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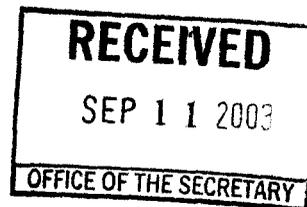
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September 10, 2003



William H. Donaldson  
Chairman, Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Re: File No. SR-BSE-2002-15 (Boston Options Exchange) Application

Dear Chairman Donaldson,

I want to first thank you and your staff for your efforts to ensure the markets remain stable during this time of flux.

As you know, the SEC is expected to make a decision in the near future to approve or deny an application by the Boston Stock Exchange, to create a Boston Options Exchange (BOX). Having followed this proceeding, I have concerns about moving forward with the approval process.

One of the highly contested issues that I have been following for some time is that of internalization. Internalization is the practice whereby a dealer interacts as the counter-party with customer order flow without the ability for other market participants to compete in order to trade against those same customer orders at a better price for the customer. In the BOX proposal, options participants may act as contra party to their own customer orders during a Price Improvement Period (PIP). During a PIP, the order flow provider (OFP) can bid against its customers by pricing the order just \$.01 better. In doing this, a select few market makers have just three seconds to compete with the OFP. Should a market maker step in and better the price, the OFP is still entitled to 40 percent of the customer's order. If no other market makers enter a bid within three seconds of the OFP's \$.01 increase, the OFP can fill the entire order. During regular trading on the BOX without the PIP, however, trades occur at increments of either \$.05 or \$.10 depending on the trading price of the option, which are the trading increments currently used throughout the options industry. Recent amendments to the BOX proposal do not materially reduce the internalization potential of the PIP and actually increase them by allowing directed orders to be entered into the PIP. This will stimulate the use of payment for order flow on the PIP.

My concern is that, if created, BOX participants will have more incentive to create PIP's, better the quote by \$.01, and trade against their customers. In addition, other exchanges will feel compelled to implement similar internalization mechanisms, to the detriment of investors.

It is critical to keep America's marketplace up to pace with the highest level of technology and trading choices. I also believe competition between emerging markets provides the individual trader with the best price. However it is imperative individual investors have some certainty that trading mechanisms used by market participants at an exchange will make the order available to the largest amount of buyers and sellers, increasing the level of competition and price improvement of the order.

The SEC needs to make a decision on whether or not internalization will be allowed in the Options Markets as a whole, and not on an individualized basis such as the BOX proposal. For this reason, I ask that you seriously consider the broader market structure issues of internalization and payment for order flow in the options markets before deciding whether or not to allow Price Improvement Periods to exist in the BOX application.

Sincerely,



Vito J. Fossella  
Member of Congress

Cc: Annette Nazareth

SE 2003-15

942-9643



Facsimile

Congressman Vito J. Fossella  
13<sup>th</sup> District of New York

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Date: 9-10-03 Pages (Incl. Cover) 3  
Notes: A formal copy is in regular mail.