

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69135; File No. SR-BOX-2013-11)

March 14, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the BOX Price Improvement Period (“PIP”) Rule 7150

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 7, 2013, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 the BOX Price Improvement Period (“PIP”) Rule 7150, to provide that in instances where a Primary Improvement Order is matched by only one competing order, the Initiating Participant may retain priority for up to fifty percent (50%) of the size of the PIP Order.<sup>3</sup> The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at <http://boxexchange.com>.

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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> “PIP Order” is defined within Rule 7150 to mean a Customer Order designated for the PIP.

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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the BOX Price Improvement Period (“PIP”) Rule 7150, to provide that in instances where a Primary Improvement Order is matched by only one competing order, the Initiating Participant may retain priority for up to fifty percent (50%) of the size of the PIP Order.<sup>4</sup> This is a competitive filing that is based on price improvement auction rules of the Chicago Board Option Exchange, Inc. (“CBOE”)<sup>5</sup> and NASDAQ OMX PHLX LLC (“Phlx”).<sup>6</sup>

Upon conclusion of the PIP, BOX Rule 7150(g) allows the Initiating Participant to retain certain priority and trade allocation privileges for both Single-Priced Primary Improvement Orders and Max Improvement Primary Improvement Orders (“Improvement Orders”). Currently, Rule 7150(g)(1) provides that when a Single-Priced Primary Improvement Order is

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<sup>4</sup> “PIP Order” is defined within Rule 7150 to mean a Customer Order designated for the PIP.

<sup>5</sup> See CBOE Rule 6.74A(b)(3)(F).

<sup>6</sup> See PHLX Rule 1080(n)(ii)(E)(2)(a).

matched by or matches any competing Improvement Order(s)<sup>7</sup> and/or non-Public Customers' Unrelated Order(s) at any price level, the Initiating Participant retains priority for only forty percent (40%) of the original size of the PIP Order, notwithstanding the time priority of the Primary Improvement Order, competing Improvement Order(s) or non-Public Customer Unrelated Order(s). The Initiating Participant receives additional allocation only after all other orders have been filled at the final price level. Additionally, Rule 7150(g)(2) provides that when a Max Improvement Primary Improvement Order is submitted by the Initiating Participant, the Initiating Participant retains priority for 40% of the remaining size of the PIP Order at the price level where the balance of the PIP Order is fully executed. The result of both these current rules is that even when an Improvement Order is matched by only one competing order, the Initiating Participant's allocation priority remains at forty percent (40%) and the Participant who responded receives the remaining sixty percent (60%) of the PIP Order.

The Exchange proposes to amend both Rule 7150(g)(1) and 7150(g)(2) to increase the Initiating Participant's allocation priority to fifty percent (50%) when there is only one competing order for a Single Priced Primary Improvement Order or Max Improvement Primary Improvement Order.

The Exchange believes that increasing the Initiating Participant's allocation priority in these instances fairly distributes the PIP Order when there are only two counterparties to the PIP Order involved, and that doing so is reasonable because of the value that Initiating Participants provide to the market. Initiating Participants guarantee the PIP Order an execution at the NBBO or at a better price, and are subject to market risk while the PIP Order is exposed to other BOX Participants. While other PIP Participants are also subject to market risk, those

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<sup>7</sup> An Improvement Order is an order submitted on the opposite side of the PIP Order, competing with the Primary Improvement Order for execution against the PIP Order.

providing responses in the PIP through Improvement Orders are not permitted to cancel their orders, and may only modify their Improvement Order, including reducing their order quantity, by providing a better price. The Exchange believes that the Initiating Participant acts in a critical role in the PIP as their willingness to guarantee the customer PIP Order an execution at a price equal to or better than NBBO is the keystone to the customer order gaining the opportunity for price improvement.

BOX's PIP allows for broad participation in its competitive auction by all types of market Participants (e.g. Public Customers, Broker Dealers and Market Makers). All Options Participants are able to receive the PIP Broadcasts and may respond by submitting competing Improvement Orders. The Exchange believes that this proposal will not discourage Participants from entering into or responding to a PIP Order, and is meant only to fairly distribute the allocation priority in instances where there is only one competing order within the auction.

Finally, the Exchange proposes to amend Rule 7150(g)(6)(i) regarding the PIP Surrender Quantity to delete specific references to the trade allocation percentages and clarify how the trading system handles the Surrender Quantity functionality. These references provide that an Initiating Participant may designate a Surrender Quantity (a lower amount of the PIP Order for which it retains priority and trade allocation privileges), and changing the allocation when only one competing order matches an Improvement Order eliminates the necessity to define the surrender quantity that the Initiating Participant is entitled to within the first sentence of Rule 7150(g)(6)(i). The Exchange also proposes to amend this provision to clarify that under no circumstances can the Initiating Participant receive more than its maximum allowable allocation percentage upon conclusion of the PIP; 40% with multiple competing orders and 50% with only one competing order.

For example, at the commencement of the PIP the Initiating Participant submits a PIP Order and Primary Improvement Order for 100 contracts and a PIP Surrender Quantity of 55 contracts, designating that it is willing to surrender fifty-five (55%) of the PIP Order to other PIP Participants. Therefore, the Initiating Participant is only retaining priority of 45% of the PIP Order. If there is only competing order this will be accepted because the Initiating Participant could have received 50% of the PIP Order. However, when there is more than one competing order then the Initiating Participant's allocation will drop to its maximum allowable allocation percentage, or 40%.

In the same scenario as above, but with the Initiating Participant designating a Surrender Quantity of seventy-five (75%), the Initiating Participant is only seeking to retain priority of 25% of the PIP Order. This would be allowed regardless of the number of competing orders. However, if the Initiating Participant designates a Surrender Quantity of forty (40%), seeking to retain priority of 60% of the PIP Order, this is not valid for either maximum allowable allocation percentage. Therefore the Initiating Participant's priority would be dropped to 50% (one competing order) or 40% (multiple competing orders.)

After the notice of effectiveness of the proposed rule change, and at least one week prior to the operative date, the Exchange will issue an information circular to inform BOX Participants of the implementation date for the trade allocation percentage changes on the PIP.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>8</sup> in general, and Section 6(b)(4) of the Act,<sup>9</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(4).

equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

In particular, the Exchange believes the proposed rule change protects investors and is in the public interest because it fairly distributes the allocation of the PIP Order between the Initiating Participant and the Options Participant who responded when those Participants are the only two counterparties to the PIP Order. The Exchange believes that this proposed rule change may increase the frequency with which Options Participants initiate a PIP Order which may result in greater opportunity for price improvement for customers.

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. This change is meant to more fairly distribute the allocation priority when there are only two counterparties to a PIP Order involved and BOX does not believe that this change will discourage any Participants from entering into the PIP.

Furthermore, as indicated above the Exchange notes that the rule change is being proposed as a competitive response to similar provisions in the price improvement auction rules of the CBOE and PHLX that have been approved by the Commission.<sup>10</sup> The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges and to establish more uniform price improvement auctions rules on the various exchanges.

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<sup>10</sup> See supra note 4[sic] and 5.

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

Because the foregoing proposed rule change does not:

(i) significantly affect the protection of investors or the public interest;

(ii) impose any significant burden on competition; and

(iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>11</sup> and Rule 19b-4(f)(6) thereunder.<sup>12</sup>

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 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:

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has fulfilled this requirement.

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-2013-11 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-2013-11. 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 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-2013-11 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>13</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).