

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55415; File No. SR-BSE-2006-03)

March 7, 2007

Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Order Granting Approval of Proposed Rule Change as Modified by Amendment No. 1, Relating to the Treatment of Limit Orders that Are Submitted to the Boston Options Exchange During a Price Improvement Period

On December 8, 2006, the Boston Stock Exchange, Inc. (“BSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² to amend the rules of the Boston Options Exchange (“BOX”) relating to the treatment of Limit Orders that are submitted to the BOX during a Price Improvement Period (“PIP”). On January 4, 2007, the BSE filed Amendment No. 1 to the proposal. The proposed rule change, as amended, was published for comment in the Federal Register on January 16, 2007.³ The Commission received no comments on the proposal. This order approves the proposed rule change as modified by Amendment No. 1.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange⁴ and, in particular, the requirements of Section 6(b)(5) of the Act.⁵ Specifically, the Commission believes that the proposed rule change is consistent with the Act because it makes explicit how

¹ 5 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 55050 (January 5, 2007), 72 FR 1786 (SR-BSE-2006-03) (“Notice”).

⁴ In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁵ 15 U.S.C. 78f(b)(5).

unrelated Limit Orders⁶ in the same series as a PIP Order, submitted to the BOX during the PIP,⁷ are treated, and specifies the circumstances under which Improvement Orders are not accepted by the BOX Trading Host.⁸ The Commission believes that these rule amendments are reasonable and consistent with the Act, and should help clarify for investors and market participants how their orders are executed in various situations.⁹

⁶ An “unrelated order,” generally, is a non-Improvement Order entered into the BOX market while a PIP is in progress. See paragraph (a) of Section 18 of Chapter V of the BOX rules. An “Improvement Order,” generally, is an order submitted to a PIP to compete for a “PIP Order” (a customer order submitted to the PIP for price improvement). See paragraph (e)(i) of Section 18 of Chapter V of the BOX Rules.

⁷ As detailed in the Notice, certain unrelated Limit Orders on the same side of the market as a PIP Order terminate the PIP prematurely, while certain unrelated Limit Orders on the opposite side of the market immediately execute against the PIP Order (and allow the PIP to continue if the PIP Order has not been filled). The proposal clarifies the circumstances in which these early terminations and immediate executions take place, as well as the rules governing the prices that the PIP Order and unrelated Limit Order receive in each of these circumstances.

⁸ The proposal specifies that the BOX Trading Host does not accept Improvement Orders that would lock or cross the BOX Book.

⁹ In addition, the Commission notes that BSE is currently obligated to provide certain reports to the Commission that provide data about BOX-Top and Market Orders that terminate the PIP prematurely, as well as BOX-Top and Market Orders that immediately execute against a PIP Order. BSE represents that it will provide the same information for Limit Orders that terminate the PIP prematurely or immediately execute against a PIP Order.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-BSE-2006-03) as modified by Amendment No. 1, be, and hereby is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Florence E. Harmon
Deputy Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).