SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55073 File No. SR-BSE-2006-48)

January 9, 2007

Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change to Implement a Quote Mitigation Plan

I. Introduction

On November 15, 2006, 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 amend the Boston Options Exchange ("BOX") Rules to add a Quote Mitigation Plan. The proposed rule change was published for comment in the Federal Register on November 27, 2006.[3] The Commission received one comment letter on the proposed rule change.[4] This order approves the proposed rule change.

II. Description of the Proposal

The purpose of the proposed rule change is to mitigate quote traffic and address quote capacity issues by, under certain circumstances, "bundling" quotes so that options data is

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 54779 (November 17, 2006), 71 FR 68655.

4 See letter to Nancy Morris, Secretary, Commission, from Christopher Nagy, Chair, SIFMA Options Committee ("SIFMA"), dated December 20, 2006. SIFMA supports BSE's quote mitigation proposal discussed herein and recommends its implementation on an industry-wide basis. Specifically, SIFMA believes that the adoption of an industry-wide, uniform "holdback timer" proposal, like the strategy approved by this order, would provide the most effective means of quote mitigation. SIFMA expressed concern that a lack of uniformity among quote mitigation strategies implemented by the various options exchanges may impose a burden on member firms and result in confusion among market participants. Additional concerns raised in SIFMA's December 20, 2006 comment letter relating to other proposed rule changes filed by the options exchanges will be more fully addressed in any subsequent releases issued by the Commission.

submitted to the Options Price Reporting Authority (“OPRA”) over short intervals rather than on a continuous basis. Specifically, BOX proposes to mitigate quotes in the following manner:

- BOX proposes to “let the market decide” which instruments would be considered to be “less interesting” by basing this determination on the open interest in contracts at the Options Clearing Corporation for each instrument.   Those series with lower open interest are likely to be of less interest to options traders and investors. The precise threshold of open interest which will determine whether the broadcast of a series is subject to mitigation or not will vary according to the degree BOX is meeting its stated goals of reducing overall traffic. BOX anticipates that this threshold could be as high as 300 to 400 contracts, but that it will be no lower than 50 contracts. BOX does not propose to apply mitigation to instruments which have been listed for fewer than ten trading sessions, regardless of the open interest.

- BOX would “bundle” at intervals of up to 1,000 milliseconds (and no less than 200 milliseconds) any changes to its broadcast for those instruments which have fallen below the threshold in the previous point.

- BOX would use variable rates of “bundling” delays for the three different types of broadcast updates: changes in price, increases in quantity without a change in price, and decreases in quantity without a change in price. Under this proposal, changes in prices may be subject to less delay than changes to quantity at same price. For example, BOX may apply a “bundling interval” of 400 milliseconds to updates regarding a price change while using a figure of 1,000 milliseconds for updates concerning only a change in quantity at the same price. The appropriate mix will be determined by the relative success BOX is meeting in its overall goals of traffic reduction.

The Exchange does not propose to apply the above-described bundling to message traffic relating to price improvement auctions or NBBO exposure mechanisms, nor to trade reporting messages. Furthermore, no bundling of quotes is proposed for inbound orders and quotes which are sent to BOX by users. Instead, messaging will be bundled only for outbound updates.

The Exchange believes this proposal is an optimal trade-off between costs and benefits and that it is fully compliant with its firm quote obligations. BOX has indicated that its target reduction in outbound peak traffic is 15% to 20% of what the traffic would have been had no mitigation been applied. Box has also represented that the reduction in overall traffic, as opposed to peaks, will be lower, but still significant, with a target of 8% to 10%.

III. Discussion

After careful review of the proposal and consideration of the comment letter, 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 exchange.[5] In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[6] 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 Exchange's proposal to "bundle" quotes should reduce the volume of options quote traffic disseminated to OPRA and help to address capacity concerns on the Exchange. Because the contemplated delays in data transmission are

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

6 15 U.S.C. 78f(b)(5).

very brief, the Commission does not believe that "bundling" quotes will adversely affect market transparency or negatively affect market participants or investors. Furthermore, the Commission believes that BOX's quote mitigation proposal is designed to provide the Exchange with a mechanism, that should reduce overall peak market data traffic with a relatively small impact on the quality of information available to options market users.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[7] that the proposed rule change (SR-BSE-2006-48), be, and hereby is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[8]

Florence E. Harmon
Deputy Secretary

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7 15 U.S.C. 78s(b)(2).

8 17 CFR 200.30-3(a)(12).