

and a better price exists at an away exchange(s), a PA order is generated automatically by the BOX and routed to the away exchange with the required BEMM, clearing and valid-clearing-firm ("VCF") information included. Each execution received from an away exchange results in the automatic generation of a trade execution on BOX between the original Public Customer Order and the BEMM.

PA Orders Sent From Away Markets to BOX. In the case when BOX receives PA orders from away markets, but BOX is no longer quoting at the NBBO, then such PA orders are filtered against trade-throughs in the same manner as Public Customer orders submitted by BOX Participants as set forth in Chapter V, section 16(b), described above. If their execution would cause a trade-through, the PA orders are exposed to BOX Participants for three seconds at the NBBO price. If PA orders are not fully executed at the end of this period, the residual quantity is canceled back to the originating away exchange. In this manner, PA orders are afforded the same opportunity for execution as Box Public Customer orders.

Satisfaction ("S") Orders Sent From BOX to Away Markets. Each BOX Participant may request, on behalf of a Public Customer, that BOX route an S order to an away market for orders on BOX that were traded through by the away market. BOX would systemically verify the validity of the request (e.g., as to Public Customer status, time stamp of order prior to report of trade-through), and, if valid, generate an S order with the required BEMM, clearing and VCF information included. As execution confirmation is received from the away market, the BOX trading engine would automatically generate offsetting trades between the original BOX Public Customer order and the BEMM.

Satisfaction Orders Sent From Away Markets to BOX. S orders received from away markets are systemically verified (e.g., as to Public Customer status, time of trade-through on BOX). Once verified, the BOX Participant that caused the trade-through is identified and, within three minutes, the S order is executed against that BOX Participant. Where there were multiple S orders, the executions are made pro rata with the total not to exceed the lesser of the trade, which caused the trade-through or the total quantity of the S orders.

*Proposed Chapter XIII—*The BSE is adding a new Chapter, entitled "Margin Requirements," to its proposed BOX Rules. Similar to the approach of at least

one other options exchange,¹⁴ the BSE proposes to require that BOX Participants and associated persons, among other things, adhere to the requirements of either the New York Stock Exchange ("NYSE") or the Chicago Board Options Exchange ("CBOE"), as those rules may be in existence from time to time. Additionally, in order to ensure that the BOX Rules adequately address situations involving Joint Back Office ("JBO") arrangements for Participants who are not an NYSE member and have elected to be bound by CBOE margin requirements, the BSE has included in the BOX margin requirements a set of rules specifically addressing JBO arrangements. In this way, the Exchange is ensuring that its margin rules cross-reference other exchanges' rules as appropriate, and, where not sufficient, adequately provide for the necessary requirements.

2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with the requirements under Section 6(b) of the Act,¹⁵ in general, and furthers the objective of Section 6(b)(5) of the Act,¹⁶ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transaction in securities, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change, as amended, will impose any burden on competition that is 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 did not solicit or receive written comments on the proposed rule change, as amended.

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the Exchange consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 3, including whether Amendment No. 3 is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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. Copies of such filings will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-BSE-2002-15 and should be submitted by September 12, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland,

Deputy Secretary.

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¹⁴ See e.g., ISE Rule 1202.

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

¹⁷ 17 CFR 200.30-3(a)(12).