SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74876; File No. SR-BOX-2015-06)

May 5, 2015

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change to Establish a Pilot Program, as Modified by Amendment No. 1, to List and Trade Options Settling to the RealVol™ SPY Index

I. Introduction

On January 21, 2015, the BOX Options Exchange LLC (the "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to list and trade P.M.-settled options settling to the RealVol™ SPY Index ("Index"). The proposed rule change was published for comment in the Federal Register on February 5, 2015.[3] On March 18, 2015, pursuant to Section 19(b)(2) of the Act,[4] the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.[5] On April 9, 2015, the Exchange filed Amendment No. 1 to the proposed rule change.[6] The Commission

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

[3] See Securities Exchange Act Release No. 74178 (January 30, 2015), 80 FR 6558 (February 5, 2015) ("Notice").

[4] 15 U.S.C. 78s(b)(2).

[5] See Securities Exchange Act Release No. 74526 (March 18, 2015), 80 FR 15653 (March 24, 2015). The Commission designated a longer period within which to take action on the proposed rule change and designated May 6, 2015, as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

[6] See Amendment No. 1; see also infra notes 14–18 and accompanying text.

received one comment letter on the proposed rule change.[7] This Order grants approval of the proposed rule change, as modified by Amendment No. 1, on an accelerated basis for a twelve-month pilot period.

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade, on a pilot basis, P.M.-settled, cash-settled, European-style options settling to the Index (proposed symbol VOLS[8]), for a pilot period of twelve months ("Pilot Program"). The Index measures the daily realized volatility[9] of the SPDR S&P 500 Exchange-Traded Fund ("SPY"),[10] based on a 21-trading day rolling realized volatility of the daily closing price of SPY.

The Index is calculated using a methodology developed by The VolX Group Corporation ("VolX"),[11] and will be calculated and maintained by a third party calculation agent acting on behalf of VolX. The Index will be updated on each trading day after the close of trading of SPY.[12] Although the Index is based only on daily closing values of SPY, a real-time version of the Index that is based on the current SPY price will be calculated during the trading day and

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7 See letter from John O'Connell, Financial Integration, to Commission, dated February 8, 2015 ("O'Connell Letter").

8 Options settling to the Index are hereafter referred to as VOLS.

9 The Exchange states that realized volatility is the "actual volatility," "statistical volatility," or "asset volatility" that the underlying asset has displayed over a specific period. See Notice, supra note 3, at 6559.

10 According to the Exchange, SPY has historically been the largest and most actively-traded exchange-traded fund in the United States as measured by its assets under management and the value of shares traded. See id.

11 See id. (describing in more detail the calculation methodology for the Index).

12 According to the Exchange, if the current published value of SPY is not available, because of a market disruption event where the market cannot open and there is no closing price for SPY, for example, the Index will continue to be calculated and disseminated. The calculation of the Index will compensate for the missing day's returns by lowering the value of "n" in the formula by the number of days that there is no closing price for SPY. See id.

disseminated at least every 15 seconds during the trading day to market data vendors. This real-time version will provide an estimate of the Index at the close.[13] The Exchange states that values of the Index also will be disseminated to market information vendors such as Bloomberg and Thomson Reuters. In the event the Index ceases to be maintained or calculated, the Exchange will not list any additional series for trading and will limit all transactions in such options to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

The Exchange proposes that its standard trading hours for index options (9:30 a.m. to 4:15 p.m., Eastern time) will apply to VOLS. Standard VOLS will expire on the third Friday of each month. Trading in expiring VOLS will normally cease at 4:15 p.m. (Eastern time) on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day before its expiration. The exercise and settlement value will be calculated based on the Index value at the close of the last business day of trading, which is ultimately based on the closing price of SPY on the last business day of trading, for its final input value. The exercise-settlement amount is equal to the difference between the settlement value and the exercise price of the option, multiplied by $100. Exercise will result in the delivery of cash on the business day following expiration.

The Exchange proposes to adopt minimum trading increments for VOLS to be $0.05 for series trading below $3, and $0.10 for series trading at or above $3. The Exchange also proposes to set the minimum strike price interval at $0.50 strike price (or greater) intervals for VOLS where the strike price is less than $75; $1 strike price (or greater) intervals where the strike price

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13 The Exchange represents that after the market close, the real-time formula and the formula used calculate to the Index will have exactly the same value. See id. at 6559–6560 (describing in more detail the calculation of the real-time version of the Index).

is $200 or less; and $5 strike price (or greater) intervals where the strike price is greater than $200.

Amendment No. 1 corrects an inaccurate statement in the Notice regarding the exercise price range limitations for new series of index options.[14] Under the Exchange's rules, when new series of index options with a new expiration date are opened for trading, or when additional series of index options in an existing expiration date are opened for trading, as the current value of the underlying index moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series shall be reasonably related to the current value of the underlying index at the time such series are first opened for trading.[15] The term "reasonably related to the current index value of the underlying index" means that the exercise price is within 30% of the current index value, as defined in BOX Rule 6090(c)(4).[16] In the Notice, the Exchange stated that it proposed to eliminate, for VOLS, the range limitation in BOX Rule 6090(c)(3) requiring the exercise prices of new or additional series of index options to be reasonably related to the current value of the underlying index at the time such series are first opened for trading. The Notice erroneously stated that the Exchange's proposal to permit exercise prices without a range limitation would be identical to those adopted by the Chicago Board Options Exchange, Incorporated ("CBOE") for options on the CBOE Volatility Index ("VIX").[17] Amendment No. 1 provides that the exercise price ranges for VOLS will be subject

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14 See Amendment No. 1.

15 See BOX Rule 6090(c)(3).

16 See Notice, supra note 3, at 6560.

17 See id.

to the exercise price range limitations under BOX Rule 6090(c)(3).[18]

The Exchange states that its rules provide that index option contracts may expire at three-month intervals or in consecutive months.[19] The Exchange proposes to list VOLS in six consecutive expiration months.[20] In addition, long-term option series having up to 180 months to expiration[21] and Short Term Option Series[22] in VOLS may also be listed and traded.[23] VOLS will be quoted and traded in U.S. dollars.[24]

The Exchange believes that the Index is a broad-based index, as that term is defined in BOX Rule 6010(j).[25] The Exchange proposes that there shall be no position or exercise limits for VOLS, and also proposes to apply margin requirements for the purchase and sale of VOLS

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18 Amendment No. 1 also modifies Exhibit 5 by striking from the proposed text of BOX Rule 6090(c)(7) an erroneous reference to BOX Rules 6090(c)(3) and (c)(4). See Amendment No. 1.

19 See Notice, supra, note 3, at 6560; BOX Rule 6090(a)(3).

20 For example, the Exchange states that six monthly expirations from January through June may be listed. This is consistent with BOX Rule 6090(a)(3), which permits the Exchange to list up to six expiration months at any one time. See Notice, supra note 3, at 6560.

21 See BOX Rule 6090(b)(1).

22 See IM-6090-2 to BOX Rule 6090. The Exchange states that it may open Short Term Option Series for trading on any Thursday or Friday that is a business day and that expire on each of the next five Fridays that are business days and are not Fridays in which monthly options series or quarterly options series expire. See Notice, supra note 3, at 6561; see also IM-6090-2(a) to BOX Rule 6090. The Exchange states that the interval between strike prices on Short Term Options Series may be $0.50 or greater where the strike price is less than $75, and $1 or greater where the strike price is between $75 and $150. During the month prior to expiration of an index option class that is selected for the Short Term Option Series Program, the strike price intervals for the related non-Short Term Option shall be the same as the strike price intervals for the Short Term Option. See Notice, supra note 3, at 6561; see also IM-6090-2(b)(5) to BOX Rule 6090.

23 See Notice, supra note 3, at 6559.

24 See BOX Rule 6090(a)(1).

25 BOX Rule 6010(j) defines the term “broad-based index” as an index designed to be representative of a stock market as a whole or a range of companies in unrelated industries.

that are identical to the margin requirements adopted by CBOE for options on the VIX.[26]

In addition, the Exchange proposes that the trading of options on the Index will be subject to the same rules that currently govern the trading of Exchange index options, including sales practice rules and trading rules.[27] Trading of VOLS will also be subject to the trading halt procedures applicable to other index options traded on the Exchange.[28] Further, Section 4000 of the Exchange's rules, which is designed to protect public customer trading, will apply to trading in VOLS.

The Exchange believes that because the Index will settle using published quotes for SPY and there are currently no position limits for SPY options, it is appropriate not to impose position or exercise limits for VOLS. The Exchange notes that because the size of the market underlying SPY options is so large, it should dispel concerns regarding market manipulation. The Exchange believes that the same reasoning applies to VOLS since the value of VOLS is derived from the realized volatility of SPY. The Exchange also notes that VIX options are not subject to any position or exercise limits.[29] The Exchange represents that it has an adequate surveillance program in place for the VOLS product and intends to apply to it the same program procedures that it applies to the Exchange's other options products.[30] The Exchange states that its surveillance procedures will allow the Exchange to adequately surveil for any potential manipulation in the trading of VOLS. The Exchange states that, in its normal course of

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26 The Exchange has proposed to amend BOX Rule 10120 (Margin Requirements) to make clear that the margin requirements for VOLS will be identical to those adopted by CBOE for options on the VIX. See CBOE Rule 12.3.

27 See Notice, supra note 3, at 6561.

28 Id. at 6560; see also BOX Rule 6080(c).

29 See Notice, supra note 3, at 6560–6561.

30 See id. at 6561.

surveillance, it will monitor for any potential manipulation of the Index settlement value according to the Exchange's current procedures. In addition, the Exchange notes that it is a member of the Intermarket Surveillance Group, through which it can coordinate surveillance and investigative information sharing in the stock and options markets with all of the U.S. registered stock and options markets. The Exchange also represents that it has the necessary system capacity to support additional quotations and messages that will result from the listing and trading of VOLS.[31]

The Exchange proposes that proposed rule change to list and trade VOLS be approved on a pilot basis for a period of twelve months. As part of the Pilot Program, the Exchange committed to submit a pilot program report to the Commission two months prior to the expiration date of the pilot program (the "annual report").[32] The annual report would include an analysis of volume, open interest, and trading patterns. The analysis would examine trading in VOLS as well as trading in SPY. In addition, for series that exceed certain minimum open interest parameters, the annual report would provide an analysis of index price volatility and SPY trading activity. In addition to the annual report, the Exchange committed to provide the Commission with periodic interim reports while the pilot is in effect that would contain some, but not all, of the information contained in the annual report ("interim reports"). In its filing, BOX notes that it would provide the annual and interim reports to the Commission on a confidential basis.[33]

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31 Id.

32 Id. at 6561–6562.

33 Id. at 6562.

III. Discussion and Commission Findings

After careful consideration of the proposal, 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,[34] and, in particular, the requirements of Section 6 of the Act.[35] Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[36] 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. In particular, the Commission believes that the proposed VOLS options product provides investors with an additional trading and hedging mechanism. Further, as noted above, the Commission received one comment letter in support of the proposal and endorsed the usefulness of the VOLS products for these purposes. The comment letter stated, "[t]hese options will be extremely helpful for hedging index option exposure, equity portfolios, and as a risk-management tool for hedge fund managers."[37] In addition, the Commission believes that the proposal will allow BOX to conduct a limited and carefully monitored pilot for the listing and trading of VOLS, as proposed.

The Commission believes that the Exchange's proposal to impose no position or exercise limits on VOLS is appropriate and consistent with the Act. The Commission also believes that the proposed strike price intervals are consistent with the Act. $0.50 or greater strikes for VOLS

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34 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).

35 15 U.S.C. 78f.

36 15 U.S.C. 78f(b)(5).

37 See O'Connell Letter, supra note 7, at 1.

where the strike price is less than $75, $1 or greater strike price intervals for VOLS where the strike price is $200 or less, and $5 or greater strike price intervals for VOLS when the strike price is greater than $200 should provide investors with added flexibility in the trading of VOLS options and will further the public interest by allowing investors to establish positions that are better tailored to meet their investment objectives. Moreover, the Commission notes that, under the Exchange's rules, the strike prices of new or additional series of VOLs shall be reasonably related to—i.e., within 30% of—the current value of the underlying index at the time such series are first opened for trading.[38] The Commission also notes that the Exchange has represented that it has the necessary system capacity to handle the additional quotations and messages associated with the listing and trading of VOLS.[39]

The Commission also believes that it is consistent with the Act to apply margin requirements to the proposed VOLS product that are identical to the margin requirements adopted by the CBOE for options on the VIX. The Exchange has represented that BOX options participants and their associated persons are bound by the initial and maintenance margin requirements of either the CBOE or the New York Stock Exchange, pursuant to BOX Rule 10120.[40] As the CBOE VIX measures the expected volatility of the S&P 500 Index, the Commission believes it is acceptable to apply the same margin requirements applying to VIX options to VOLS, which are options on an index measuring the realized volatility of SPY. The Commission further believes that the Exchange's proposed minimum trading increment, series openings, and other aspects of the proposed rule change are appropriate and consistent with the Act.

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[38] See BOX Rule 6090(c)(3) and (c)(4).

[39] See Notice, supra note 3, at 6561.

[40] Id. at 6560.

In the Commission's order approving the listing and trading of P.M.-settled options on the S&P 500 Index on CBOE,[41] the Commission noted that the potential impact on the market at expiration for the underlying component stocks for a P.M.-settled, cash-settled index option remained unclear, given past experience with the impact of P.M. settlement of cash-settled index derivatives on the underlying cash markets and the enhanced closing procedures that are now in use at the primary equity markets.[42] To assist the Commission in assessing any potential impact of a P.M.-settled VOLS product on the options markets as well as the underlying cash equities markets, BOX will be required to submit data to the Commission as a condition of Commission approval of the VOLS product on a pilot basis. The Commission believes that BOX's proposed twelve-month pilot, together with the data and analysis that BOX should provide to the Commission, should allow BOX and the Commission to monitor for and assess any potential for adverse market effects. Specifically, the data and analysis should assist the Commission in evaluating the effect of allowing P.M. settlement for VOLS on SPY.

BOX's proposed twelve-month pilot will enable the Commission to collect current data to assess and monitor for any potential for impact on the markets. In particular, the data collected from BOX's Pilot Program will help inform the Commission's consideration of whether the pilot should be modified, discontinued, extended, or permanently approved. The Pilot Program information should help the Commission assess the impact on the markets and determine whether other changes are necessary. Furthermore, the Exchange's ongoing analysis of the pilot should help it monitor any potential risks from large P.M.-settled positions and take appropriate action on a timely basis if warranted.

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[41] See Securities Exchange Act Release No. 68888 (February 8, 2013), 78 FR 10668 (February 14, 2013).

[42] Id. at 10669.

As a national securities exchange, the Exchange is required, under Section 6(b)(1) of the Act,[43] to enforce compliance by its members and persons associated with its members with the provisions of the Act, Commission rules and regulations thereunder, and its own rules. In this regard, the Commission notes that trading of VOLS will be subject to the same rules that currently govern the trading of other index options on the Exchange.[44] In addition, as noted above, the Exchange has asserted that the Index settlement value is not susceptible to manipulation.[45] Moreover, the Exchange has represented that it has an adequate surveillance program in place for options traded on the Index, and will monitor for any potential manipulation of the Index settlement value according to its current surveillance procedures.[46] In approving the proposed listing and trading of the Index options, the Commission has also relied on BOX's representation that it has the necessary system capacity to support the new options series that will result from this proposal.[47]

Accordingly, for the reasons stated above, the Commission finds good cause, pursuant to Section 19(b)(2)[48] of the Act, for approving the Exchange's proposal, as modified by Amendment No. 1, prior to the 30th day after the date of publication of the notice in the Federal Register.

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43 15 U.S.C. 78f(b)(1).

44 See supra note 27 and accompanying text.

45 See Notice, supra note 3, at 6561.

46 Id.

47 Id.

48 15 U.S.C. 78s(b)(2).

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-2015-06 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2015-06. 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 will also 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-2015-06 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[49] that the proposed rule change (SR-BOX-2015-06), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis for a twelve-month pilot period set to expire on May 6, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[50]

Jill M. Peterson
Assistant Secretary

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49 15 U.S.C. 78s(b)(2).

50 17 CFR 200.30-3(a)(12).