



**BOX**<sup>SM</sup>  
OPTIONS EXCHANGE

October 4, 2012

Ms. Elizabeth M. Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

**Re: Response to Comment Letter on SR-BOX-2012-003 (Proposal to amend the Price Improvement Period ("PIP")) (the "Proposal")**

Dear Ms. Murphy:

BOX Options Exchange LLC ("BOX") submits this letter in response to the comment letter submitted to the U.S. Securities and Exchange Commission ("Commission") by Wolverine Trading, LLC ("Wolverine") on the above referenced proposal to amend the BOX PIP. BOX believes the comment letter fails to raise any novel issues or concerns that are not addressed by the Proposal, and requests the Commission approve the Proposal.

Wolverine, a BOX market maker, asserts in their comment letter that the Proposal is "another internalization mechanism" and that it "has the potential to harm retail investors." BOX disagrees with these assertions and believes that the Proposal will increase the number of PIP transactions and participation in the PIP, which will ultimately enhance competition in the PIP and provide customers with additional opportunities for greater price improvement.

Since BOX introduced the price improvement auction process for customer price improvement to the options marketplace in February 2004, customers have received over \$400 million in savings through better executions on BOX (an average of over \$3.5 million each month). These price improvement statistics represent actual savings that public customers would not have been able to obtain without the PIP.

Wolverine states that the Proposal "would eliminate the participation of quotes or orders at the top of the BOX Book<sup>1</sup> prior to the commencement of any price improvement auction." As a market maker quoting on the BOX Book, Wolverine would prefer those quotes execute against a customer's PIP Order<sup>2</sup> when that customer order first comes to BOX. BOX, however, believes that a customer's entire PIP Order should have the opportunity for competing market participants to provide price improvement to that customer order. If competing participants step up to provide a better price for the customer order, it is appropriate, and consistent with the federal securities laws, for that customer to receive an execution at the best price available (price improvement through the PIP) rather than the market maker quote on the book that is no longer the best bid or offer.

Wolverine seems to ignore that, under the Proposal, orders on the BOX Book prior to the PIP will retain their priority at the same price over the Initiating Participant for allocation at the conclusion of the PIP. As such, if a PIP starts and ends at NBBO, the market maker quoting at NBBO on the BOX Book will still receive an execution against the customer PIP Order before the Initiating Participant executes against the customer order (i.e., before the Initiating Participant's

<sup>1</sup> As defined in the BOX Rules, the BOX Book is the electronic book of orders maintained by the BOX automated trading system for trading options contracts.

<sup>2</sup> A PIP Order is a Customer Order (an agency order for the account of either a Public Customer or a broker-dealer) designated for the PIP.



"internalization"). In addition, a market maker, or any BOX Options Participant, may submit competing orders in the PIP. If Wolverine wishes to avoid its quotes on the BOX Book missing potential executions against customer PIP Orders, they are welcome to take a more active role in pursuing those potential executions by offering price improvement. A market maker has a choice as to the prices it quotes, or the price improvement it may offer, to obtain an execution against the customer PIP Order.

BOX believes its Proposal is consistent with the long standing Commission policy emphasizing the importance of transparent competition to ensure that customer orders receive the best price possible.<sup>3</sup> The entire marketplace should be informed that an improvement auction is underway and all Participants should be free to submit orders to compete for the customer order. As such, the PIP Broadcast may be received by any BOX Options Participant that wishes to receive it. Further, the PIP permits market makers to submit competing orders for their own account and all non-market maker Options Participants may also submit competing orders for their own account or for their customer accounts. These features of the PIP provide the opportunity for a meaningful, competitive auction which results in great savings to the public customer.

BOX asserts that Participants are actively competing for customer orders, which is clearly supported by the simple fact that price improvement occurs in the PIP. The vast amount of price improvement occurring in the PIP must lead one to conclude that Participants are competing for those customer orders because if there were no competition, there would be no price improvement. While specific statistics may vary from month to month, over the eight years the PIP has been in effect, approximately seventy percent of PIP auctions include competition for execution (i.e., at least one other Options Participant competing with the initiating Participant for execution of a customer order). Additionally, almost fifty percent of all PIP auctions include three or more Participants competing for PIP execution.<sup>4</sup> BOX notes, however, that its market makers are the Participants most likely to compete for execution against customer orders in the PIP, even though their quotes at NBBO on the book currently execute prior to a PIP starting. PIP provides an incentive for market makers to compete for PIP Orders by quoting their best and most aggressive prices and BOX believes it is appropriate and in investors' best interest that the benefit of price improvement passes directly to those customer orders.

Wolverine also states that the Proposal is defective because the PIP can begin at NBBO. The Commission has previously addressed this issue on BOX and in connection with other options exchange auction mechanisms.<sup>5</sup> Once a Primary Improvement Order is submitted into the PIP, the Primary Improvement Order may not be cancelled. Therefore, the PIP Order is guaranteed an execution price of at least the NBBO and, moreover, gains an opportunity for execution at a price better than the NBBO. Permitting an auction to begin at NBBO encourages greater competition. In particular, certain market participants, including market makers, may be willing to submit competing orders to trade at the NBBO, but not at a price better than NBBO. Greater, more open competition for customer orders decreases the proportion of a PIP Order internalized by the Initiating Participant. And the PIP continues to provide the opportunity for competition for customer orders. BOX notes again that under the Proposal, orders on the BOX Book prior to the PIP Broadcast will retain their priority at the same price over the Initiating Participant for allocation at the conclusion of the PIP.

<sup>3</sup> See Exchange Act Release Nos. 6719A (61 FR 48290) (September 12, 1996) (Final Rules for Order Execution Obligations), and 51808 (70 FR 37496) (June 29, 2005) (Final Rules under Regulation NMS).

<sup>4</sup> BOX makes a substantial amount of PIP related data and statistics available to the public at its website [www.boxexchange.com](http://www.boxexchange.com). Specifically, one can see BOX PIP Fee Pilot reports here: [http://boxexchange.com/boxrReports\\_en](http://boxexchange.com/boxrReports_en); daily PIP volumes and average price improvement here: [http://boxexchange.com/volumes\\_en](http://boxexchange.com/volumes_en); and BOX execution quality reports here: [http://boxexchange.com/executionQualityReport\\_en](http://boxexchange.com/executionQualityReport_en).

<sup>5</sup> See e.g., Exchange Act Release Nos. 59654 (March 30, 2009), 74 FR 15551 (April 6, 2009) (SR-BX-2009-08) (order approving entry of orders into PIP at the NBBO), and 57847 (May 21, 2008), 73 FR 30987 (May 29, 2008) (SR-ISE-2008-29) (order approving entry of orders into Price Improvement Mechanism at the NBBO).



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BOX believes the PIP has increased overall competition in the options markets and has contributed to enormous savings to investors across the options industry. Finally, BOX has no doubt that the Proposal will provide even more customer orders with a greater opportunity for price improvement over the NBBO.

BOX appreciates the opportunity to provide these comments. For the reasons set forth above, BOX believes Wolverine's comment letter fails to raise any novel issues not previously addressed in the Proposal or by the Commission and requests the Commission approve the Proposal.

Please contact me at (312) 444-6328 if you have any questions regarding this matter.

Respectfully submitted,

Anthony D. McCormick  
Chief Executive Officer

cc: Heather Seidel (SEC)  
Nancy Burke-Sanow (SEC)  
Susie Cho (SEC)