

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54789; File No. SR-BSE-2006-49)

November 20, 2006

Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change to Implement a Pilot Program to Trade Certain Options in Pennies

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 November 17, 2006, the Boston Stock Exchange, Inc. (“BSE” 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 substantially prepared by the BSE. 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 Exchange proposes to amend the Boston Options Exchange (“BOX”) Rules to reflect BOX’s participation in a six-month Penny Pilot Program, which will commence on January 26, 2007. The text of the proposed rule change is available on the BSE’s Web site at <http://www.bostonstock.com>, at the Office of the Secretary, and at the Commission’s Public Reference Room.

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 BSE 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

the places specified in Item IV below. The Exchange 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 this proposed rule change is to amend the BOX Rules to reflect BOX's participation in a six-month Penny Pilot Program, which will commence on January 26, 2007. The Exchange proposes to amend Section 6 ("Minimum Trading Increments") and to add a new section, Section 33, ("Penny Pilot Program") to Chapter V ("Doing Business on BOX") of the BOX Rules.

All six options exchanges, including BOX, currently quote options in nickel and dime increments. Once the Penny Pilot Program commences in January, investors will be able to begin quoting in pennies in a limited number of option classes. The thirteen (13) classes represented in the Penny Pilot Program include: IWM (Ishares Russell 2000), QQQQ (NASDAQ-100 Index Tracking Stock), SMH (Semiconductor Holders), GE (General Electric), AMD (Advanced Micro Devices), MSFT (Microsoft), INTC (Intel), CAT (Caterpillar), WFMI (Whole Foods), TXN (Texas Instruments), FLEX (Flextronics International), and SUNW (Sun Microsystems).³ These classes represent a diverse group of options with various trading characteristics. This diversity will allow for broad-based reporting, which will enable analysis on the impact of penny quoting on options with different volumes, liquidity, and strike prices.

³ The Exchange understands that another options class will be added to the Penny Pilot Program to bring the total number of classes in the Penny Pilot Program to thirteen. Telephone Conversation between Lisa J. Fall, General Counsel, BOX, and Johnna B. Dumler, Special Counsel, Division of Market Regulation, Commission, on November 20, 2006.

All classes contained in the Penny Pilot Program, except for the QQQs will be quoted in the following manner: if the options contract trades below \$3, one (1) cent; and if the options contract trades at \$3 or above, five (5) cents. The QQQs will be quoted in one (1) cent increments for all options series. The Exchange believes that this change in minimum increments should help investors by providing more competitive pricing, reducing payment for order flow, reducing costs, and tightening spreads.

BOX will deliver a report, which will be comprised of data from the first three months of trading, to the Commission during the fourth month of the pilot. The report will detail the impact of quote updating to the Options Price Reporting Authority (“OPRA”), the effect the Penny Pilot Program has on price improvement, and data on average spreads. BOX anticipates that this report will be used in conjunction with the reports from the other five exchanges to analyze the impact that the penny quoting would have on the options industry.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁵ in particular, in that the proposed rule change is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to facilitating transactions in securities, 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.

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

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 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

Written comments on the proposed rule change were neither solicited nor received.

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 Exchange 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. Please include File No. SR-BSE-

2006-49 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 No. SR-BSE-2006-49. 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 at

<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 No. SR-BSE-2006-49 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Nancy M. Morris
Secretary

⁶ 17 CFR 200.30-3(a)(12).