

- If YES, then the Market Maker must guarantee execution of the Directed Order at the current NBBO for at least the size of his current quote. This guarantee would be defined as a Guaranteed Directed Order ("GDO").

Step 5: The Market Maker must then immediately send the Directed Order and the GDO to BOX.

Step 6: Upon receipt of the Directed Order and the GDO, BOX would execute the Directed Order against any quotes/orders already on the BOX Book, except the quote of the Market Maker who submitted the Directed Order and GDO.

Step 7: If there were any quantity remaining of the Directed Order, then BOX would send to all BOX Participants a Directed Order Broadcast ("DOB") message indicating the side (buy/sell), remaining size, and guaranteed price of the Directed Order.

Step 8: The Market Maker would be prohibited from executing for his proprietary account against the Directed Order for at least three seconds. During that time the Market Maker would not be allowed to decrement the size or worsen the price of his GDO. However, he would be able to increase the size of his GDO or improve its price (in standard five or ten cent increments only). During that period, any BOX Participant, except the Market Maker who submitted the Directed Order to BOX, may submit an order to the BOX Book in response to the DOB. Such a DOB response order would be treated as a BOX Limit Order. During that three-second period, any order submitted to the BOX Book that matches any order(s) on the BOX Book, except the Market Maker's GDO, would be executed.

If the Market Maker received a subsequent Directed Order during this period, pursuant to subparagraphs (c)(ii) and (iii), he would be able to either submit it to the PIP process or send it to the BOX Book, following the same process as for the first Directed Order. BOX would process any subsequent Directed Orders in sequence as they are submitted to BOX for either the PIP process or for placement on the BOX Book. Any remaining quantity of a Directed Order that may be placed on the BOX Book, such as at the end of either step 3 (above) or step 9 (below), is treated like other orders placed on the BOX Book. Therefore, the remaining quantity may execute against another Directed Order on the opposite side of the market, whether that second Directed Order is submitted to the PIP process or placed on the BOX Book.

Step 9: Three seconds after sending the DOB, BOX would release the remaining quantity of the Directed Order to the BOX Book. At that time,

BOX would immediately execute any orders on the BOX Book, including those submitted in response to the DOB, against the Directed Order on a price-time priority basis. However, the BOX trading engine would ensure that the GDO would yield priority to all such competing orders at the same price. If there is still any quantity remaining of the Directed Order, it would be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

The BSE believes that use of the DOB and the exposure of the Directed Order to the BOX market will serve to ensure that a Market Maker would not be able to act against the Directed Order using any privileged or other information regarding that order. In addition, the BSE has eliminated the exemption in Section 10(g) and amended Section 10(h) in order to clarify that Market Makers must comply with all provisions of the Section 10 when they receive and handle Directed Orders. In total, these amendments will ensure that Directed Orders are not disadvantaged or treated inconsistent with the BOX or BSE Rules.

The pertinent rule additions are as follows: Section 5—

(c) When acting as agent for a Directed Order, a Market Maker must comply with subparagraphs (i)–(iii) of this Paragraph (c).

i. A Market Maker that receives a Directed Order shall not, under any circumstances, reject the Directed Order.

ii. Upon receipt of a Directed Order a Market Maker must either:

(1) Submit the Directed Order to the PIP process, pursuant to Chapter V, Section 18 of these Rules. Under this option, if the Market Maker is currently quoting at a price on the opposite side of the Directed Order equal to the NBBO, he is prohibited from adjusting his quotation prior to submitting the Directed Order to the PIP process.

-or-

(2) Send the Directed Order to the BOX Book pursuant to subparagraph (c)(iii) below.

iii. When a Market Maker chooses not to enter the Directed Order into the PIP process, and therefore, must send the Directed Order to BOX for placement on the BOX Book, the following requirements shall apply:

(1) If the Market Maker's quotation on the opposite side of the market from the Directed Order is not equal to the NBBO, then the Market Maker must send the Directed Order to BOX.

a. The Trading Host will determine if the Directed Order is executable against the NBBO.

1. If the order is not executable against the NBBO, then the Trading Host will enter the Directed Order onto the BOX Book for processing consistent with all non-executable orders.

2. If the Directed Order is executable against the NBBO, then the Trading Host will determine if there are any orders on the BOX Book equal to the NBBO.

i. If there are no orders on the BOX Book equal to the NBBO, then the Trading Host will filter the Directed Order against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules.

ii. If there are orders on the BOX Book equal to the NBBO, then the Trading Host will execute the Directed Order against those orders. Any remaining quantity will be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

(2) If the Market Maker's quotation on the opposite side of the market from the Directed Order is equal to the NBBO, then the Market Maker will determine if the Directed Order is executable against the NBBO.

a. If the order is not executable against the NBBO, then the Market Maker must send the Directed Order to BOX for placement on the BOX Book for processing consistent with all non-executable orders.

b. If the order is executable against the NBBO, then the Market Maker shall guarantee execution of the Directed Order at the current NBBO for at least the size of his quote. This guarantee shall be called a Guaranteed Directed Order ("GDO"). The Market Maker must immediately send the Directed Order with the GDO to the Trading Host.

1. The Market Maker who submitted the Directed Order and the GDO to the Trading Host:

i. Shall not submit to the BOX Book a contra order to the Directed Order for his proprietary account until the Directed Order is released to the BOX Book pursuant to subparagraph (c)(iii)(2)(b)(4) below.

ii. Shall not decrement the size or worsen the price of his GDO.

iii. May increase the size of his GDO.

iv. May improve the price of his GDO (only in five or ten cent minimum trading increments, as applicable pursuant to Chapter V, Section 6 of these Rules).

v. Upon receipt of a subsequent Directed Order, may either submit it to the PIP process or send it to the BOX