



August 30, 2012

Elizabeth M. Murphy, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-0609

Re: Release No. 34-67592; File No. SR-BOX-2012-003, BOX Options Exchange LLC;  
Notice of Proposed Rule Change to Amend the Price Improvement Period

Dear Ms. Murphy:

Wolverine Trading, LLC (“Wolverine”) is pleased to comment on the above-referenced proposal by the BOX Options Exchange, LLC (“BOX”) to amend the procedures of the price improvement period on BOX.

The purpose of the Federal securities laws is to protect investors and to promote the public interest. The SEC reviews SRO rule changes with a goal of promoting fair and orderly markets. Wolverine believes that these statutory goals are best served when exchanges are venues for the interaction of public orders and for robust price competition.

Because these proposed amendments would have the effect of diminishing both the incentive to quote on an exchange and the ability of retail orders to interact with quotes on an exchange, Wolverine is opposed to the amendments. Wolverine believes the SEC should reject the proposed amendments and that BOX should refile them with changes that would be consistent with the purposes of the Federal securities laws. Wolverine believes that minimal changes to the proposed amendments can achieve these goals.

Under current BOX rules, prior to the commencement of a price improvement auction, the top of the BOX book is swept. This incentivizes market participants to quote aggressively at BOX in order to interact with orders and to have the ability to participate in potential price improvement auctions. Further, BOX does not distinguish between order types in its market. Consequently, public customers’ orders resting in the BOX book are guaranteed execution before the commencement of a price improvement auction that is started at their lit limit price.

This rule proposal would eliminate the participation of quotes or orders at the top of the BOX book prior to the commencement of any price improvement auction. In addition, market participants could initiate a price improvement auction on BOX without having (or having an

affiliate with) a quote either at the NBBO on any exchange or at the BBO on BOX. The proposal provides no incentive for lit aggressive quoting on BOX (or on any other exchange).

The proposal is also defective in that it would allow a price improvement auction to begin at the NBBO (for orders of 50 or less) rather than requiring at least a penny of price improvement over the BOX BBO. The mechanism thus offers only the potential for price improvement, while actively discouraging robust quoting at BOX or resting of public customer limit orders by eliminating the sweeping of the top of the BOX book before the auction commences. The proposal is little more than yet another internalization mechanism dressed up as a price improvement auction. It facilitates the ability of a market participant that has paid for retail order flow to internalize significantly all of the order flow without participating in at-risk quote competition that creates the NBBO with the narrowest bid-ask spreads.

This proposal is harmful to market efficiency in that it turns the exchange into an internalization facilitator rather than a bona fide market with multiple participants competing to offer the best prices to customers. More troubling, the proposal has the potential to harm retail investors. Because proposals like the BOX amendments noted here further serve to remove real orders from interaction with lit markets at exchanges, the NBBO is increasingly little more than a reference price that is not the best available for retail investors. To the extent the Commission approves rules that decrease price competition on an exchange; the NBBO increasingly loses value as a reference point.

Better would be amendments that incentivize more robust quoting and price improvement on BOX. Wolverine would suggest that this could be achieved by amending the BOX amendments so that (1) a price improvement auction commenced on BOX should sweep the top of the BOX book if the auction is starting at the BOX BBO; (2) the party initiating the price improvement auction should itself be quoting (or should have an affiliate quoting) at the BOX BBO; and (3) the price improvement auction actually provides price improvement, by being a penny better than the BOX BBO.

Wolverine appreciates the consideration by the Commission of our views.

Respectfully submitted,



Kurt Eckert

Principal

cc: The Honorable Mary L. Shapiro, Chairman  
The Honorable Elisse B. Walter, Commissioner  
The Honorable Luis A. Aguilar, Commissioner  
The Honorable Troy A. Paredes, Commissioner  
The Honorable Daniel M. Gallagher, Commissioner  
Mr. Robert W. Cook, Director, Division of Trading and Markets