



BOXSM
OPTIONS EXCHANGE

September 24, 2012

Via E-Mail and First Class Mail

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
comments@sec.gov

Re: Comment Letter on Mini-Options Proposals (Release No. 34-67283; File No. SR-NYSEArca-2012-64 and Release No. 34-67284; File No. SR-ISE-2012-58)

Dear Ms. Murphy,

BOX Options Exchange LLC (“BOX”) appreciates the opportunity to comment on the two competing proposals for listing and trading “mini-options” that were filed by NYSE Arca LLC (“NYSE Arca”)¹ and the International Securities Exchange, LLC (“ISE”)², collectively referred to as the “proposals”. NYSE Arca and ISE both propose to list and trade “mini-options,” which represent 10 shares of an equity security.

BOX agrees that certain high-priced underlying equity securities result in per contract option premiums priced out of reach for the majority of retail investors. Therefore, BOX supports the creation of “mini-options” contracts that are one tenth the size of the current standard-sized options contracts that represent 100 shares of an equity security.

However, BOX has some reservations about several issues that neither proposal addresses. First, it is important that the mini-options and standard options be fungible with respect to the underlying equity security. Whether a standard option for AAPL at \$700 or a mini-option for AAPL at \$70, BOX believes the proposals should make clear that market participants are responsible for delivering the same underlying equity security of AAPL at \$700 per share.

Next, it is critical that market participants have the ability for full cross-margining at the OCC between mini-options and standard-sized options with the same underlying security. For example, a short (sold) position in 10 mini-option calls should offset a long (bought) position of a single standard-option call when the exercise price and expiry date are the same. BOX notices no discussion of either of these topics in either proposal and recommends NYSE Arca and ISE address these open questions prior to any implementation of trading in mini-options.

Furthermore, the issue of either the mini-options or the standard option that share the same underlying security potentially “trading through” the market of the other (“price protection”) has not been discussed in any detail. Consistent treatment of similar issues by the

¹ See Securities Exchange Act Release No. 34-67283 (June 27, 2012), 77 FR 39535 (July 3, 2012) (notice of SR-NYSEArca-2012-64 filed on June 15, 2012).

² See Securities Exchange Act Release No. 34-67284 (June 27, 2012), 77 FR 39545 (July 3, 2012) (notice of SR-ISE-2012-58).



Commission is an important factor on which exchanges rely and depend on in the regulatory process. BOX asserts that any exchange proposing to trade mini-options on the same underlying security along with standard options should be required to provide a means to assure price protection between them. The proposals fail to address this issue.

While BOX recognizes that, prior to market automation, two-tiered markets existed with respect to odd-lots in equities, and that this may provide an adequate precedent for an exemption from price protection for mini-options, this should be explicitly articulated within the proposals, and in any approval order of the Commission if it is so. BOX believes all reasonable measures should be required to ensure that users of either contract size receive the best price possible based on a measure of the price per underlying share.

ISE responds that natural arbitrage opportunities will provide more efficient pricing.³ One presumes that such arbitrage would ensure that markets for the two option sizes would remain within a minimal spread away from the price of the underlying equity share price. First, ensuring that the market prices stay in line is not possible, however, until the issue of cross-margin is addressed. Next, arbitrage will only occur where the spread between a transaction in the mini-options and a transaction in the standard option is such that a profit can be achieved. As such, lacking any determination of the trading fees to be applied to mini-options as compared to standard-sized options contracts, one cannot make any conclusions about potential arbitrage between the two markets. Nor can one presume that such arbitrage will be sufficient to maintain efficient pricing between the two markets. Again, neither proposal addresses the issue of mini-option transaction fees. And the likelihood that a retail investor may receive a worse price for trading a mini-option is substantial if no price protection is provided. Finally, BOX believes all potential technological solutions should be explored to integrate the mini-options and standard-sized options contract order books, thereby minimizing the chances of either product executing at a price worse than the best possible price.

BOX reiterates that it is not opposed to the concept of mini-options, but BOX believes several crucial questions need to be addressed prior to the Commission's approval of any such proposal.

We appreciate the opportunity to provide these comments. Should you require any further information, please contact me, or Lisa Fall, President, at (617) 235-2235.

Sincerely,

Anthony D. McCormick
Chief Executive Officer
BOX Options Exchange LLC

Cc: Geoff Pemble (Commission)
John Roeser (Commission)

³ Letter from Michael Simon, ISE, dated September 20, 2012.