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April 19, 2013

Elizabeth M. Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-0609

Re: Response to Comment Letters on File Number SR-BOX-2013-06 ("Proposal")

Dear Ms. Murphy,

BOX Options Exchange LLC (the "Exchange") provides this response to comment letters submitted by Chicago Board Options Exchange, Incorporated, NASDAQ OMX Group, Inc. and NYSE Euronext, in response to the above listed Proposal to list and trade options contracts overlying 1,000 SPY shares ("Jumbo SPY options"). The comment letters raise issues in four general areas; (i) requests for clarification on the minimum price variation ("MPV") applicable to Jumbo SPY options, (ii) potential for investor confusion, (iii) value added to the marketplace by Jumbo SPY options, and, (iv) requests for additional detail on certain aspects of the proposal.

**I. MPV Applicable to Jumbo SPY Options**

The commenters seek clarity on whether Jumbo SPY options and standard SPY options will have different MPVs. For the purpose of clarity and to eliminate any potential confusion, the Exchange will file a rule change before the launch of Jumbo SPY options to provide that the MPV applicable to Jumbo SPY options will be the same as it is for the underlying security. Therefore, the MPV for Jumbo SPY options will be in penny increments, which is the same MPV applicable to standard SPY options.

**II. Potential for Investor Confusion**

The commenters assert that the listing of a third options product on SPY will lead to investor confusion. However, the Exchange does not believe the listing of a third product will lead to any more confusion than having two options products on the same underlying security and, therefore, the Exchange does not believe the Proposal for Jumbo SPY options will lead to investor confusion. As the marketplace has matured and become more sophisticated, so too have investors participating in the market. The Exchange believes investors will easily be able to differentiate between standard, Mini and Jumbo



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SPY options. This view is further supported by the fact that Jumbo SPY options will be designated with a different trading symbol (SPYJ).

### **III. Value Added to the Marketplace**

The Exchange believes Jumbo SPY options will benefit investors by providing additional methods to trade highly liquid options on SPY and providing greater ability to mitigate risk in managing larger portfolios. However, the issue of whether or not Jumbo SPY options add value will be decided in the marketplace.

For the reasons set forth in the Proposal, the Exchange believes that the Proposal is consistent with the requirements of the Act.<sup>1</sup> In approving a proposed rule change the Commission must find that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange. Specifically, the Commission must determine whether the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>2</sup> which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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. However, the Commission is not burdened with determining whether a new product adds value to the marketplace. This determination is made by marketplace participants, who, if there is no value added to the marketplace by the listing of Jumbo SPY options, will simply elect not to trade Jumbo SPY options. The marketplace makes the ultimate determination of value added when it comes to the listing of a new product.

Although the Exchange recognizes that trading different options products that overlie the same security or index could disperse trading interest across the products to some extent, with highly liquid options on the SPY, there generally exists a critical mass of willing buyers and sellers for all the options and the underlying securities to mitigate any price protection concern. This view was further supported by the Commission in its order approving Mini options when it addressed the issue of multiple options products on the same underlying security. The Commission stated that, “[i]n the case of markets for options on SPY, . . . there generally exists a critical mass of willing buyers and sellers both for the options and for the underlying securities that mitigate such concerns.”<sup>3</sup> Therefore, the Exchange does not believe a risk of market fragmentation exists. Instead,

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<sup>1</sup> 15 U.S.C. 78ff(b)

<sup>2</sup> 15 U.S.C. 78ff(b)(5).

<sup>3</sup> See Release No. 34-67948, <http://www.sec.gov/rules/sro/nysearca/2012/34-67948.pdf>



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the trading of Jumbo SPY options has the potential of providing greater liquidity by providing increased opportunity for trading and, consequently, increasing price transparency by providing additional information to market participants.

#### **IV. Additional Details**

Finally, commenters seek clarification about how Jumbo SPY options will interact with Complex Orders, the Exchange's price improvement process ("PIP"), minimum contract thresholds, Market Makers, and applicable fees. The Exchange will file a rule change before the launch of its Jumbo SPY options to provide additional details to add clarity with respect to these matters. The Exchange notes that Jumbo SPY options will interact with Complex Orders in the same manner as Mini options. Specifically, while Participants may execute complex orders involving Jumbo SPY options, if any leg of a complex order is a Jumbo SPY option contract, all options legs of such orders must also be Jumbo SPY options contracts. The Exchange also notes that Jumbo SPY options will be eligible for the Exchange's PIP auctions. In regard to the minimum contract thresholds in the Facilitation and Solicitation Auctions, the Exchange will adjust these thresholds for Jumbo SPY option contracts to 1/10th its current requirement for standard option contracts. Therefore, Jumbo SPY options executed in the Facilitation Auction must be for five (5) or more Jumbo SPY option contracts, and Jumbo SPY option transactions executed in the Solicitation Auction must be for fifty (50) or more Jumbo SPY option contracts. The Exchange further notes that Market Maker appointments and quoting obligations with respect to Jumbo SPY options will be treated in the same manner as Market Maker appointments and quoting obligations with respect to Mini options. Finally, with respect to fees for Jumbo SPY options, the Exchange notes that its current transaction fees will not apply to Jumbo SPY options and that the Exchange will not commence trading of Jumbo SPY options until specific fees have been filed with the Commission.



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**V. Conclusion**

For the reasons set forth above, the Exchange respectfully requests that the Commission approve the Proposal. Please contact me if you have additional questions.

Respectfully submitted,

Lisa J. Fall  
President

cc: Heather Seidel, Associate Director, Division of Trading and Markets  
David Hsu, Assistant Director, Division of Trading and Markets