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Via Electronic Mail
Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090
comments@sec.gov

Re: Comment Letter on File No. SR-BOX-2013-06

Dear Ms. Murphy:

Chicago Board Options Exchange, Incorporated ("CBOE") hereby submits comments on the proposed rule change by BOX Options Exchange, LLC ("BOX") to list options on the SPDR S&P 500 ETF Trust ("SPY") that provide for delivery of 1,000 physical shares ("Jumbo SPY options")[1].

Introduction

Since standardized options first began trading on exchanges almost four decades ago, the unit of trading for physically-settled options has been 100 shares ("standard options"). Less than 6 months ago, the Securities and Exchange Commission ("SEC" or "Commission") issued an approval order to permit physically-settled options that deliver 10 shares ("mini-options") to trade alongside standard options on five securities for which the securities and options on them are "highly liquid and have well established trading histories.[2]" Mini-options have not commenced trading and are expected to be

[1] See Securities Exchange Act Release No. 68759 (January 29, 2013), 78 FR 7835 (February 4, 2013).

[2] See Securities Exchange Act Release Nos. 679478 (September 28, 2012), 77 FR 60735, 60737 (October 4, 2012) (order granting approval of NYSE Arca, Inc. ("NYSE Arca") and International Securities Exchange, LLC ("ISE") proposals to list mini-options) and 68656 (January 15, 2013), 78 FR 4526 (January 22, 2013) (notice of SR-CBOE-2013-001).

Conveniently, BOX filed to list mini-options four days after filing the current proposal. See Securities Exchange Act Release No. 68771 (January 30, 2013), 78 FR 8208 (February 5, 2013) (noticing SR-BOX-2013-07). As a result, in its current proposal, BOX's discussion is limited to Jumbo SPY options trading alongside standard SPY options and does not reference the potential impact on the marketplace of three different contracts (i.e., mini, standard and jumbo) trading concurrently on the same security. Similarly,

launched on March 18, 2013. Before mini-options have even begun to trade, BOX has proposed to introduce another physically-settled contract on one of the securities approved for mini-options trading (SPY) that will deliver 1,000 shares.

Potential for Investor Confusion

As to Jumbo SPY options, the BOX filing would permit bids and offers to be expressed as 1/1000th part of the total value of the contract with a premium multiplier of $1,000. As a result, the displayed premium prices for Jumbo SPY options will look the same as the displayed premium prices for standard SPY options. CBOE notes that the same scaling convention for the display of premium prices for mini-options (including on SPY) has been approved with a premium multiplier of $10. Therefore, the BOX proposal would result in the availability of three option contracts overlying the same security for which the displayed premium prices will look identical. Similarly, the BOX filing would permit "strike prices to be set at the same level as for regular options.[3]" CBOE notes that strike prices for mini-options (including on SPY) will be set at the same level as for standard options. As with premium price display, the BOX proposal would result in the availability of three option contracts overlying the same security with strike prices that look identical.

BOX suggests that its proposed premium pricing convention for Jumbo SPY options is meant to avoid investor confusion with standard SPY options and that Jumbo SPY options would be designated with a different trading symbol.[4] However, BOX fails to address whether these measures would continue to serve the same purpose with an additional option contract (mini-options) concurrently trading on the same underlying security. CBOE submits that at some point, such distinguishing features may not serve their stated purpose (avoidance of investor confusion) due to the number of different options on the same security having key contract terms (i.e., premiums and strike prices) displayed in the same manner .

The potential for investor confusion is compounded by a provision in the BOX filing that would permit "BOX to list Jumbo contracts on SPY for all expirations applicable to options overlying 100 shares of SPY.[5]" This provision would permit non-standard expirations on SPY Jumbo options, i.e., weekly options, quarterly expiration options, LEAPs. CBOE notes that the SEC approved a similar provision to permit non-standard expirations for mini-options.[6] Therefore, the BOX proposal would result in the

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BOX's filing to list mini-options is limited to a discussion of mini-options trading alongside standard options and does not discuss Jumbo SPY options.

[3] 78 FR at 7836.

[4] 78 FR at 7836.

[5] 78 FR at 7836.

[6] 77 FR at 60737-38. CBOE commented on this point with respect to mini-options and urged the Commission to consider the impact that the potential doubling of the number of weekly options on the five securities might have on the options trading industry. A copy of CBOE's July 24, 2012 comment letter to

availability of the following SPY option expirations:

- Mini, Standard and Jumbo SPY standard expirations;
- Mini, Standard and Jumbo SPY weekly expirations;
- Mini, Standard and Jumbo SPY quarterly expirations; and
- Mini, Standard and Jumbo SPY LEAPs.

As with BOX's proposed premium pricing and strike display, CBOE believes that the potential for investor confusion may be further elevated by the availability of multiple non-standard expirations for different option contracts that deliver varying share amounts on the same security.

Multiple Contracts on Same Security May Introduce Market Fragmentation

BOX states in its filing that it would designate SPY for jumbo options because it is an active ETF and that it would restrict jumbo options to SPY, for which the SEC "has approved the elimination of any Position Limit.[7]" BOX states its belief that price protection would not apply across standard and Jumbo SPY options on an intramarket basis, as these are separate products. BOX goes on to recognize that trading different options products on the same security could disperse trading interest across the products to some extent. BOX, however, reasons that given the liquidity in SPY and SPY options, market forces should keep pricing consistent between standard and Jumbo SPY options. BOX's filing does not mention mini-options on SPY in connection with this reasoning.

CBOE notes that this same rationale was advanced in support of not requiring price protection between standard options and mini-options on the five securities approved for mini trading.[8] However, CBOE believes that the Commission should give consideration to the fact that BOX's filing would introduce a third contract on a single security. CBOE believes that the potential for market fragmentation increases with each additional and different contract on a single security, even if that security is highly liquid with a well-established trading history.

Additional Comments

BOX's proposal describes the premium display convention for Jumbo SPY options, but does not identify the minimum price variation ("MPV") for Jumbo SPY options. To avoid investor confusion, CBOE believes that the Commission should require BOX to identify and describe the MPV for Jumbo SPY options.

SR-NYSEArca-2012-64 and SR-ISE-2012-58 is available at: http://www.sec.gov/comments/sr-nysearca-2012-64/nysearca201264-2.pdf.

[7] 78 FR at 7836. The elimination of position limits for standard SPY options is not permanent and is subject to a pilot program. See Securities and Exchange Act Release No. 67936 (September 27, 2012), 77 FR 60491 (October 3, 2012) (notice of SR-BOX-2012-013).

[8] 77 FR at 60737.

BOX's proposal fails to state whether its existing fee schedule will apply to Jumbo SPY options. Interestingly, BOX commented on the issue of fees respecting mini-options and stated that, absent any disclosure of the trading fees for mini options as compared to standard options, one cannot make any conclusions about potential arbitrage between the two markets.[9] CBOE submits that BOX's earlier comment is equally relevant to BOX's current proposal and believes that the Commission should require BOX to address the issue of fees for Jumbo SPY options.

Conclusion

As the industry leader in product development, CBOE generally lauds efforts to bring new and innovative products to market. However, CBOE believes the SEC should examine and consider the current BOX proposal in context of the recent mini-option approval order that permits the limited introduction of concurrently traded contracts on the same underlying securities delivering different share amounts, including non-traditional expirations. While the BOX filing is limited to a single security, CBOE believes that the SEC should give the industry time to absorb the as-to-date unprecedented change of having physically-settled contracts on the same security that expire on the same day but deliver different share amounts (10 shares). In particular, CBOE believes that the SEC should consider a studied analysis of the marketplace's reception to and any possible confusion that could result from having different contracts on the same security that expire on the same day and that deliver varying share amounts.

Over the past 40 years, the marketplace has been well served with physically-settled contracts delivering 100 shares, and the introduction of several contracts on the same security with differing deliverable share amounts warrants an incremental and measured approach by the Commission. CBOE questions at what point the marketplace will become saturated by the introduction of more and more contracts on the same security that deliver different share amounts and questions how many permutations the marketplace is able to efficiently absorb. Will the next proposal seek to introduce a contract delivering 500 SPY shares, equaling the notional exposure of an E-mini S&P 500 Futures contract, or some other number of shares? Such far-reaching market changes should be introduced at a pace that can be studied to ensure that the marketplace is ready and in need of such product granularity.

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[9] 77 FR at 60737. A copy of BOX's September 24, 2012 comment letter to SR-NYSEArca-2012-64 and SR-ISE-2012-58 is available at: http://www.sec.gov/comments/sr-ise-2012-58/ise201258-3.pdf.

CBOE appreciates the opportunity to provide these comments. Should you require any further information, please contact Jenny Golding, Senior Attorney, at (312) 786-7466.

Sincerely,

Edward T. Tilly
President and Chief Operating Officer
Chicago Board Options Exchange,
Incorporated

cc: Heather Seidel (SEC)
Richard Holley (SEC)
John Roeser (SEC)