

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69511; File No. SR-BOX-2013-06)

May 3, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Order Granting Approval of Proposed Rule Change to List and Trade Option Contracts Overlying 1,000 Shares of the SPDR S&P 500 Exchange-Traded Fund

I. Introduction

On January 18, 2013, BOX Options Exchange LLC (“Exchange” or “BOX”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade option contracts overlying 1,000 shares of the SPDR S&P 500 Exchange-Traded Fund (“Jumbo SPY Options”). The proposed rule change was published for comment in the Federal Register on February 4, 2013.<sup>3</sup> The Commission initially received two comment letters on the proposed rule change.<sup>4</sup> On March 20, 2013, the Commission extended the time period for Commission action to May 5, 2013.<sup>5</sup> The Commission subsequently received one additional

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 68759 (January 29, 2013), 78 FR 7835 (“Notice”).

<sup>4</sup> See letters to Elizabeth M. Murphy, Secretary, Commission, from Janet McGinness, EVP & Corporate Secretary, General Counsel, NYSE Markets, NYSE Euronext (“NYSE”), dated February 25, 2013 (“NYSE Letter”) and Edward T. Tilly, President and Chief Operating Officer, Chicago Board Options Exchange, Incorporated (“CBOE”), dated February 25, 2013 (“CBOE Letter”).

<sup>5</sup> See Securities Exchange Act Release No. 69193, 78 FR 18403 (March 26, 2013).

comment letter on the proposed rule change.<sup>6</sup> On April 19, 2013, BOX submitted a response to the comment letters.<sup>7</sup> This order grants approval of the proposed rule change.

## II. Description of the Proposed Rule Change

The Exchange proposes to list and trade Jumbo SPY Options, which are option contracts that overlie 1,000 SPDR S&P 500 Exchange-Traded Fund (“SPY”) shares. Under the Exchange’s proposal, Jumbo SPY Options would be assigned different trading symbols (SPYJ) than the corresponding standard options on SPY.<sup>8</sup> In addition, the Exchange proposes to list Jumbo SPY Options for all expirations applicable to standard options on SPY,<sup>9</sup> and proposes that strike prices for Jumbo SPY Options be set at the same level as standard options on SPY.<sup>10</sup> Bids and offers for Jumbo SPY Options would be expressed in terms of dollars per 1/1000<sup>th</sup> part of the total value of the options contract.<sup>11</sup> The table below, which was included by the Exchange in its filing, demonstrates the proposed differences between a Jumbo SPY Option and a standard SPY option with a strike price of \$45 per share and a bid or offer of \$3.20 per share:

	Standard	Jumbo
Shares Deliverable Upon Exercise	100 shares	1,000 shares
Strike Price	45	45
Bid or Offer	3.20	3.20
Premium Multiplier	\$100	\$1,000
Total Value of Deliverable	\$4,500	\$45,000
Total Value of Contract	\$320	\$3,200

<sup>6</sup> See letter to Elizabeth M. Murphy, Secretary, Commission, from Joan C. Conley, Senior Vice President & Corporate Secretary, NASDAQ OMX Group, Inc. (“Nasdaq”), dated March 21, 2013 (“Nasdaq Letter”).

<sup>7</sup> See letter to Elizabeth M. Murphy, Secretary, Commission, from Lisa J. Fall, President, BOX, dated April 19, 2013 (“BOX Response Letter”).

<sup>8</sup> See Notice, supra note 3, at 7836.

<sup>9</sup> See BOX Rule 5050(e)(1).

<sup>10</sup> See BOX Rule 5050(e)(2).

<sup>11</sup> See BOX Rule 5050(e)(3).

The Exchange states that it has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading of Jumbo SPY Options.<sup>12</sup>

### III. Discussion and Commission Findings

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>13</sup> Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>14</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. Commenters raised and the Exchange addressed in its response several issues related to the proposal, which are discussed below.

All three commenters express concern that the proposal did not specify the minimum price variation that would be applicable to Jumbo SPY Options and that market participants could not understand how this new product would trade without this information.<sup>15</sup> In particular, NYSE expresses concern that if BOX imposes a higher minimum price variation for Jumbo SPY Options as compared to existing SPY options, the marketplace would have no ability to provide

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<sup>12</sup> See Notice, supra note 3, at 7836. The Exchange also states that it has discussed the proposed listing and trading of Jumbo SPY Options with the Options Clearing Corporation (“OCC”), and the OCC has represented that it is able to accommodate Jumbo SPY Options. See id.

<sup>13</sup> In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

<sup>15</sup> See NYSE Letter, supra note 4, at 1-2; CBOE Letter, supra note 4, at 3; and Nasdaq Letter, supra note 6, at 2.

tight and competitive markets in Jumbo SPY Options, using standard SPY options as a reference.<sup>16</sup> Similarly, Nasdaq also questions the merit of BOX's conclusion that because of the liquidity in SPY and options on SPY, existing market forces should keep the prices between standard SPY options and Jumbo SPY Options consistent.<sup>17</sup>

NYSE and Nasdaq also state that the proposal fails to discuss Jumbo SPY Options in the context of BOX's price improvement process ("PIP").<sup>18</sup> NYSE further states that if Jumbo SPY Options would be eligible for the PIP, a different minimum price variation would be of even greater concern.<sup>19</sup> In addition, NYSE points out that the proposal does not discuss the treatment of Jumbo SPY Options for purposes of complex orders, market maker appointments, and market maker quoting obligations.<sup>20</sup> Lastly, CBOE states that the proposal fails to state whether BOX's existing fee schedule will apply to Jumbo SPY Options.<sup>21</sup>

In its response letter, BOX states that it will file a rule change before the launch of Jumbo SPY Options to provide that the minimum price variation for Jumbo SPY Options will be the same as the minimum price variation for standard options on SPY (i.e., penny increments).<sup>22</sup> BOX also states that it will file a rule change before the launch of Jumbo SPY Options to provide additional details with respect to complex orders, PIP, minimum contract thresholds for solicitation and facilitation auctions, market maker appointments and obligations, and fees.<sup>23</sup>

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<sup>16</sup> See NYSE Letter, supra note 4, at 2.

<sup>17</sup> See Nasdaq Letter, supra note 6, at 2.

<sup>18</sup> See NYSE Letter, supra note 4, at 2 and Nasdaq Letter, supra note 6, at 2.

<sup>19</sup> See NYSE Letter, supra note 4, at 2-3.

<sup>20</sup> See id., at 5.

<sup>21</sup> See CBOE Letter, supra note 4, at 4.

<sup>22</sup> See BOX Response Letter, supra note 7, at 1.

<sup>23</sup> See id., at 3.

Specifically, BOX notes that Jumbo SPY Options will interact with complex orders in the same manner as mini options.<sup>24</sup> Further, Jumbo SPY Options will be eligible for PIP auctions.<sup>25</sup> With respect to minimum contract thresholds in the solicitation and facilitation auctions, BOX will adjust the thresholds for Jumbo SPY Options to 1/10th of its current requirement for standard options.<sup>26</sup> With respect to market maker appointment and quoting obligations, Jumbo SPY Options will be treated in the same manner as mini options.<sup>27</sup> Finally, BOX states that its current transaction fees will not apply to Jumbo SPY Options, and BOX will not commence trading of Jumbo SPY Options until specific fees have been filed with the Commission.<sup>28</sup>

NYSE argues that the proposal provides no explanation for why Jumbo SPY Options would make options on large blocks of the SPY ETF more available as an investing tool, particularly for institutional investors.<sup>29</sup> NYSE also states that, unlike mini options, Jumbo SPY Options do not enable any trade to take place that cannot already take place because an institutional investor looking to purchase 1,000 contracts of a given SPY option is already able to do so in the standard-sized SPY options market.<sup>30</sup> Nasdaq similarly comments that Jumbo SPY Options bring no benefits to investors or the market.<sup>31</sup>

In its response letter, BOX states its belief that Jumbo SPY Options would benefit investors by providing additional methods to trade highly liquid options on SPY and providing

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<sup>24</sup> See id.

<sup>25</sup> See id.

<sup>26</sup> See id.

<sup>27</sup> See id.

<sup>28</sup> See id.

<sup>29</sup> See NYSE Letter, supra note 4, at 4.

<sup>30</sup> See id.

<sup>31</sup> See Nasdaq Letter, supra note 6, at 3.

greater ability to hedge risk in managing larger portfolios.<sup>32</sup> BOX also states its belief that the market will decide the issue of whether or not Jumbo SPY Options add value, and that market participants may elect not to trade Jumbo SPY options if they find these options to not add value to the marketplace.<sup>33</sup> In addition, in its response letter, BOX represents that its current transaction fees will not apply to Jumbo SPY Options, and it will not commence trading of Jumbo SPY Options until specific fees have been filed with the Commission.<sup>34</sup> The Commission believes that the listing and trading of Jumbo SPY Options could benefit investors by providing them with an additional investment alternative. In addition, the Commission believes, as noted by BOX in the proposal, that the listing and trading of Jumbo SPY Options could benefit investors by providing another means to mitigate risk in managing large portfolios, particularly for institutional investors.<sup>35</sup>

All three commenters express concern that the proposal can cause investor confusion.<sup>36</sup> In its response letter, BOX states that it does not believe that the listing of a third product on SPY will lead to any more confusion than having two options on SPY.<sup>37</sup> BOX notes that Jumbo SPY Options will be designated with a different trading symbol (SPYJ).<sup>38</sup> BOX also states that the marketplace and investors have matured and become more sophisticated, and investors will easily be able to differentiate between standard, mini, and Jumbo SPY options.<sup>39</sup> The

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<sup>32</sup> See BOX Response Letter, supra note 7, at 2.

<sup>33</sup> See id.

<sup>34</sup> See id., at 3.

<sup>35</sup> See Notice, supra note 3, at 7836.

<sup>36</sup> See NYSE Letter, supra note 4, at 5-6; CBOE Letter, supra note 4, at 2-3; and Nasdaq Letter, supra note 6, at 1.

<sup>37</sup> See BOX Response Letter, supra note 7, at 1.

<sup>38</sup> See id., at 2.

<sup>39</sup> See id., at 1-2.

Commission agrees that the use of different trading symbols for Jumbo SPY Options should help investors and other market participants to distinguish those options from the corresponding standard and mini options. The Commission also believes that the proposed treatment of strike prices<sup>40</sup> and bids and offers<sup>41</sup> for Jumbo SPY Options is consistent with the Act, as these amendments should make clear how Jumbo SPY Options would be quoted and traded.

NYSE states that Jumbo SPY Options are designed specifically for large institutional investors and are generally too large for average retail investors and, thus, could create a two-tiered market for SPY options.<sup>42</sup> According to NYSE, today, when an institutional investor trades 10 standard SPY options, it helps to foster transparency and price discovery, which directly benefits retail investors.<sup>43</sup> NYSE expresses the concern that Jumbo SPY Options will likely result in some of the institutional activity migrating away from the standard SPY options, to the direct detriment of retail investors.<sup>44</sup> Similarly, CBOE argues that the potential for market fragmentation increases with each additional and different contract on a single security, even if that security is highly liquid with a well-established trading history.<sup>45</sup> Nasdaq also raises questions regarding the potential for a two-tiered market for SPY options and the impact of Jumbo SPY Options on the existing market for standard and mini SPY options.<sup>46</sup> Further,

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<sup>40</sup> See BOX Rule 5050(e)(2).

<sup>41</sup> See BOX Rule 5050(e)(3).

<sup>42</sup> See NYSE Letter, supra note 4, at 3-4.

<sup>43</sup> See id., at 4.

<sup>44</sup> See id.

<sup>45</sup> See CBOE Letter, supra note 4, at 3.

<sup>46</sup> See Nasdaq Letter, supra note 6, at 2. See also CBOE Letter, supra note 4, at n.2 (commenting that the proposal does not reference the potential impact on the marketplace of having three different contracts trading concurrently on the same security) and 4 (stating that the introduction of several contracts on the same security with differing deliverable share amounts warrants an incremental and measured approach by the

Nasdaq raises the question of whether Jumbo SPY Options could materially fragment liquidity and harm or weaken the price discovery process.<sup>47</sup>

In the case of the market for SPY options, BOX notes in its response letter that there generally exists a critical mass of willing buyers and sellers both for the options and for the underlying securities that mitigate the concerns raised by the commenters.<sup>48</sup> Specifically, BOX notes in its filing that standard options on SPY are currently the most actively traded options in terms of average daily volume.<sup>49</sup> Further, in its filing, BOX states its understanding that the OCC's portfolio margining process will be set to have positions in a standard contract and a jumbo contract set against each other, and that consistent cross margining will be available between standard and jumbo options.<sup>50</sup> BOX concludes that the availability of Jumbo SPY Options would likely result in more efficient pricing through arbitrage with standard SPY options.<sup>51</sup> In its response letter, BOX also states that the trading of Jumbo SPY Options has the potential of providing greater liquidity by providing increased opportunity for trading and,

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Commission and that the Commission should consider a studied analysis of the marketplace's reception to and any possible confusion that could result from having different contracts on the same security that expire on the same day and that deliver varying share amounts).

<sup>47</sup> See Nasdaq Letter, supra note 6, at 2.

<sup>48</sup> See BOX Response Letter, supra note 7, at 2.

<sup>49</sup> See Notice, supra note 3, at 7836. According to BOX, the average daily volume for SPY options was 2,156,482 contracts in April 2012. See id., at n.5. The average daily volume for the same period for the next four most actively traded options was: Apple Inc. – 1,074,351; S&P 500 Index – 656,250; PowerShares QQQ Trust<sup>SM</sup>, Series 1 – 573,790; and iShares® Russell 2000® Index Fund – 550,316. See id. See also OCC Exchange Volume by Class, available at <http://theocc.com/webapps/volbyclass-reports> (indicating that SPY options are currently the most actively traded options in terms of volume).

<sup>50</sup> See id., at 7836.

<sup>51</sup> See id.

consequently, increasing price transparency by providing additional information to market participants.<sup>52</sup>

The Commission notes that price protection would not apply across standard and Jumbo SPY Options on an intramarket basis, as they are separate products. The Commission recognizes that trading different options products that overlie the same security could disperse trading interest across the products to some extent. In illiquid or nascent markets, increased dispersion across products may cause particular concern, as the markets for the separate products may lack the critical mass of buyers and sellers to allow such a market to become established or, once established, to thrive. The Commission believes that the high trading volume and liquidity in the market for SPY and SPY options should mitigate the market fragmentation and price protection concerns that commenters raised.<sup>53</sup> Moreover, the Commission notes that the proposal is limited to jumbo options on SPY and in order to expand the trading of jumbo options beyond those overlying SPY, BOX would be required to file new proposed rule changes with the Commission pursuant to Section 19(b) of the Act.<sup>54</sup> Proposals to expand jumbo options to cover other underlying securities that do not exhibit the depth and liquidity of the SPY and SPY options markets potentially could give rise to concern. Finally, the Commission expects BOX to monitor the trading of Jumbo SPY Options to evaluate whether any issues develop.

As a national securities exchange, the Exchange is required, under Section 6(b)(1) of the Act,<sup>55</sup> to enforce compliance by its members and persons associated with its members with the

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<sup>52</sup> See BOX Response Letter, *supra* note 7, at 3.

<sup>53</sup> See OCC Exchange Volume by Class, available at <http://theocc.com/webapps/volbyclass-reports> (indicating that SPY options are currently the most actively traded options in terms of volume).

<sup>54</sup> See Notice, *supra* note 3, at n.5.

<sup>55</sup> 15 U.S.C. 78f(b)(1).

provisions of the Act, Commission rules and regulations thereunder, and its own rules. In this regard, the Commission notes that the Exchange's rules that apply to the trading of standard options would apply to Jumbo SPY Options. The Commission also notes that the Exchange's existing market maker quoting obligations would apply to Jumbo SPY Options.<sup>56</sup> In addition, the Commission notes that intermarket trade-through protection would apply to Jumbo SPY Options to the extent that they are traded on more than one market.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>57</sup> that the proposed rule change (SR-BOX-2013-06) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>58</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>56</sup> See BOX Rule 8050.

<sup>57</sup> 15 U.S.C. 78s(b)(2).

<sup>58</sup> 17 CFR 200.30-3(a)(12).