SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-58140; File No. SR-BSE-2008-40)

July 10, 2008

Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Notice of Filing and Immediate
Effectiveness of a Proposed Rule Change Relating to a New Quote Removal Mechanism Upon
Technical Disconnect

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 July 8, 2008, 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 prepared by

the self-regulatory organization. The Exchange filed the proposed rule change pursuant to Section

19(b)(3)(A)(iii) of the Act,[3] and Rule 19b-4(f)(5) thereunder,[4] which renders the proposal effective

upon filing with the Commission. The Commission is publishing this notice to solicit comments

on the proposed rule from interested persons.

I.   Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule
        Change

The Exchange is proposing to amend Chapter VI of the Boston Options Exchange Group

LLC ("BOX") Rules to add Section 16, Quote Removal Mechanism Upon Technical Disconnect

("Quote Removal Mechanism"). The text of the proposed rule change is available at

www.bostonstock.com, the principal office of the Exchange, and the Commission's Public

Reference Room.

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

[2]   17 CFR 240.19b-4.

[3]   15 U.S.C. 78s(b)(3)(A)(iii).

[4]   17 CFR 240.19b-4(f)(5).

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 self-regulatory organization 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 the places specified in Item IV below. The self-regulatory organization 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 Exchange is proposing to amend the BOX Rules to add a new Quote Removal Mechanism in order to protect BOX Market Makers in the event that they lose communication with the BOX Trading Host[5] due to a loss of connectivity between their designated BOX Gateway[6] and the BOX Trading Host.

BOX Market Makers currently enter quotes into the Trading Host via Gateways. BOX currently has several Gateways, and multiple Market Makers may connect to the Trading Host through a single Gateway. All the quotes for each class to which a Market Maker is assigned may be sent through a particular Gateway or, alternatively, a single Market Maker may have the quotes for separate classes to which it is assigned sent through different Gateways. Under the proposed rule, if the Trading Host does not receive any Heartbeat messages ("Heartbeat")[7] from

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[5]   References herein to the term Trading Host will have the meaning as set forth in Section 1(a)(65) of Chapter I of the BOX Rules.

[6]   A "Gateway" is the system component through which Market Makers communicate their quotes to the Trading Host. See Proposed Chapter VI, Section 16, Supplementary Material .01, BOX Rules.

[7]   A Heartbeat message is a communication which acts as a virtual pulse between a Gateway and the Trading Host. The Heartbeat message sent by the Gateway and

a Gateway for a specified period of time, the Quote Removal Mechanism will automatically cancel all Market Maker quotes that were posted through the affected Gateway.

As proposed, the Quote Removal Mechanism will monitor the connections between the Trading Host and the Gateways. The Trading Host will continuously count the number of seconds ("n") (the "Counter") since the last Heartbeat message was received from a particular Gateway. Each Heartbeat message received by the Trading Host from a particular Gateway will restart the Counter for that particular Gateway. The Quote Removal Mechanism will be triggered, and a Market Maker's quotes will automatically be removed from the Trading Host, if the Counter reaches "n" seconds.

Any non-connectivity is Gateway-specific. Therefore, the cancellation of the Market Makers' quotes entered into the Trading Host via a particular Gateway will neither impact nor determine the treatment of the quotes of the same or other Market Makers entered into the Trading Host via a separate and distinct Gateway. After the Quote Removal Mechanism is employed, and upon a reconnection between the Gateway and the Trading Host, the Trading Host will send a message to the affected Market Makers informing them that their quotes through the specific affected Gateway have been automatically cancelled.

The period of non-connectivity that will trigger the removal of the Market Makers' quotes via the Quote Removal Mechanism will be standard for all Market Makers.[8] The Quote Removal Mechanism will be enabled for all Market Makers on their appointed options classes during the trading day and may not be disabled by the Market Makers.

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subsequently received by the Trading Host allows the Trading Host to continually monitor its connection with the Gateways.

[8] The Exchange will notify Market Makers via Regulatory Circular as to the setting of "n" seconds. This value will be configurable by the Exchange and any subsequent re-configurations will be announced to Market Makers via Regulatory Circular. In no event shall "n" seconds be set for less than one (1) second or greater than nine (9) seconds.

The following examples illustrate the manner in which the Quote Removal Mechanism will function:[9]

1) 11:30:00
   Counter starts
   11:30:02 – Trading Host receives a Heartbeat message from Gateway 1.
   Counter re-starts

2) 3:30:00
   Counter starts
   3:30:02: – Trading Host receives a Heartbeat message from Gateway 1.
   Counter re-starts
   3:30:07 – No Heartbeat messages received from Gateway 1 after 5 seconds. Pursuant to the proposed Quote Removal Mechanism, all Market Maker quotes entered through Gateway 1 are removed from the Trading Host.

As demonstrated above, the Counter will restart for a Gateway each time the Trading Host receives a Heartbeat message from that particular Gateway. Once connectivity to the Gateway is reestablished, the Market Makers affected by the mechanism will be able to send messages to the Trading Host in order to reestablish their quotes. Any quotes affected by the Quote Removal Mechanism, including quotes that are removed from the Trading Host and/or quotes sent to BOX during the period of non-connectivity, will not be taken into account when determining whether a Market Maker has fulfilled its continuous quoting obligations on BOX.[10] Only after connectivity to the Gateway has been reestablished will quotes once again be taken into account for this purpose.

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[9] For the purposes of this example only, "n" will be set at 5 seconds.

[10] See Section 6(d) of Chapter VI of the BOX Rules.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,[11] in general, and Section 6(b)(5) of the Act,[12] in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, 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 Exchange believes that this proposed rule change will benefit the marketplace because it will reduce the risk of erroneous or stale quotes on the BOX Book in the event that the Trading Host loses connectivity with a Gateway. Furthermore, the proposed Quote Removal Mechanism will provide for the protection of Market Makers, who must bear the burden of market risk for stale quotes caused by circumstances outside of their control, as well as for the protection of investors and the efficiency and fairness of the markets as a whole.

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 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

The Exchange has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[13] and Rule 19b-4(f)(5)[14] thereunder because the foregoing proposed rule change does

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[11] 15 U.S.C. 78f(b).

[12] 15 U.S.C. 78f(b)(5).

[13] 15 U.S.C. 78s(b)(3)(A)(iii).

[14] 17 CFR 19b-4(f)(5).

not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) have the effect of limiting the access to or availability of an existing order entry or trading system of the Exchange.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate the rule change if it appears to the Commission that the action is necessary or appropriate in the public interest, for the protection of investors, or would otherwise further the purposes of the Act.

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 Number SR-BSE-2008-40 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BSE-2008-40. 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 (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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of BSE. 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 publicly available. All submissions should refer to File Number SR-BSE-2008-40 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[15]

Florence E. Harmon
Acting Secretary

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[15] 17 CFR 200.30-3(a)(12).