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 Executive Committee of the Board of Governors of the Exchange, on June 17, 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 purpose of this rule change is to implement proposed Amendment Number 11 to the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (“Plan”). That amendment, together with this proposed rule change, will enhance the manner in which the Boston Options Exchange (“BOX”) facility of the Boston Stock Exchange (“BSE” or “Exchange”) processes Satisfaction Orders following a Trade-Through. A Trade-Through is a transaction on one exchange executed at a price inferior to the displayed price on another exchange. If the displayed price that is traded-through represents a customer order, the BOX Market Maker or the specialist or specialist equivalent on another exchange representing that order can send a Satisfaction Order requiring the member on the exchange who caused the Trade-Through to satisfy the customer order. While this process generally works well, the experience with Linkage to date has led the options exchanges to agree to three changes to Satisfaction Order processing.

First, the Plan and the corresponding BOX Rules currently permit a BOX Market Maker to send a Satisfaction Order for the full size of the customer order traded-through, regardless of the size of the Trade-Through print (although the exchange receiving the order can limit the execution size of the Trade-Through). This proposed rule change proposes that the size of the Satisfaction Order be limited to the lesser of the size of the order traded through and the size of the Trade-Through.

Second, the Plan and the BOX Rules currently permit a BOX Market Maker to reject a "fill" of a Satisfaction Order if the customer order that underlies the Satisfaction Order either has been filled on the sending exchange or has been canceled while the Satisfaction Order is being processed. However, if the order is filled or canceled, there is no current requirement to cancel the pending Satisfaction Order, leading to the rejection of Satisfaction Order fills that may have been avoided had the order been canceled. To address this, the proposal would require that the BOX Market Maker cancel a pending Satisfaction Order if the underlying customer order is filled or canceled.

Third, as noted, a BOX Market Maker can reject a Satisfaction Order "fill" if the underlying customer order is executed while the Satisfaction Order is pending. However, it is possible that the Market Maker itself could decide to trade against the customer order to provide the customer a fill before the Market Maker receives a notice that the Satisfaction Order has been filled. In this case, we believe that it would be inappropriate to reject the fill, and the proposal provides that the Market Maker must accept the fill of the Satisfaction Order.

b) The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,[1] in general, and Section 6(b)(5) of the Act,[2] in particular, in that it is 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 protect investors and the general public.

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1 15 U.S.C. 78f(b).
2 15 U.S.C. 78f(b)(5).

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 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 Accelerated Effectiveness Pursuant to Section 19(b)(2)

Pursuant to Section 19(b)(2) of the Act,[3] the BSE requests that the Commission find good cause to accelerate the effectiveness of this rule filing. The Exchange believes accelerated approval is warranted because the proposed rule change will provide standardized Intermarket Linkage Rules across all of the options exchanges regarding the handling of S orders. Accordingly, the BSE requests that the Commission accelerate the effectiveness of the proposed rule change prior to the 30th day after its publication in the Federal Register.

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

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

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3 15 U.S.C. 78s(b)(2).

Item 9. Exhibits

1. Form of Notice of the Proposed Rule Change for the Federal Register.
2. Text of the Proposed Rule Change.

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:__________________________________
John Boese
Chief Regulatory Officer

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-BSE-2004-17, Amendment Number 1)

June 9, 2004

Self-Regulatory Organizations; Notice of Filing of Amendment Number 1 to a Proposed Rule Change by the Boston Stock Exchange, Inc. to amend its Intermarket Linkage Rules.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[4] and Rule 19b-4 thereunder,[5] notice is hereby given that on June 9, 2004, the Boston Stock Exchange ("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 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 proposes to amend its Boston Options Exchange Intermarket Linkage Rules. The proposed rule change is attached as Exhibit 2 hereto.

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

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4 15 U.S.C. 78s(b)(1).

5 17 CFR 240.19b-4.

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 purpose of this rule change is to implement proposed Amendment Number 11 to the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage ("Plan"). That amendment, together with this proposed rule change, will enhance the manner in which the Boston Options Exchange ("BOX") facility of the Boston Stock Exchange ("BSE" or "Exchange") processes Satisfaction Orders following a Trade-Through. A Trade-Through is a transaction on one exchange executed at a price inferior to the displayed price on another exchange. If the displayed price that is traded-through represents a customer order, the BOX Market Maker or the specialist or specialist equivalent on another exchange representing that order can send a Satisfaction Order requiring the member on the exchange who caused the Trade-Through to satisfy the customer order. While this process generally works well, the experience with Linkage to date has led the options exchanges to agree to three changes to Satisfaction Order processing.

First, the Plan and the corresponding BOX Rules currently permit a BOX Market Maker to send a Satisfaction Order for the full size of the customer order traded-through, regardless of the size of the Trade-Through print (although the exchange receiving the order can limit the execution size of the Trade-Through). This proposed rule change proposes that the size of the Satisfaction Order be limited to the lesser of the size of the order traded through and the size of the Trade-Through.

Second, the Plan and the BOX Rules currently permit a BOX Market Maker to reject a "fill" of a Satisfaction Order if the customer order that underlies the Satisfaction Order either has been filled on the sending exchange or has been canceled while the Satisfaction Order is being processed. However, if the order is filled or canceled, there is no current requirement to cancel the pending Satisfaction Order, leading to the rejection of Satisfaction Order fills that may have been avoided had the order been canceled. To address this, the proposal would require that the BOX Market Maker cancel a pending Satisfaction Order if the underlying customer order is filled or canceled.

Third, as noted, a BOX Market Maker can reject a Satisfaction Order "fill" if the underlying customer order is executed while the Satisfaction Order is pending. However, it is possible that the Market Maker itself could decide to trade against the customer order to provide the customer a fill before the Market Maker receives a notice that the Satisfaction Order has been filled. In this case, we believe that it would be inappropriate to reject the fill, and the proposal provides that the Market Maker must accept the fill of the Satisfaction Order.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,[6] in general, and Section 6(b)(5) of the Act,[7] in particular, in that it is 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 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 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

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6 15 U.S.C. 78f(b).
7 15 U.S.C. 78f(b)(5).

Pursuant to Section 19(b)(2) of the Act,[8] the BSE requests that the Commission find good cause to accelerate the effectiveness of this rule filing. The Exchange believes accelerated approval is warranted because the proposed rule change will provide standardized Intermarket Linkage Rules across all of the options exchanges regarding the handling of S Orders. Accordingly, the BSE requests that the Commission accelerate the effectiveness of the proposed rule change prior to the 30th day after its publication in the Federal Register.

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 purposes of the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. Comments may also be submitted electronically at the following e-mail address: rule-comments@sec.gov. All comments letters should refer to File No. SR-BSE-2004-17, Amendment Number 1. This file number should be included on the subject line if e-mail is used. To help us process comments more efficiently, comments should be sent in hardcopy or by e-mail but not by both methods. 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

[8] 15 U.S.C. 78s(b)(2).

public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by [*insert date 21 days from date of publication*].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority[9].

Margaret H. McFarland
Deputy Secretary

[9] 17 CFR 200.30-3(a)(12).

EXHIBIT 2

<u>New language</u>
[deleted language]

RULES OF THE BOSTON STOCK EXCHANGE

RULES OF THE BOSTON OPTIONS EXCHANGE FACILITY

Trading of options contracts on BOX

Chapter XII Intermarket Linkage Rules

Sec. 3 Order Protection

(a) *Avoidance and Satisfaction of Trade-Throughs.*

* * *

(ii) *Price and Size.* The price and size at which a Satisfaction Order shall be filled is as follows:

* * *

(2) *Size.* An Aggrieved Party may send a Satisfaction Order up to the <u>lesser of the</u> size of the Verifiable Number of Customer Contracts that were included in the disseminated bid or offer that was traded through <u>and the size of the transaction that caused the Trade-Through</u>. Subject to subparagraph (i)(1) above and paragraph (b) below, the receiving Options Participant shall fill all Satisfaction Orders it receives in full following a Trade-Through, subject to the following limitations:

[(a) If the number of contracts to be satisfied exceeds the size of the transaction that caused the Trade-Through, the size of the Satisfaction Order(s) that must be filled with respect to each Participant Exchange(s) shall be limited to the size of the transaction that caused the Trade-Through, and the remainder of any Satisfaction Order(s) shall be canceled;]

(A) [(b)] If the transaction that caused the Trade-Through was for a size larger than the Firm Customer Quote Size with respect to any of the Participant Exchange(s) traded through, the total number of contracts to be filled, with respect to all Satisfaction Orders received in connection with any one transaction that caused a Trade-Through, shall not exceed the size of the transaction [that caused the Trade-Through]. In that case, the receiving Options Participant shall fill the Satisfaction Orders pro rata based on the Verifiable Number of Customer Contracts traded through on each Participant Exchange, and shall cancel the remainder of such Satisfaction Order(s); and

(B) [(c)] Notwithstanding subparagraph[s] (a) [and (b)] above, if the transaction that caused the Trade-Through occurred in the period between five minutes prior to the regularly-scheduled close of trading in the principal market in which the underlying security is traded and the close of trading in the Options Class, the maximum number of contracts to be satisfied with respect to any Satisfaction Order from any <u>one</u> Participant Exchange is 10 contracts.

[(3) *Rejection of Fills of Satisfaction Orders.* Within 30 seconds of receipt of notification that another Participant Exchange has filled an Options Participant's Satisfaction Order, the Options Participant that sent the Satisfaction Order may reject such fill, but only to the extent that either: (i) the order(s) for the customer contracts underlying the Satisfaction Order already have been filled; or (2) the customer order(s) to buy (sell) the contracts underlying the Satisfaction Order were canceled.]

<u>(3) Change in Status of Underlying Customer Order. During the time period that a Satisfaction Order is pending at another Participant Exchange, a receiving Options Participant shall cancel such Satisfaction Order as soon as practical if (1) the order(s) for the customer contracts underlying the Satisfaction Order are filled; or (2) the customer order(s) to buy (sell) the contracts underlying the Satisfaction Order are canceled (either being a "change in status of the underlying customer order(s)"). Notwithstanding this obligation to cancel the Satisfaction Order, within 30 seconds of receipt of notification that a Participant Exchange has filled a Satisfaction Order, the Participant that sent the Satisfaction Order may reject such fill if there has been a change in status of the underlying customer order(s), provided that the status change of the customer order occurred prior to the receipt of the Satisfaction Order fill report. However, if the underlying customer order(s) has been executed against the sender of the Satisfaction Order, the Satisfaction Order fill report may not be rejected.</u>

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