

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
By

BOSTON STOCK EXCHANGE, INCORPORATED

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

Item 1. Text of Proposed Rule Change

- a) The text of the proposed rule change is attached as Exhibit 2.
- b) Not applicable to application of any other Exchange rule.
- c) Not applicable.

Item 2. The Procedures of the Self-Regulatory Organization

a) The proposed rule change was approved by the Market Performance Committee of the Exchange on July 2, 2003.

b) Questions and comments on the proposed rule change should be directed to John Boese at (617) 235-2096.

Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a) The Exchange proposes to add new Chapter XXXVII to its Rules of the Board of Governors of the Boston Stock Exchange, Inc. The purpose of the new chapter will be to set forth the Allocation Process for BOX Market Maker appointments and accompanying deposit requirements related to the launch of the proposed Boston Options Exchange ("BOX"), an options trading facility of the Exchange currently being proposed¹.

The proposed BOX market model provides for an "open" policy where the goal is to have no restrictions on the number of market makers assigned per class. To properly manage the launch of the initial 250 classes, BOX will request that prospective market maker firms declare their interest for market making assignments. BOX will fully allocate all the assignments requested by the market maker firms within 6 months of the start date of the proposed BOX market ("initial allocation").

Nevertheless, as with any exchange venture the size and complexity of the proposed BOX, prudence requires that the rollout of trading occur in a planned and controlled manner which will ensure the maintenance of a fair and orderly market. In this regard, BOX intends to phase in trading, during the first three months following the launch date, the 250 classes with 1,886 assignments allocated first. Then, any remaining assignments will be assigned on a class by class basis during the following three months.

Accordingly, a market maker class allocation plan is necessary to manage the rollout, and to select on a fair and transparent basis the assignments which will be initially allocated. The process will be managed by the BSE.

¹ See Securities Exchange Act Release No. 47186 (Jan. 14, 2003), 68 FR 3062 (Jan. 22, 2003)(SR-BSE-2002-15)

The following categories and criteria are proposed for the initial allocation process:

Category	Ranking of classes	# of Market Makers per class	OCC average daily volume (# of contracts)
A	1	12	>100,000
B	2 – 6	12	50,000 to 99,999
C	7 – 11	12	25,000 to 49,999
D	12 – 53	12	10,000 to 24,999
E	54 - 106	10	5,000 to 9,999
F	107 - 250	5	Less than 5,000

The names and ranking of the 250 classes to be listed at launch are based on OCC volume.

Furthermore, in order to ensure market quality, the model proposes to allocate in priority some appointments in each class to experienced firms. The following criteria will be used as consideration to determine which market making firms qualify as experienced:

1. Have been a market maker or specialist on an organized fully automated market on a minimum of 50 classes for at least 6 months; and,
2. Have sufficient capital committed to its options activities to effectively support an automated market in BOX, as determined by the BSE.

Subject to an applicant's approval as an Options Participant and a Market Maker on the BOX Market, the BSE will allocate classes based on the procedures set forth in the proposed allocation plan model. The model is based on the allocation of assignments sequentially by way of two rounds. This process will ensure that all firms will get a fair share of assignments while ensuring market quality by giving some priority to experienced firms. The allocation will be run by the BSE using a random lottery program (the "program") developed by BOX, and externally audited to verify its integrity, neutrality and fairness.

Round 1 – allocate assignments to experienced firms

The first round provides for the allocation to experienced firms of 50% of all assignments available for the first allocation in categories A, B, C, D and E, and 40% of assignments available for the first allocation in category F. Accordingly, a total of 871 assignments will be allocated. If for a given class, the number of assignments available for the first allocation is smaller than the number of assignments requested by the firms who qualify as experienced, the lottery program will be used. The program will work based upon the following principles: the names of all experienced firms requesting the class will be put in a pool, the names will be drawn one by one until the experienced assignments available on the class for this round are exhausted.

Round 2 – allocate remaining assignments

All applicants will participate in this round during which a total of 1,015 assignments will be allocated. On classes where the demand is smaller than or equal to the number of assignments

available for the first allocation, all firms requesting an assignment will be allocated. On classes where the demand is greater than the number of assignments available for the first allocation, the lottery program will be used. The program will work based upon the following principles: the names of all the firms requesting the class, including experienced candidates not selected in Round 1, will be put in a pool; the names will be drawn one by one until the assignments available for the first allocation on the class are exhausted.

To establish priority between those applicants not having received appointments in this first allocation, the process will continue until all the applicants have been drawn and a waiting list is established. This order of priority on the waiting list will be used in order to allocate new assignments as they become available within 6 months following the launch date, or if a selected market maker decides to withdraw.

To ensure that firms are not overbidding to maximize the number of posts they will be allocated in the first allocation and to ensure their commitment to make markets on their requested assignments, a deposit will be required from each market-making firm immediately prior to the allocation lottery. The funds received from each market making firm will be deposited into a separate account maintained by the BSE specifically for this purpose. Commencing on the launch date of the proposed BOX, deposits for those assignments that become "live" (i.e. available for a particular market maker to trade on BOX) will be released to BOX and be: (a) nonrefundable, (b) considered as pre-paid fees, and (c) credited against applicant's BOX account to offset trading, technology and other related fees and charges. Before any class becomes live for a particular market maker, if the applicant notifies BOX that he wishes to drop certain allocated classes, BOX will refund 50% of the related deposit. If an applicant does not receive an allocation in any requested class as a result of the initial allocation process, the deposit for those classes not allocated will be refunded to the applicant within fifteen (15) days of the date of the allocation process. The deposit amounts will vary for each class in the following manner: Category A \$45,000 per class, Category B \$9,000 per class, Category C \$6,000 per class, Category D \$2,250 per class, Category E \$750 per class, Category F \$300 per class. For example, if a firm applies to be market maker on all of the 250 classes to be listed at launch, the required deposit will be \$297,450.

Due to the fact that this proposed allocation plan is deemed to be a temporary process specifically designed to control the launch of the proposed BOX market, the Exchange is seeking approval of this proposal for a limited time, and will, in any case, not utilize this process, as currently set forth, any later than six months beyond the initial launch date of the BOX market.

b) The statutory basis for the proposed rule change is Section 6(b) of the Act, in general, and Section 6(b)(5) in particular in that it is designed to promote just and equitable principles of trade, to remove impediments to perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between brokers or dealers.

Item 4. 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 that is not necessary or appropriate in furtherance of the purposes of the Act.

Item 5. 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.

Item 6. Extension of Time Periods for Commission Action

The Exchange does not consent to the extension of the time period specified in Section 19(b)(2) of the Act.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange is not requesting summary or accelerated effectiveness.

Item 8. Proposed Change Based Upon Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based upon the rules of another Self-Regulatory Organization or the Commission.

Item 9. Exhibits

1. Form of Notice of the Proposed Rule Change for the Federal Register.
2. Text of the Proposed Rule Change.
3. Text of Proposed Application for Initial Market Maker Allocation of Classes for Boston Options Exchange

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

BOSTON STOCK EXCHANGE, INC.

By: _____
George W. Mann
General Counsel

Chapter XXXVII

Boston Options Exchange, Inc.

Initial Class Allocation - Parameters and Criteria

Sec. 1. In order to manage the initial allocation of classes for the proposed Boston Options Exchange (“BOX”), the BSE intends to launch trading on the proposed BOX market for the top 250 classes (as determined by OCC volume statistics). 1886 assignments will be allocated first, to be phased in for trading during the first three months following the launch date. The remaining assignments within the initial 250 classes will be allocated on a class by class basis during the following three months.

- a) Parameters. The following categories and criteria are the basis for the initial allocation process.

Category	Ranking of classes	# of Market Makers per class	OCC average daily volume (# of contracts)
A	1	12	>100,000
B	2 – 6	12	50,000 to 99,999
C	7 – 11	12	25,000 to 49,999
D	12 – 53	12	10,000 to 24,999
E	54 - 106	10	5,000 to 9,999
F	107 - 250	5	Less than 5,000

The names and ranking of the 250 classes to be listed at launch are based on OCC volume.

- b) Criteria to determine firm experience. In order to ensure market quality, some appointments in each class will be allocated to “experienced” firms. The following criteria will be used as consideration to determine which market making firms qualify as experienced:

- 1) The applicant has been a market maker or specialist on an organized fully automated market on a minimum of 50 classes for at least 6 months;
- 2) The applicant has sufficient capital committed to its options activities to

effectively support an automated market in BOX, as determined by the Exchange.

c) Any applicant denied any privilege under the provisions of this Chapter XXXVII, including denial of acceptance as an “experienced” market maker, may appeal such decision according to the procedures set forth in Chapter XXX, *Disciplining of Members, Denial of Membership*.

Allocation process

Sec. 2. Subject to an applicant’s approval as an Options Participant and a Market Maker on the BOX Market, the BSE will allocate classes based on the procedures set forth in this Section 2.

The model is based on the allocation of assignments sequentially by way of two rounds. This process will ensure that all firms will get a fair share of assignments while ensuring market quality by giving some priority to experienced firms. The allocation will be controlled by the Exchange using a random lottery program (the “program”).

a) Round 1 – allocate assignments to experienced firms. In the first round, 50% of all assignments will be available for allocation to experienced firms from categories A, B, C, D and E, and 40% of assignments will be available from category F. Accordingly, a total of 871 assignments will be allocated to experienced firms. If for a given class, the number of assignments available for the first allocation is smaller than the number of assignments requested by the firms who qualify as experienced, a lottery program will be used whereby the names of all experienced firms requesting the class will be put in a pool, and the names will be drawn one by one until the assignments available on the class for this round are exhausted.

b) Round 2 – allocate remaining assignments. All applicants will participate in this round during which a total of 1,015 assignments will be allocated. On classes where the demand is smaller than or equal to the number of assignments available for the first allocation, all firms requesting an assignment will be allocated. On classes where the demand is greater than the number of assignments available for the first allocation, the lottery program will be used whereby the names of all firms requesting the class (including experienced firms which did not receive the allocation as a result of Round 1) will be put in a pool, and the names will be drawn one by one until the assignments available on the class for this round are exhausted

c) Priority for subsequent assignments. In order to establish priority between applicants not having received appointments for the first allocation period, the process will continue until all the candidates have been drawn, and a waiting list has been established. This order of priority on the waiting list will be used in order to allocate new assignments as

they become available within 6 months following the launch date, or if a selected market maker decides to withdraw.

Initial Class Allocation Process Deposit

Sec. 3. In order to ensure that applicants are not overbidding to maximize the number of posts they will be allocated in the initial allocation and to ensure their commitment to make market on their requested assignments, a deposit will be required from each market-making firm immediately prior to the allocation lottery. The funds received from each market making firm will be deposited into a separate account maintained by the Exchange specifically for this purpose. Commencing on the launch date of the proposed BOX, deposits for those assignments that become live (i.e. available for a market maker to trade on BOX) will be released to BOX and be: (a) nonrefundable, (b) considered as pre-paid fees, and (c) credited against applicant's BOX account to offset trading, technology and other related fees and charges. Before any class becomes live for a particular market maker, if the applicant notifies the Exchange that the applicant wishes to drop any allocated classes, the BSE will refund 50% of the related deposit. If an applicant does not receive an allocation in any requested class as a result of the initial allocation process, the deposit for those classes not allocated will be refunded to the applicant within fifteen (15) days of the date of the allocation process.

The deposit required for each class will be determined based on the ranking of the class, as categorized in Section 1 of this Chapter XXXVII, as follows:

- Category A - \$45,000 per class
- Category B - \$9,000 per class
- Category C - \$6,000 per class
- Category D - \$2,250 per class
- Category E - \$750 per class
- Category F - \$300 per class.

Expiration

Sec. 4. The Allocation Process set forth in Sections 1-3 of this Chapter XXXVII, will expire no later than six months beyond the initial launch date of the proposed BOX market.