

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69598; File No. SR-BOX-2013-26)

May 16, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change, as Modified by Amendment No. 1, to Amend the Fee Schedule to Establish Fees for Jumbo SPY Option Transactions

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 May 8, 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. On May 10, 2013, the Exchange submitted Amendment No. 1 to the proposed rule change. 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, as amended, 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 to establish fees for Jumbo SPY Option transactions on the BOX Market LLC (“BOX”) options facility. While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on May 10, 2013. The text of the proposed rule change is available from the principal

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).

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 received approval to list and trade option contracts overlying 1,000 shares of the SPDR[®] S&P[®] 500 Exchange-Traded Fund⁵ (“Jumbo SPY Options”).⁶ Except for the difference in the number of deliverable shares, Jumbo SPY Options have the same terms and contract characteristics as regular-sized options contracts (“standard options”), including exercise style.

The Exchange notes that in the approval order the Commission stated it believed “the listing and trading of Jumbo SPY Options could benefit investors by providing them with an additional investment alternative.” The Commission also stated “that the listing and trading of

⁵ “SPDR[®],” “Standard & Poor’s[®],” “S&P[®],” “S&P 500[®],” and “Standard & Poor’s 500” are registered trademarks of Standard & Poor’s Financial Services LLC. The SPY ETF represents ownership in the SPDR S&P 500 Trust, a unit investment trust that generally corresponds to the price and yield performance of the SPDR S&P 500 Index.

⁶ See Securities Exchange Act Release No. 69511 (May 03, 2013)(Order Approving SR-BOX-2013-06).

Jumbo SPY Options could benefit investors by providing another means to mitigate risk in managing large portfolios, particularly for institutional investors.”⁷

The Exchange will list Jumbo SPY Options beginning May 10, 2013. The purpose of this filing is to establish transaction fees for trading in Jumbo SPY Options. In considering the appropriate and equitable amount for these transaction fees, the Exchange considered that it would like to promote trading in this new product by keeping the Jumbo SPY Options fees low and easy for investors to understand. The Exchange believes that the proposed transaction fees strikes the appropriate balance between establishing reasonable fees and the Exchange’s goal of introducing a new product to the marketplace that is competitively priced.

The following is a discussion of the existing Fee Schedule as it relates to the treatment of Jumbo SPY Options as compared to standard option contracts.

Section I. Exchange Fees

The Exchange proposes to create a new category of Section I (Exchange Fees) for Jumbo SPY Option transactions. Currently the Exchange assesses exchange fees based on the transaction type and account type. Specifically, the Exchange has distinct fees for Auction Transactions (transactions executed through the BOX Price Improvement Period, Solicitation, and Facilitation auction mechanisms), and non-Auction Transactions (transactions executed on the BOX Book). The account types on BOX are Public Customer, Professional Customer, Broker-Dealer, and Market Maker (see BOX Rule 100 Series for definitions of each).

The Exchange proposes to create a new category of Exchange Fees for all Jumbo SPY Option transactions, regardless of whether the transaction is through an Auction or executed on the BOX Book (therefore a Non-Auction Transaction). Specifically the Exchange proposes to

⁷ Id.

assess a \$0.00 per contract fee for Public Customers and a \$0.25 per contract fee for Professional Customers and Broker-Dealers. For Market Makers the Exchange proposes to assess either a \$0.25 per contract fee or a tiered per contract execution fee based upon the Participant's monthly average daily volume ("ADV") detailed in Section I.B of the Fee Schedule, whichever one is lower. For example, under Section I.B of the Fee Schedule a Market Maker with a monthly ADV of 6,000 contracts would be charged a per contract fee of \$0.30. This amount is higher than \$0.25 so the Market Maker would only be charged \$0.25 per contract in Jumbo SPY Option transactions. However, if the Market Maker had a monthly ADV of 60,000 contracts, the per contract fee would be lowered to \$0.18. This fee is lower than \$0.25 so the Market Maker would be charged \$0.18 per contract in any Jumbo SPY Option transactions.

For Exchange Fees that are based upon a Participant's monthly average daily volume ("ADV") as outlined in Sections I.A. and I.B., the Exchange proposes to count all Jumbo SPY Option transactions the same as standard option transactions. The Exchange currently gives volume incentives for Initiating Participants based on their ADV in Auction Transactions, and for Market Makers based on their ADV in all transactions executed on BOX. For example, a Broker-Dealer initiating a Jumbo SPY Option Primary Improvement Order would be charged according to the proposed Jumbo SPY Option transaction sub-section outlined above, or \$0.25. However, this transaction would count toward that Broker-Dealer's ADV in Auction Transactions under Section I.A.

Section II. Liquidity Fees and Credits

The Exchange currently assesses liquidity fees and credits for all options classes traded on BOX (unless explicitly stated otherwise) that are applied in addition to any applicable Exchange Fees described above. The Exchange proposes to amend Section II.D (Exempt

Transactions) to state that transactions in Jumbo SPY Options will also be considered exempt from all liquidity fees and credits.

Section III. Complex Order Transaction Fees

The Exchange currently assesses fees and rebates for all Complex Order executions. The Exchange proposes to assess all Complex Order executions involving Jumbo SPY Options the standard Complex Order transaction fee under this section.

Section III. [sic] Eligible Orders Routed to an Away Exchange

The Exchange is not proposing to adopt a routing fee for Jumbo SPY Options because Jumbo SPY Options are not currently traded on any other options exchange.

Section IV. [sic] Regulatory Fees

Presently the Exchange charges an Options Regulatory Fee (“ORF”) of \$0.0030 per contract. The Options Regulatory Fee is assessed on each BOX Options Participant for all options transactions executed or cleared by the BOX Options Participant that are cleared by The Options Clearing Corporation (OCC) in the customer range regardless of the exchange on which the transaction occurs. The Exchange is proposing to charge the same rate for transactions in Jumbo SPY Options, since the costs to the Exchange to process quotes, orders, trades and the necessary regulatory surveillance programs and procedures in Jumbo SPY Options are the same as for standard contracts. As such, the Exchange feels that it is appropriate to charge the ORF at the same rate as the standard contract.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,⁸ in general, and Sections 6(b)(4) and 6(b)(5) of the Act,⁹ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among BOX Participants and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

Exchange Fees

In setting the proposed fees for Jumbo SPY Option transactions, the Exchange considered that it would like to promote trading in this new product by keeping the Jumbo SPY Option transaction fees low and easy for investors to understand. The Exchange believes that these fees strike the appropriate balance between establishing new fees and the Exchange's goal of introducing new products to the marketplace that are competitively priced.

First, the Exchange believes the proposed fees are reasonable and equitable because they provide comparable pricing to the transaction fees currently assessed by the Exchange. The Exchange also believes it is equitable and not unfairly discriminatory that Public Customers be charged \$0.00 for transactions in Jumbo SPY Options. Public Customers are currently not charged PIP Order and Agency Order transactions, and establishing the same fee will help promote Public Customer order flow in Jumbo SPY Options. The securities markets generally, and BOX in particular, have historically aimed to improve markets for investors and develop various features within the market structure for customer benefit. As such, the Exchange believes the proposed fee for Public Customer transactions in Jumbo SPY Options is appropriate

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(4) and (5).

and not unfairly discriminatory. The Exchange believes it promotes the best interests of investors to have lower transaction costs for Public Customers, and that the proposed Jumbo SPY fees will attract Public Customer order flow to BOX.

Moreover, the Exchange believes that assessing a \$0.25 fee for Jumbo SPY Option transactions by Professionals, Broker-Dealers, and in certain cases Market Makers, is reasonable because it will help promote trading in this new product. These Participants are currently charged higher fees for their Auction and Non-Auction Transactions, and assessing a lower fee than would otherwise be applicable will help generate trading in Jumbo SPY Options. The Exchange also believes that this fee is equitable and not unfairly discriminatory because these types of Participants are more sophisticated and have higher levels of order flow activity and system usage. This level of trading activity draws on a greater amount of BOX system resources than that of Public Customers, and thus, greater ongoing BOX operational costs. As such, rather than passing the costs of these higher order volumes along to all market participants, the Exchange believes it is more reasonable and equitable to assess those costs to the persons directly responsible. To that end, BOX aims to recover costs incurred by assessing Professionals, Broker-Dealers and Market Makers a higher fee for Jumbo SPY Option transactions than the fee proposed for Public Customers. Further, the Exchange believes that charging Professionals, Broker-Dealers and in certain cases Market Makers the same fee for all transactions in Jumbo SPY Options is not unfairly discriminatory as the fees will apply to these Participants equally. Additionally, Professionals and Broker-Dealers remain free to change the manner in which they access BOX.

Further, with regard to Jumbo SPY Option transaction fees, the Exchange believes it is equitable and not unfairly discriminatory for BOX Market Makers to have the opportunity to

benefit from a potentially discounted fee than that charged to Broker-Dealers and Professional Customers. Market Makers also have additional obligations that are not applicable to Professional Customers and Broker-Dealers. In particular, they must maintain active two-sided markets in the classes in which they are appointed, and must meet certain minimum quoting requirements. As such, the Exchange believes it is appropriate that Market Makers be charged potentially lower Jumbo SPY Option transaction fees on BOX than the fees charged to Broker-Dealers and Professional Customers.

The Exchange believes that the proposed tiered and potentially discounted Jumbo SPY Options fees for Market Makers that, on a daily basis, trade an average daily volume (as calculated at the end of the month) of more than 50,000 contracts on BOX represent a fair and equitable allocation of reasonable dues, fees, and other charges as they are aimed at incentivizing these Participants to provide a greater volume of liquidity. Specifically, Market Makers can provide higher volumes of liquidity and possibly lowering their Jumbo SPY Option fees may help attract a higher level of Market Maker order flow to BOX and create liquidity, which the Exchange believes will ultimately benefit all Participants trading on BOX. As such, the Exchange believes it is appropriate that Market Makers may potentially be charged lower Jumbo SPY Option transaction fees.

The Exchange believes that the proposed Market Maker tiered execution fee for Jumbo SPY Options contracts is equitable because it is available to all Market Makers on an equal basis and provides discounts that are reasonably related to the size of the contract and the value to an exchange's market quality associated with higher levels of market activity. For the reasons listed above, the Exchange believes it is appropriate that Market Makers be charged potentially lower

transaction fees for Jumbo SPY Options on BOX when they provide greater volumes of liquidity to the market.

The Exchange also believes it is reasonable, equitable and not unfairly discriminatory to combine the volume in standard options contracts and Jumbo SPY Options to calculate an Initiating Participant or Market Maker's ADV under Sections I.A. and I.B., because doing so will provide these Participants with an opportunity to qualify for lower transaction fees, therefore, incentivizing them to trade more order flow on the Exchange. Specifically, the Exchange believes that providing a volume discount to Options Participants that initiate auctions on Customer orders incentivizes these Participants to submit their customer orders to BOX, particularly into the PIP for potential price improvement. Even though they are treated differently in regards to the transaction fee assessed, Jumbo SPY Option Auction transactions are still Auction Transactions and Initiating Participants should receive the benefit of aggregating all their Auction transactions to more easily attain a discounted fee tier. The Exchange also believes it is reasonable, equitable and not unfairly discriminatory to combine volume in standard options and Jumbo SPY Options to calculate the tier a Market Maker has reached because doing so will provide the Market Maker with an opportunity to qualify for increased rebates and, therefore, incentivize Participants to trade more of such order flow on the Exchange.

The Exchange believes that the proposed Jumbo SPY Option Exchange Fees will be applied in such a manner so as to be equitable among all BOX Participants. The Exchange believes the proposed fees are fair and reasonable.

Complex Order Transaction Fees

The Exchange proposes to assess Complex Orders involving Jumbo SPY Options the standard fees and credits outlined in Section III (Complex Order Transaction Fees). The

Exchange believes the proposed Complex Order Fees applicable to Jumbo SPY Options are reasonable, equitable and non-discriminatory because they further the Exchange's goal of promoting trading in this new product. The Exchange's Complex Order Book was launched on May 3, 2013 and the Exchange believes that adjusting the Complex Order fees for Jumbo SPY Option would unnecessarily confuse investors. Further, the Exchange believes that this proposal is not unfairly discriminatory as the assessment of standard Complex Order fees on Complex Order involving Jumbo SPY will apply equally to all Participants on the Exchange.

Liquidity Fees and Credits

BOX believes that it is reasonable, equitable and not unfairly discriminatory to exempt Jumbo SPY Option transactions from Liquidity Fees and Credits. Liquidity fees and credits are intended to attract order flow to BOX by offering incentives to all market participants to submit their orders to BOX. While the Exchange believes that listing Jumbo SPY Options will benefit investors by providing additional methods to trade highly liquid SPY options and mitigate the risks inherent in managing large portfolios, due to the unique and novel nature of Jumbo SPY Options the Exchange believes it is reasonable to not provide additional incentives to market participants to submit orders in this product.

Further, since SPY options are currently the most actively traded option class in terms of average daily volume ("ADV"),¹⁰ the Exchange does not believe that an added incentive to

¹⁰ SPY ADV was 2,156,482 contracts in April 2012. ADV for the same period for the next four most actively traded options was: Apple Inc. (option symbol AAPL) – 1,074,351; S&P 500 Index (option symbol SPX) – 656,250; PowerShares QQQ TrustSM, Series 1 (option symbol QQQ) – 573,790; and iShares® Russell 2000® Index Fund (option symbol IWM) – 550,316. The Exchange notes that any expansion of the program would require that a subsequent proposed rule change be submitted to the Commission.

increase volume in these issues is needed. In standard contract transactions BOX collects a fee from Participants that add liquidity on BOX and credits another Participant an equal amount for removing liquidity. Stated otherwise, the collection of these liquidity fees does not directly result in revenue to BOX, but simply allows BOX to provide the credit incentive to Participants to attract order flow. The Exchange believes that it is reasonable and equitable to exempt Jumbo SPY Options from liquidity fees and credits since these fees and credits for transactions offset one another in any particular transaction.

Further, the Exchange believes that this proposal is not unfairly discriminatory as the exemption of Jumbo SPY Options from liquidity fees and credits applies equally to all Participants and across all account types on the Exchange.

Routing Fees

The Exchange is not proposing to adopt a routing fee for Jumbo SPY Options because Jumbo SPY Options are not currently traded on any other options exchange.

Regulatory Fees

Finally, as discussed above, the Exchange believes that charging the same ORF for transactions in Jumbo SPY Options is reasonable, equitable and not unfairly discriminatory since the costs to the Exchange to process quotes, orders, trades and maintain the necessary regulatory surveillance programs and procedures in Jumbo SPY Options are the same as for standard options. The ORF is in place to help the Exchange offset regulatory expenses and the Exchange's cost of supervising and regulating Participants, including performing routine surveillances, and policy, rulemaking, interpretive, and enforcement activities remains the same for Jumbo SPY Options.

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. The Exchange believes that by offering Jumbo SPY Options it will encourage order flow to be directed to the Exchange, which will benefit all market participants by increasing liquidity on the Exchange. Specifically, the Exchange believes that adopting fees for Jumbo SPY Options that are low and easy for investors to understand will incentivize market participants to trade this new product and will not impose a burden on competition among various market participants on the Exchange but rather will continue to promote competition on the Exchange.

The Exchange believes that the adopting of the proposed fees for Jumbo SPY Options will not impose any unnecessary burden on intermarket competition because even though Jumbo SPY Options will be listed solely on the Exchange, the Exchange operates in a highly competitive market comprised of eleven exchanges, any of which may determine to trade a similar product. Also, Jumbo SPY Options should result in increased options volume and greater trading opportunities for all market participants.

The Exchange also believes that adopting fees on Jumbo SPY Options will not impose a burden on competition among various market participants on the Exchange. BOX currently assesses distinct standard contract Exchange fees for different account and transaction types. The Exchange believes that applying a similarly segmented fee structure to Jumbo SPY Options will result in these participants being charged proportionally for their transactions in Jumbo SPY Options.

Accordingly, the fees that are assessed by the Exchange described in the above proposal are influenced by these robust market forces and therefore must remain competitive with fees

charged by other venues for other products, and therefore must continue to be reasonable and equitably allocated.

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 Act¹¹ and Rule 19b-4(f)(2) thereunder,¹² 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, as amended, 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

¹¹ 15 U.S.C. 78s(b)(3)(A)(ii).

¹² 17 CFR 240.19b-4(f)(2).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2013-26 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-2013-26. 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

to File Number SR-BOX-2013-26 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.¹³

Kevin M. O'Neill
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).