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**Thomas Peterffy**
**Chairman**

September 16, 2003

Via Electronic Mail
and Hand Delivery

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

***Re: Proposed Rule Change by the Boston Stock Exchange, Inc. Establishing Trading Rules for the Boston Options Exchange Facility, File No. SR-BSE-2002-15***

Dear Mr. Katz:

The Boston Options Exchange ("BOX") market structure was designed for the purpose of providing better execution prices than those currently available at other option exchanges. This goal was to be realized through the following design objectives:

1. **Provide a mechanism for finer price increments without a corresponding increase in quote traffic that could not be accommodated.**

   Continue to disseminate quotes at 5 and 10 cent increments but determine transaction prices in pennies during the Price Improvement Period ("PIP").

2. **Increase competition by reducing barriers of entry.**

   Any qualified broker-dealer may become a market maker without having to purchase one of a limited number of market maker assignments.

3. **Use trade allocation as an incentive to achieve the best price for an order.**

   The Order Flow Provider ("OFP") and the Market Maker Prime share 60% of the order as long as they match the best price provided by other market makers (who will not have paid for the order and therefore can bid or offer for the order aggressively).

4. **Eliminate payment for order flow incentives.**

   Unlike other exchanges, BOX does not provide for payment for order flow. Payment would have to be arranged directly between market makers and order flow providers. Since a market maker paying for an order would not be able to compete in a PIP at the same level of profit with another who did not pay for that order, paying for order flow will become a losing proposition on BOX.

The existing exchanges are hoping to prevent approval of BOX by invoking the bogeyman of ***internalization***. But internalization is happening now at all the existing exchanges, where the trading crowd and the specialist provide direct or indirect payment for order flow and then internalize the orders at the NBBO. On BOX, there will not be payment for order flow, and internalization will occur only among the best bidders at prices better than the NBBO.

Internalization is bad when it refers to a lack of competition that leads to inferior prices and it is good when it is used to provide an incentive to expose orders to a competitive process resulting in superior prices.

Exchange commentators state that if BOX is approved they will have to adopt a similar market structure in order to compete. This statement is the best testimony for the viability of BOX.

A superior market structure is the only competitive weapon BOX has. Any further postponement in the approval process will give more time to other exchanges to copy the BOX market structure, and once this structure is available on an exchange where market participants are already established, they will have little incentive to develop technology for BOX. By merely announcing the availability of a competing copy, the BOX market structure may be held in eternal abeyance.

Accordingly, if the Commission wishes to see the BOX structure realized, it must act to approve it now.

Respectfully submitted,

s/ Thomas Peterffy

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