

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51651; File No. SR-BSE-2005-01)

May 3, 2005

Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Order Approving Proposed Rule Change, and Amendment No. 1 Thereto, Relating to the Price Improvement Period under the Rules of the Boston Options Exchange Facility

On January 4, 2005, the Boston Stock Exchange, Inc. (“BSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to modify the rules of the Boston Options Exchange Facility (“BOX”) relating to the BOX’s Price Improvement Period (the “PIP”). On March 22, 2005, the BSE filed Amendment No. 1 to the proposed rule change.³ The proposed rule change, as amended, was published for comment in the Federal Register on March 29, 2005.⁴ The Commission received no comments on the proposal. This Order approves the proposed rule change, as amended.

The BSE proposes to amend the BOX Rules to eliminate certain restrictions on the ability of Order Flow Providers, Market Makers, and Public Customers to participate in the PIP. The proposal would allow Order Flow Providers to submit “Improvement Orders”⁵ to the PIP on behalf of Public Customers through any type of instruction they wish to accept, so long as the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 superseded and replaced the original filing in its entirety.

⁴ See Securities Exchange Act Release No. 51418 (March 23, 2005), 70 FR 15955.

⁵ Generally, an “Improvement Order” is an order submitted to the PIP to compete on the contra side for a Customer Order entered into the PIP under the procedures detailed in Section 18 of Chapter I of the BOX Rules. Improvement Orders are submitted in increments of one cent, as set forth with additional clarity in the proposed rule change.

Improvement Order is identified as a Public Customer Order when it is submitted.⁶ The BSE also proposes to eliminate the current requirement that an Options Participant⁷ that is not assigned as a Market Maker in the relevant class that wishes to participate in a PIP must have an order on the BOX Book for its proprietary account equal to the best BOX price before the PIP commences (unless the participant submitted the Primary Improvement Order⁸ or holds a Customer PIP Order). In addition, the BSE proposes to eliminate all references to “PIP Proprietary Orders” because, under the proposal, all Options Participants (except for the Order Flow Provider or Market Maker that submits the relevant Primary Improvement Order to the PIP) would now be able to submit Improvement Orders for their proprietary accounts without the above restrictions, and as such, this separate order type would no longer be necessary.

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national

⁶ Currently, a public customer may participate in a PIP only if it has provided an Order Flow Provider with a “Customer PIP Order,” an order that includes a specific order size; a price stated in rounded five cent or ten cent increments, as appropriate, at which the order is to be placed in the BOX Book (the “BOX Book Reference Price”); and a specific price stated in one cent increments at which the Public Customer wishes to participate in any PIP that may occur while his order is on the BOX Book. A Customer PIP Order can participate in a PIP only if the BOX Book Reference Price is equal to the best BOX price at the time a PIP commences. See further at Section 18(g) of Chapter I of the BOX Rules.

⁷ An “Options Participant” is a firm or organization that is registered with the Exchange for purposes of participating in options trading on the BOX as an Order Flow Provider or Market Maker. See Section 1(40) of Chapter I of the BOX Rules.

⁸ When an Options Participant submits a Customer Order to the PIP, the Options Participant also submits a matching contra order, the “Primary Improvement Order,” on the opposite side of the market than that of the Customer Order, and at a higher bid (lower offer) than that of the national best bid or offer (NBBO) at the time of the commencement of the PIP.

securities exchange⁹ and, in particular, the requirements of Section 6(b) of the Act¹⁰ and the rules and regulations thereunder. The Commission finds specifically that the proposed rule change, as amended, is consistent with Section 6(b)(5) of the Act,¹¹ which requires, among other things, that the rules of an exchange be designed 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.

The Commission believes that the proposed rule change will increase opportunities for Public Customers and BOX Options Participants to participate in the PIP, and should thereby enhance competition and the possibility of price improvement for Customer Orders submitted to the PIP.

⁹ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-BSE-2005-01), as amended, be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Margaret H. McFarland
Deputy Secretary

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).