BOX℠ OPTIONS EXCHANGE

September 9, 2011

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

Re: SR-BOX-2011-046 ("Proposal")

Dear Ms. Murphy:

Boston Options Exchange Group, LLC ("BOX") provides this response to comment letters that were submitted in response to the above referenced BOX fee change to increase the credits and fees in certain transactions within the BOX Price Improvement Period ("PIP") as of August 1, 2011. The Proposal increased the PIP fee and credit for options classes outside of the Penny Pilot, and for Penny Pilot classes (other than for QQQ, SPY, and IWM) where the trade price is equal to or greater than $3.00. For classes outside the Penny Pilot, the minimum trading increment is $0.05 or more ("Nickel Classes").

BOX introduced the PIP auction process for obtaining customer price improvement to the options market place in February 2004. Since then, customers have received over $355 million in savings through better executions on BOX, including $7.3 million in August 2011. Comments submitted on the Proposal assert that the BOX fee structure as effected is discriminatory, burdensome, and prohibitive to competition within the PIP. BOX and our Participants simply disagree, as supported by data from BOX PIP transactions. For Nickel Classes, the retention rate of the BOX Participant that initiated the PIP transaction ("Initiating Participant") was approximately 38% in July 2011. This means that if an Initiating Participant started a PIP for an order of 50 contracts, he would execute 19 contracts on the opposite side of the customer order. In August 2011, contrary to concerns expressed by commenters, this retention rate for Initiating Participants decreased to 36%. Note that both figures are lower than the 40% guarantee permitted to be allocated to the Initiating Participant. BOX believes this low retention rate signals definitive competition within the PIP. Additionally, average price improvement per contract in PIP transactions increased from $0.0062 in July 2011 to $0.0087 in August 2011. While specific statistics vary from month to month, over the seven years the PIP has been in effect, approximately seventy percent (70%) of PIP auctions include competition for execution (i.e., at least one other Options Participant competes with the initiating Participant for execution of a customer order). Additionally, almost fifty percent (50%) of all PIP auctions include three or more Participants competing for PIP execution. Lively competition continues to exist within the PIP and BOX believes that the Proposal contributed, in part, to the increase in PIP price improvement in August.

Commenters also assert that the increase in BOX PIP fees and credits creates a competitive imbalance too heavily favoring the Initiating Participant and argue that any Participant responding in the PIP must pay disproportionate fees because an Initiating Participant can offset any fee paid with the credit received. In reality, most PIP transactions are initiated by a market maker acting independently of a Participant acting as agent for a customer order. As such, BOX sees no basis for the criticism that the Initiating Participant can offset fees with credits. The credit provided in a PIP transaction is typically to the Participant acting as agent for the customer rather than the Initiating Participant. As noted above, more than 60% of PIP transactions are executed among two or more Participants, and there is not, as is speculated, a 100% participation guarantee for Initiating Participants. In fact, as noted, Initiating Participants retain less than 40% of customer orders in Nickel Classes in PIP transactions.

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Further, BOX believes that unregulated payment for order flow ("PFOF") can be structured by exchanges in various ways so as to be problematic. BOX does not offer PFOF to its Participants, but instead operates a market with a transparent monetary flow related to BOX PIP transactions. Those Participants that remove liquidity get a credit and those that add liquidity pay a fee. There is no differential between the PIP fee and credit, and they are equal across all BOX Participants, regardless of account type. Market Makers, proprietary trading firms, and Public Customers all pay the same fee for adding liquidity, or receive the same credit for removing liquidity.[1] Because of the opaque nature of PFOF arrangements in the industry, BOX can only speculate, based on anecdotal information from industry participants, that the inducement credit for removing liquidity that BOX provides is generally less than what many firms receive through PFOF. BOX chooses to operate a market model that is designed to provide incentives to its Participants to send their retail customer order flow to the PIP so that their customers might have the opportunity for price improvement. BOX did so successfully in August 2011, to the tune of $7.3 million. BOX believes our market model and fee structure are designed to benefit retail customer orders. BOX Participants have incentives to provide liquidity on the opposite side and trade with the retail customer order flow on BOX. BOX Participants find value in their opportunities to trade with these customer orders. As such, BOX charges a fee to do so. We then return the same amount, via PIP inducement credits, to those customer orders removing liquidity. And in the PIP these customer orders have the opportunity to benefit from a better price than they might have otherwise received. BOX fails to see the detriment of the Proposal on the markets.

In conclusion, the BOX market model and fee structure aims to benefit retail customers above other interests. BOX Participants serving retail customers appreciate this approach, and we believe the Commission should as well. BOX believes that more than $355 million in price improvement benefits investors, is consistent with the public interest, and with the Exchange Act. As such, we urge the Commission not to suspend the Proposal, nor to institute proceedings to disapprove 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, Associate Director, Division of Trading and Markets
David Hsu, Assistant Director, Division of Trading and Markets

[1] In addition to the PIP transaction fee or credit, BOX Participants pay a trading fee depending on their account type (e.g., Public Customer, Market Maker) as set out in Section 1 through 3 of the BOX Fee Schedule.