

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68149; File No. SR-BOX-2012-017)

November 5, 2012

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule for Trading on BOX

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 31, 2012, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

BOX Options Exchange LLC (the “Exchange”) proposes to amend its Fee Schedule for trading on its options facility, BOX Market LLC (“BOX”). While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on November 1, 2012. The text of the proposed rule change is available from the principal office of the Exchange, on the Exchange’s Internet website at <http://boxexchange.com>, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>4</sup> 17 CFR 240.19b-4(f)(2).

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

In its filing with the Commission, the Exchange 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 Exchange 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 Exchange proposes to implement a change to the BOX routing fees in Section III of the fee schedule. BOX believes the proposed structure will continue to provide an incentive to BOX Options Participants (“Participants”) to submit their customer orders for execution on BOX.<sup>5</sup>

Each U.S. options exchange is obligated to ensure that any order executed on its market is at a price at least equal to the best price available at the other options exchanges (“the NBBO”). To enable this, the Intermarket Linkage Plan (“IML”)<sup>6</sup> was implemented several years ago giving each exchange access to the markets on the other exchanges. During IML, individual customer orders were not actually routed to an away exchange for execution; rather, a designated market maker or specialist at each exchange would itself trade on the away market for the

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<sup>5</sup> Note that BOX does not route broker-dealer proprietary orders and thus does not assess them any routing fees.

<sup>6</sup> Plan for the Purpose of Creating and Operating an Intermarket Options Linkage. See Securities Exchange Act Release No. 43086 (July 28, 2000), 65 FR 48023 (August 4, 2000) (order approving the IML Plan submitted by the Amex, CBOE, and ISE).

required price and quantity. Subsequently, an equal and offsetting order would be executed between the market maker/specialist and the customer on the originating exchange.

This execution structure meant that the customer order execution was billed at the prevailing transaction fee applicable to customer orders on the originating exchange. The fees associated with the trade on the away exchange were either absorbed by the market maker/specialist as part of his obligations to the exchange or were absorbed by the originating exchange.

IML was subsequently replaced by the Options Order Protection and Locked / Crossed Market national market system plan.<sup>7</sup> As a result, each exchange routes orders to an away exchange via a contractual agreement with an order routing broker (“third party router” or TPR). The transaction fees on the away exchange are billed to the originating exchange by the TPR, together with any handling fees the TPR may charge. At present, many options exchanges other than BOX pass this away execution fee, together with a service/handling charge, to the broker acting as agent for the order which was executed on the away exchange.

BOX, however, charges a flat fifty cents per contract for these away executions and provides for an exemption from this fee for its Participants provided that the monthly total of such away transactions represents less than 45% of the Participant’s total BOX non-Professional, Public Customer<sup>8</sup> account trading activity.

The purpose of this proposed rule change is to adjust the conditions of this routing fee exemption. BOX proposes to:

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<sup>7</sup> See Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (August 6, 2009).

<sup>8</sup> For the purposes of the discussion in this proposed rule change, these non-Professional, Public Customer orders will be referred to as Public Customer orders.

- Continue to charge all Professional customer accounts fifty cents per contract executed on away exchanges by BOX on their behalf;
- Charge all Public Customer accounts fifty cents per contract for orders executed on away exchanges by BOX on behalf of Public Customer accounts where such orders were non-Directed Orders; and
- Continue to exempt Public Customer accounts from the routing fee for orders received by BOX via Directed Order provided that:
  - 33% or more of a Participant's Public Customer Directed Orders received during the month are executed through the BOX Price Improvement Period ("the PIP"), AND
  - Less than 45% of a Participant's Directed Orders received are routed to and executed on an away exchange during the month.

The reason BOX proposes to reduce the scope of the away trade fee exemption is that is [sic] has proven too costly for BOX. However, BOX wishes to continue to provide incentives to Participants to seek price improvement for their Public Customer orders by entering them into the PIP. A majority of BOX Participants submitting orders to the PIP are sent to BOX via Directed Order, and therefore, BOX proposes to maintain the away fee exemption for Directed Orders sent to BOX for price improvement provided that at least 33% of the contracts submitted via Directed Order are executed through the PIP.

Instructing BOX to route orders away if they are not able to be executed on BOX is voluntary for BOX Participants. Participants may choose not to route their Public Customer orders to another exchange. Participants may also avoid paying the proposed routing fee by

choosing to designate their orders as Fill and Kill (“FAK”). FAK orders are not eligible for routing to away exchanges. FAK orders are executed on BOX, if possible, and then cancelled.

Additionally, BOX believes the 45% threshold is appropriate as BOX has reviewed its routing costs over time and believes this is a reasonable percentage of Public Customer Directed Orders that BOX may route at no charge to the Participant, provided 33% of the Participant’s Public Customer Directed Orders are submitted to the PIP during the month. Similarly, BOX’s cost-benefit analysis led BOX to conclude that 33% of Public Customer Directed Orders submitted to the PIP was a reasonable level for liquidity providers accepting such orders on BOX. BOX believes that imposing a routing fee structure that provides a benefit to Participants for trading on BOX will allow BOX to recoup a portion of the costs incurred for providing routing services, while also providing an incentive to Participants to trade on BOX.

While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on November 1, 2012.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>9</sup> in general, and Section 6(b)(4) of the Act,<sup>10</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among its members and other persons using its facilities. The Exchange believes the changes proposed are an equitable allocation of reasonable fees and charges among BOX Options Participants.

The Exchange believes the proposed BOX routing fee structure is a reasonable attempt for BOX to recoup the costs incurred in providing routing services for customer orders. BOX incurs costs, including transaction fees at away exchanges, every time it routes a customer order

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<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(4).

to an away exchange for execution. The away execution fees vary, but may cost up to \$0.45 per contract.<sup>11</sup> As stated, BOX incurs this cost in addition to handling fees assessed by its TPR. As such, BOX aims to recover its costs by assessing Participants fees for routing Public Customer orders to away exchanges if they choose not to seek liquidity on BOX by sending non-Directed Orders.

For some period of time, BOX has provided optional routing services for certain Public Customer orders at no charge, and the Exchange believes it is also reasonable to continue to provide an economic incentive to BOX Participants to seek price improvement for their Public Customer orders by sending them to BOX to access the PIP. The Exchange believes that providing these Participants with a limited exemption from routing fees for continuing to send their Public Customer orders to BOX via Directed Orders to access the PIP, is a fair, reasonable and equitable incentive program for these Participants.

Additionally, BOX believes the 45% threshold is appropriate as BOX has reviewed its routing costs over time and believes this is a reasonable percentage of Public Customer Directed Orders that BOX may route at no charge to the Participant, provided 33% of the Participant's Public Customer Directed Orders are submitted to the PIP during the month. Similarly, BOX's cost-benefit analysis led BOX to conclude that 33% of Public Customer Directed Orders submitted to the PIP was a reasonable level for liquidity providers accepting such orders on BOX. BOX believes that imposing a routing fee structure that provides a benefit to Participants for trading on BOX will allow BOX to recoup a portion of the costs incurred for providing routing services, while also providing an incentive to Participants to trade on BOX.

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<sup>11</sup> See e.g., Take Fee of NYSE Arca Options, Options Pricing on BATS BZX Exchange Fee Schedule, C2 Options Exchange Fee Schedule, and NASDAQ Options Pricing as of October 2012.

BOX believes the proposed change is not unfairly discriminatory for the following reasons: First, any BOX Participant is welcome to enter an agreement with any other BOX Participant providing liquidity in order to send Directed Orders to seek price improvement for his customers. However, certain order flow providers (“OFPs) acting as agent for Public Customers lack the technological sophistication to ensure an order is not routed away by BOX; BOX fears, as a consequence, these firms will simply avoid sending their customer orders to BOX via Directed Order to seek price improvement if the OFPs’ risk of higher trading fees due to away executions cannot be managed. As such, BOX believes it is appropriate and not unfairly discriminatory to provide an exemption from routing fees of the limited scope provided for these Participants.

Secondly, BOX Participants choosing to offer price improvement to customers directly via internalization through the PIP (i.e., without using Directed Orders) can avoid any potential BOX away execution fee by simply not sending any orders to BOX where BOX is not on the NBBO for the options series in question. BOX believes that any firm with the technical sophistication to interact with its own customer order flow via the PIP will encounter no difficulties in avoiding sending an order to BOX which risks being routed away by BOX.

Furthermore, such Participants can ensure that this never happens by choosing to instruct BOX not to route their customer orders. This will ensure that where BOX cannot execute any portion of an order at a price equal to NBBO, the BOX trading system will return the order to the submitting Participant after the BOX quantity at NBBO has executed with the order.

BOX notes that the away fee exemption will be equally available to order consolidator firms that are the most significant users of Directed Orders, using them to route orders for price improvement to their affiliated market maker.

For all the reasons stated above, BOX believes that all firms wishing to offer price improvement to their customers will be on equal footing under the BOX proposal. Each is free to choose the mechanism he finds suits his business model best and BOX believes no firm will encounter unreasonable levels of away execution transaction fees.

The Exchange believes the proposed routing fee structure is equitable and not unfairly discriminatory because the incentive to send Public Customer orders to BOX via Directed Order is available to all Participants on an equal basis. The Exchange believes it is reasonable and equitable to provide Participants (A) an incentive to trade on BOX, and (B) the ability to route a limited amount of customer orders at no cost, because transactions executed on BOX increase BOX market activity and market quality. Greater liquidity and additional volume executed on BOX aids the price and volume discovery process. Participant trading on BOX also results in revenue that BOX is able to use to provide routing services for a limited amount of customer orders at no cost to Participants. Accordingly, the Exchange believes that the proposal is not unfairly discriminatory because it promotes enhancing BOX market quality. As discussed above, BOX Participants can manage their own routing to different options exchanges or can utilize a myriad of other routing solutions that are available to market participants.

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

No written comments were either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the

Exchange Act<sup>12</sup> and Rule 19b-4(f)(2) thereunder,<sup>13</sup> because it establishes or changes a due, fee, or other charge applicable only to a member.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Exchange Act.

#### 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 Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2012-017 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2012-017. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>13</sup> 17 CFR 240.19b-4(f)(2).

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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2012-017 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).