

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69429; File No. SR-BOX-2013-21)

April 23, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 7170 to Clarify that the Exchange May Grant Obvious Error Relief in the Event of Unusual Circumstances

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 18, 2013, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

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

The Exchange proposes to amend Rule 7170 (Obvious and Catastrophic Errors) to clarify that the Exchange may grant Obvious Error relief in the event of unusual circumstances, even if the Market Operations Center (“MOC”) of BOX Market LLC (“BOX”) was not notified within the time periods prescribed in the rule. 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 self-regulatory organization included

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 self-regulatory organization 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, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Rule 7170 (Obvious and Catastrophic Errors) to clarify that the Exchange has the ability to grant Obvious Error relief in the event of unusual circumstances, even if the MOC was not notified within the time periods prescribed in the rule. This is a competitive filing that is based on the Obvious Error rules of the NASDAQ Stock Market LLC (“NOM”), NASDAQ OMX PHLX LLC (“PHLX”), Chicago Board Options Exchange (“CBOE”), C2 Options Exchange (“C2”), International Securities Exchange (“ISE”), NYSE Arca Options (“Arca”), NYSE MKT, LLC (“MKT”), BATS Exchange, Inc. (“BATS”), Miami International Securities Exchange LLC (“MIAX”), and NASDAQ OMX BX (“BX”).³

The Obvious Error Rule was developed as part of an industry wide effort to address the need to handle errors in a fully electronic market where orders are executed automatically before an obvious error may be discovered and corrected by participants. The Obvious Error Rule assures that one participant is not permitted to receive a wind-

³ See NOM Chapter V, Section 6(d), PHLX Rule 1092(e)(i)(A), CBOE Rule 6.25(b)(1), C2 Rule 6.15(b)(1), ISE Rule 720(b)(1), NYSE Arca Rule 6.87(b)(1), NYSE MKT Rule 975NY(b)(1), BATS Rule 20.6(d), MIAX Rule 521(e)(1) and BX Chapter V, Section 6(d).

fall at the expense of another participant that made an obvious error. Rule 7170 provides the framework and procedures for determining whether a transaction was the result of an “obvious error” pursuant to objective standards. When a market maker (including a BOX Market Maker and any transactions sent by a market maker on another exchange where the order is designated with a market maker account type on BOX) believes that it participated in a transaction that was the result of an Obvious Error, it must notify the MOC within five (5) minutes of the execution. If a non-Market Maker Options Participant believes an order it executed on BOX was the result of an Obvious Error, it must notify the MOC within twenty (20) minutes of the execution. Currently, Rule 7170(g) states that except as provided below, the Exchange will not grant relief under this Rule unless notification is made within the prescribed time periods.⁴ This exception references Rule 7170(i) which states that a party may request that the CRO provide obvious error relief in cases where the party failed to provide the notification required, but unusual circumstances merit special consideration.

The purpose of this rule change is to amend Rule 7170(g)(1) to make it clear that the Exchange does have the flexibility to determine if an Obvious Error has occurred even if notification was given outside of the prescribed time periods. Specifically, the Exchange proposes to amend its Obvious Error Procedure in Rule 7170(g) to state that the Exchange may grant relief when notification was not made within the prescribed time periods but the transaction occurred under unusual circumstances. While this exception is rarely used, it gives the CRO the flexibility to

⁴ See BOX Rule 7170(g)(1).

look at all the circumstances surrounding the Participant's request so that Participants are not adversely affected by unforeseen issues that prevented them from notifying the Exchange about an erroneous transaction within the allotted time period. For example, this rule might allow relief when a broker-dealer believes an order was the result of an Obvious Error, but cannot immediately reach the customer it represents and is delayed in notifying the Exchange. Another possible "unusual circumstance" could occur if obvious error transactions occurred simultaneously on multiple exchanges and the Participant had to separately notify each of these exchanges, and therefore was delayed in notifying BOX. This exception could also apply when the notification is only slightly outside of the prescribed time periods due to a timing conflict.

The Exchange believes that the proposed rule change is reasonable and objective and would serve to enhance the application of the Exchange's Obvious Error Rule by making Participants aware that the Exchange may grant Obvious Error relief even when they do not notify the Exchange in time, if unusual circumstances are present. The Exchange believes that the proposed rule change would strengthen its Obvious Error Rule because it would ensure that all Options Participants are informed about notification exception. This proposed rule change would align the Exchange's Obvious Error Procedure rule with the Obvious Error Procedure rules currently in place at the other exchanges.⁵

Additionally, the Exchange proposes to make three non-substantive cross-reference corrections to its Obvious Error Rule. Specifically Rule 7170(e) (Erroneous

⁵ See supra, note 3.

Print in Underlying), Rule 7170(g)(2) (Adjust or Bust), and Rule 7170(i) (Request for Review) are being amended to update an incorrect rule cross-reference.

This proposal does not seek to substantively change any portion of the Exchange's Obvious and Catastrophic Error Rule and is only intended to clarify that the Exchange has flexibility when deciding if the Options Participant met the notification requirements under the rule. If an Options Participant notifies the Exchange about an erroneous transaction outside the prescribed time period and the Exchange decides that unusual circumstances are present, the Exchange will then use the already existing objective criteria outlined in its Obvious and Catastrophic Error Rule to determine if relief should be granted.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),⁶ in general, and Section 6(b)(4) of the Act,⁷ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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.

In particular, the Exchange believes that the proposed rule change would benefit investors and market participants by aligning the Exchange's rule with respect

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(4).

to Obvious Errors with those of other exchanges. By creating uniformity with the other exchanges, the Exchange believes the proposed rule change will help foster greater certainty for market participants trading on multiple exchanges. Accordingly, the Exchange believes that the proposed rule change, combined with the continued objective nature of the Exchange's process for rendering and reviewing trade nullification determinations, is consistent with prior guidance from the Commission, is consistent with the Exchange Act and is consistent with the maintenance of a fair and orderly market and the protection of investors and the public interest.

Further, the Exchange believes it is appropriate to make these non-substantive cross-reference corrections to its Obvious Error Rule so that Exchange members and investors have a clear and accurate understanding of the meaning of the Exchange's rules. By making these cross-reference corrections, the Exchange is eliminating any potential for confusion about how the Obvious Error Rule operates.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as indicated above, the Exchange notes that the rule change is being proposed as a competitive response to the Obvious Error rules currently in place at the NOM, PHLX, CBOE, C2, ISE, Arca, MKT, BATS, MIAX and BX.⁸ The Exchange believes this proposed rule change is designed to permit fair competition among the options exchanges and to establish uniform rules regarding the treatment of erroneous transactions. Specifically, this proposal will promote investor certainty by clarifying that

⁸ See supra, note 3.

the Exchange has the ability to grant relief, even when [sic] has not been notified within the time periods prescribed in the rule.

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

The Exchange has neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁹ and Rule 19b-4(f)(6)¹⁰ thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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:

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-2013-21 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2013-21. 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 the 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 to File Number SR-BOX-2013-21 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.¹¹

Elizabeth M. Murphy
Secretary

¹¹ 17 CFR 200.30-3(a)(12).