the manner in which the quote of the EP is handled during the Directed Order process.

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 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 Exchange has neither solicited nor received comments on 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:

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

- (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, as amended, 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. Please include File Number SR-BX-2010-009 on the subject line.

Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BX-2010-009. 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

Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m.. 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-BX-2010-009 and should be submitted on or before [date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Florence E. Harmon
Deputy Secretary

¹¹ 17 CFR 200.30-3(a)(12).