



**BOX**  
BOSTON OPTIONS EXCHANGE

August 9, 2010

Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: Consolidated Audit Trail; Exchange Act Release No. 34-62174; File No. S7-11-10**

Dear Ms. Murphy:

The Boston Options Exchange Group, LLC (“BOX”)<sup>1</sup> appreciates the opportunity to comment on the above referenced proposal to require the adoption of a plan for the development, implementation and maintenance of a consolidated audit trail for the listed equities and options markets. BOX supports the Securities and Exchange Commission’s (“SEC” or the “Commission”) determination that there is a heightened need for regulators to have efficient access to a more robust and effective cross-market order and execution tracking system. BOX, however, believes that certain aspects of the Commission’s Proposal warrant further consideration.

#### Introduction

BOX is an all-electronic equity options market that is jointly owned by the TMX Group and seven broker-dealers. BOX was established in 2002 and launched trading in February 2004 as an alternative to the market models in existence at the time. Since inception, BOX has provided its participants with an efficient and transparent marketplace, cutting edge technology and best price filtering for customer order execution. Boston Options Exchange Regulation, LLC (“BOXR”), a wholly-owned subsidiary of the Boston Stock Exchange (“BSE”), is responsible for the surveillance operations of the BOX marketplace and also administers the regulatory aspects of the relationship with BOX Participants.

#### Discussion of the Proposal

Proposed Rule 613 would require national securities exchanges and national securities associations to act jointly in developing a national market system (“NMS”) plan to develop, implement, and maintain a consolidated order tracking system, or consolidated audit trail, with respect to the trading of NMS securities. Proposed Rule 613 generally would require the NMS plan to provide for an accurate, time-sequenced record of orders beginning with the receipt or origination of an order by a member of a national securities exchange or national securities association, and further documenting the life of the order through the process of routing, modification, cancellation, and execution (in whole or in part). The Rule would apply to secondary market transactions in all NMS securities, including NMS stocks and listed options.

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<sup>1</sup> The comments presented in our response are exclusively those of BOX and do not represent nor should they be construed to represent those of Boston Options Exchange Regulation, LLC, or the SRO.

As an exchange that would be required to report certain order information for each security or option registered or listed for trading on the exchange and to adopt rules requiring its members to report the same, BOX fully supports the Proposal. While BOX is supportive of the Commission's initiative, BOX provides the following observations.

Certain of the information would be required to be captured and transmitted to the central repository on a real time basis, meaning immediately and with no delay from when the reportable event occurs. The Commission's explanation is that requiring the submission of consolidated audit trail information on a real time basis would help enable more timely cross-market monitoring or surveillance and investigations of, or other response to, market anomalies. BOX believes that the benefits of real-time reporting should be carefully considered in conjunction with the anticipated development and maintenance costs for both the broker-dealer community and the SROs.

Rather than build a real-time consolidated audit trail, the Commission could take a two-pronged approach: a consolidation of the Order Audit Trail ("OATS") and the Consolidated Options Audit Trail System ("COATS"),<sup>2</sup> audit trails that are produced on a T+1 basis; and a review of the prospect of extracting specific real-time data from surveillance reports currently used by SROs to perform post trade analysis, such as the Large Option Position Report ("LOPR") and large trader reports, to obtain real-time risk information that may impact a particular NMS issue or the market in general. BOX also proposes that certain real-time trade and position data available through the Options Clearing Corporation be utilized to create more widely available reports to improve existing surveillance efforts.

It makes economical sense to use the current OATS and COATS audit trails and to expand those audit trails to include additional customer information, thereby providing a more complete audit trail for regulatory oversight for post trade analysis rather than building another audit trail system. Furthermore, if there is the ability to consolidate and extract certain information from existing surveillance reports or accessing other real-time risk-based analysis provided by third-party risk management systems, then the Commission could look to those vendors to provide real time market

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<sup>2</sup> BOX currently complies with the reporting requirements of COATS. BOX also currently requires its members to record, at a minimum, the following information with respect to orders entered on its exchange: (i) a unique order identification; (ii) the underlying security; (iii) opening/closing designation; (iv) the identity of the Clearing Participant; (v) Options Participant identification; (vi) Participant Capacity; (vii) identity of the individual/terminal completing the order ticket; (viii) customer identification; (ix) account type; (x) buy/sell; (xi) contract volume; (xii) contract month; (xiii) exercise price; (xiv) put/call; (xv) price or price limit, price range or strategy price; (xvi) special instructions (e.g., GTC); (xvii) strategy type indicator; and (xviii) and such other information as may be required by BOX Chapter V, Section 15. This information generally is made available to BOX and its regulators upon request.

information in conjunction with or in lieu of current surveillance reports that would be more beneficial in determining market risks and volatility.

The development and implementation of a real-time reporting platform would require billions of dollars to develop and maintain. BOX, therefore, supports more economical alternatives to provide certain information in real time while supporting consolidation of the OATS and COATS audit trails. The development of a real-time reporting platform should only be considered after available sources of data have been carefully reviewed and only to the extent that such a requirement is both necessary and economically feasible.

The proposed Rule would define “order” to include any bid or offer.<sup>3</sup> BOX notes that there are millions of quotes per day on the exchange and that certain options, including out-of-the-money options, are subject to a high volume of quotation updates with limited corresponding trading activity. The Commission may wish to consider requiring only consolidated NBBO data in the consolidated audit trail. Alternatively, BOX is amenable to further exploring with the Commission its ability to distinguish certain quotations from those otherwise required to be reported to the proposed audit trail.

The rule as proposed gives flexibility to the SROs to devise a governance structure as the SROs see fit. The Commission specifically requested comment on whether the rule or plan should specify a method for allocating costs among the plan sponsors. BOX believes that the SROs should be afforded flexibility to devise a cost allocation structure that is both fair and equitable and defined by readily available benchmarks.

The Commission expects that the plan sponsors would engage in a thorough analysis and formal competitive bidding process to choose the plan processor. The plan processor should be independent and not beholden to a particular SRO. BOX, however, is not opposed to an SRO as the plan processor provided that there are appropriate checks and balances. Moreover, the plan processor must demonstrate the capacity and technological wherewithal to operate the consolidated audit trail in the most efficient manner.

### Conclusion

BOX appreciates the opportunity to comment on the Commission’s Proposal. Please feel free to contact me if you have any questions regarding this matter.

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<sup>3</sup> Proposal at 55.

Elizabeth M. Murphy  
August 9, 2010  
Page 4

Sincerely,

A handwritten signature in dark ink, appearing to read "Anthony D. McCormick". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Anthony D. McCormick  
Chief Executive Officer  
Boston Options Exchange Group, LLC

cc: The Hon. Mary L. Schapiro, Chairman  
The Hon. Kathleen L. Casey, Commissioner  
The Hon. Elisse B. Walter, Commissioner  
The Hon. Luis A. Aguilar, Commissioner  
The Hon. Troy A. Paredes, Commissioner  
Robert W. Cook, Director, Division of Trading and Markets  
James Brigagliano, Deputy Director, Division of Trading and Markets