

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69054; File No. SR-BOX-2013-09)

March 7, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Fee Schedule for Trading on BOX

Pursuant to Section 19(b)(1) under the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 28, 2013, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,³ and Rule 19b-4(f)(2) thereunder,⁴ which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend the Fee Schedule for trading on the BOX Market LLC (“BOX”) options facility. In particular, the Exchange proposes to extend a pilot program applicable to Liquidity Fees and Credits for PIP Transactions through August 31, 2013 (the “Program”). The Program has been in effect on BOX since February 2012 and is scheduled to expire February 28, 2013. While changes to the Fee Schedule pursuant to this proposal will be effective upon filing,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

the changes will become operative on March 1, 2013. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission's Public Reference Room and also on the Exchange's Internet website at <http://boxexchange.com>.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, Proposed Rule Change

1. Purpose

The Exchange proposes to amend the Fee Schedule for trading on BOX. In particular, the Exchange proposes to extend a pilot program applicable to Liquidity Fees and Credits for PIP Transactions through August 31, 2013 (the "Program"). The Program has been in effect on BOX since February 2012 and is scheduled to expire February 28, 2013.⁵

Transactions in the BOX PIP are assessed either a fee for adding liquidity or provided a credit for removing liquidity regardless of account type. PIP Orders (i.e., the agency orders opposite the Primary Improvement Order⁶) receive the "removal" credit and Improvement

⁵ See Securities Exchange Act Release Nos. 62512 (January 31, 2012), 77 FR 5590 (February 3, 2012) (Commission Order Granting Accelerated Approval of the BOX Credits and Fees for PIP Transactions on a pilot basis) (SR-BX-2011-046), and 66979 (May 14, 2012), 77 FR 29740 (May 18, 2012) (Notice of Filing and Immediate Effectiveness to adopt the Fee Schedule for trading on BOX which included the Program) (SR-BOX-2012-002).

⁶ An Improvement Order is a response to a PIP auction.

Orders⁷ are charged the “add” fee. In particular, the Program permits a fee for adding liquidity or a credit for removing liquidity of \$0.75, regardless of account type, for PIP transactions where the minimum price variation is greater than \$0.01 (i.e., all non-Penny Pilot Classes, and Penny Pilot Classes where the trade price is equal to or greater than \$3.00, excluding QQQ, SPY, and IWM).⁸ The Exchange proposes that this \$0.75 liquidity fee and credit applicable to these PIP transactions continue to be operative on a pilot basis until August 31, 2013, in addition to any applicable Exchange Fees as described in Section I of the Fee Schedule.

In connection with the pilot, the Exchange agrees to submit to the Commission on a monthly basis during the pilot period, and make publicly available on the Exchange website: (A) PIP transaction data in series traded in penny increments compared to series traded in nickel increments, subdivided by when BOX is at the NBBO and when BOX is not at the NBBO, including: (1) volume by number of contracts traded; (2) number of contracts executed by the Initiating Participant as compared to others (“retention rate”); (3) percentage of contracts receiving price improvement when the Initiating Participant is the contra party and when others are the contra party; (4) average number of participants responding in the PIP; (5) average price improvement amount when the Initiating Participant is the contra party; (6) average price improvement amount when others are the contra party; and (7) percentage of contracts receiving price improvement greater than \$0.01, \$0.02 and \$0.03 when the Initiating Participant is the contra party and when others are the contra party; and (B) effective spread data for PIP

⁷ A Primary Improvement Order is the matching contra order submitted to the PIP on the opposite side of an agency order.

⁸ The Exchange notes that the Program also includes a fee for adding liquidity or a credit for removing liquidity of \$0.30, regardless of account type, for PIP transactions where the minimum price variation is \$0.01 (Penny Pilot classes where trade price is less than \$3.00, and all series in QQQ, SPY & IWM).

transactions, specifically (1) average effective spread; (2) median effective spread; and (3) mode of the effective spread.⁹ This data will allow the Commission to further evaluate the effect of the fee structure on competition and the extent of price improvement for orders executed in the PIP, in the affected series, over a longer period of time with a data set less subject to the effect of potentially anomalous periods.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,¹⁰ in general, and Section 6(b)(4) of the Act,¹¹ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among BOX Options Participants and other persons using its facilities. Specifically, the Exchange believes that the proposal is consistent with Section 6(b)(5) of the Act,¹² which, among other things, requires that rules of a national securities exchange be designed 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, to protect investors and the public interest, and to not permit unfair discrimination between customers, issuers, brokers, or dealers, and Section 6(b)(8) of the

⁹ “Effective spread” as provided will be the execution price of the PIP Order to buy less the midpoint of the NBBO at the time the PIP begins, multiplied by two, and the midpoint of the NBBO at the time the PIP begins less the execution price of the PIP Order to sell, multiplied by two.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(4).

¹² 15 U.S.C. 78f(b)(5).

Act,¹³ which requires that the rules of a national securities exchange not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In particular, the proposed extension will allow the Program to remain in effect without interruption.

The Exchange believes that it is reasonable and equitable to provide the proposed credit to any Participant that removes liquidity from the BOX PIP. The Exchange further believes these credits will attract order flow to BOX, resulting in greater liquidity to the benefit of all market participants. The Exchange believes that the proposed fees for adding liquidity and credits for removing liquidity are equitable and not unfairly discriminatory because such fees and credits apply uniformly to all categories of Participants, across all account types.

Further, the Exchange believes the proposed fees for PIP transactions to be reasonable. BOX operates within a highly competitive market in which market participants can readily direct order flow to any of several other competing venues if they deem fee levels at a particular venue to be excessive. The BOX credits and fees for PIP transactions are intended to attract order flow to BOX by offering incentives to all market participants to submit their orders to the PIP for potential price improvement. BOX notes that the fees collected will not necessarily result in additional revenue to BOX, but will simply allow BOX to provide the credit incentive to Participants to attract additional order flow to the PIP. BOX believes it is appropriate to provide incentives to market participants to use PIP, resulting in potential benefit to customers through potential price improvement, and to all market participants from greater liquidity on BOX.

In particular, the proposed change will allow the fees charged on BOX to remain competitive with other exchanges as well as apply such fees in a manner which is equitable among all BOX Participants. The Exchange believes that the PIP transaction fees and credits it

¹³ 15 U.S.C. 78f(b)(8).

assesses are fair and reasonable and must be competitive with fees and credits in place on other exchanges.

During the Program, BOX has provided the Commission data so the Commission could assess the impact of the Program on the competitiveness of the PIP auction and extent of price improvement obtained for customers. The reports in Exhibit 3 to the Form 19b-4 include statistics on percent and amount of price improvement, the number of responders to a PIP auction, and the retention rates of Initiating Participants and those market makers who received PIP directed orders. This data also includes information on both penny and non-penny series, although the Program only applies to PIP transactions in non-penny series.

Overall, the data shows that BOX's PIP provides very significant price improvement for non-penny series both before and during the Program. Thus, the data provided by BOX for the non-penny series does not suggest any significant adverse impact of the Program on the competitiveness of the PIP auction or the extent of price improvement for orders executed in the PIP in those series. PIP execution quality data is relevant for the consideration of broker-dealers when managing their best execution obligations.

The Exchange believes the data provided reflects no adverse impact of the Program on the competitiveness of the PIP auction or the extent of price improvement in series that trade in non-penny increments. As such, the Exchange believes the proposed rule change is consistent with the Act.

B. Self-Regulatory Organization's Statement on Burden on Competition

While some have argued that the Program creates a disparity between the fees an Initiating Participant pays and the fees a competitive responder pays in the PIP that may make the Program discriminatory and an undue burden on competition, the Exchange believes the

Program provides incentives for market participants to submit customer order flow to BOX and thus, creates a greater opportunity for retail customers to receive additional price improvement. The PIP provides the opportunity for market participants to compete for customer orders, and has no limitations regarding the number of Market Makers, Options Participants that are not Market Makers, and customers that can participate and compete for orders in the PIP. 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. Since the PIP began in 2004, customers have received more than \$400 million in savings through better executions on BOX, a monthly average of more than \$3.5 million over that time.

BOX notes that its market model and fees are generally intended to benefit retail customers by providing incentives for Participants to submit their customer order flow to BOX, and the PIP in particular. BOX makes a substantial amount of PIP-related data and statistics available to the public on its website www.boxexchange.com. Specifically, daily PIP volumes and average price improvement are available at: http://boxexchange.com/volumes_en; and BOX execution quality reports at: http://boxexchange.com/executionQualityReport_en. The data indisputably supports that the PIP provides price improvement for customer orders.

Additionally, the Exchange believes the Program is more transparent than payment for order flow (“PFOF”) arrangements and notes its belief that the credit to remove liquidity on BOX is generally less than what firms receive through PFOF.

For the reasons stated above, the Exchange does not believe that the proposed rule change will impose any burden on competition either among BOX Participants, or among the various options exchanges, that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Exchange Act¹⁴ and Rule 19b-4(f)(2) thereunder,¹⁵ because it establishes or changes a due, fee, or other charge applicable only to a member.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend the rule change if it appears to the Commission that the action is necessary or appropriate in the public interest, for the protection of investors, or would otherwise further the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2013-09 on the subject line.

¹⁴ 15 U.S.C. 78s(b)(3)(A)(ii).

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-BOX-2013-09. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

¹⁵ 17 CFR 240.19b-4(f)(2).

to File Number SR-BOX-2013-09 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Kevin M. O'Neill
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).