



BOXSM
OPTIONS EXCHANGE

January 3, 2014

Via E-mail and FedEx

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Response to Comment Letter on File Number SR-BOX-2013-51

Dear Ms. Murphy:

BOX Options Exchange LLC (the "Exchange" or "BOX") provides this response to a comment letter submitted by the International Securities Exchange, LLC ("ISE") on the above listed Proposal to amend the BOX Fee Schedule (the "Proposal"). BOX believes these changes are in all respects consistent with the Exchange Act.¹ Among the substantive standards for self-regulatory organizations under Section 6(b) of the Exchange Act is the requirement that rules must "provide for the equitable allocation of reasonable dues, fees and other charges among its members and issuers and other persons using its facilities." Under Section 6(b), SRO rule proposals also must "protect investors and the public interest" and must not be "designed to permit unfair discrimination between customers, issuers, brokers, or dealers."

I. Adjustments to the tiered fee structure for Initiating Participants

The Exchange believes the adjustments to the tiered fee structure for Initiating Participants in Auction Transactions are reasonable, equitable and not unfairly discriminatory. With this Proposal, Participants who initiate an auction transaction by submitting a Primary Improvement Order,² Facilitation Order or Solicitation Order are assessed a lower exchange fee regardless of their overall trading volume in BOX Auction transactions. The Proposal also lowered the applicable fees in each volume tier.

The Proposal satisfies Section 6(b)(4) of the Act by providing an equitable allocation of reasonable fees. Volume-based incentive programs, including the Exchange's tiered fee schedule for Initiating Participants, are already commonly used in the

¹ 15 U.S.C. 78f(b)(4) and (5).

² A Primary Improvement Order is the matching contra order submitted to the PIP on the opposite side of an agency order.



industry to attract order flow.³ As such the Exchange's Proposal is merely adjusting the higher volume tiers so that they are available to a broader set of Initiating Participants. Further, the Exchange believes the Proposal will encourage PIP transactions, which will benefit customers by increasing the opportunity for price improvement.

Additionally, the Exchange believes it is reasonable for Participants initiating a PIP to be assessed a lower fee than those providing responses. Initiating Participants guarantee the PIP Order an execution at the NBBO or at a better price, and are subject to market risk during the time period the PIP Order is exposed to other BOX Participants. While other PIP Participants are also subject to market risk, those providing responses in the PIP through Primary Improvement Orders are not permitted to cancel their orders and may only modify their Primary Improvement Order, including reducing their order quantity, by providing a better price. The Exchange believes that the Initiating Participant acts in a critical role in the PIP as their willingness to guarantee the customer PIP Order an execution at a price equal to or better than NBBO is the keystone to the customer order gaining the opportunity for price improvement.

The Exchange believes these adjustments are non-discriminatory and consistent with Section 6(b)(5) of the Act as the tiered fee schedule is available to all Participants that initiate Action Transactions and Participants may choose whether or not to trade on BOX to take advantage of the discounted fees.

II. Increase in liquidity fees and credits for PIP transactions

In its comment letter ISE asserts that the increase in BOX PIP fees and credits for certain PIP transactions enhances an already anti-competitive fee structure and circumvents competition in the PIP. BOX believes the comment letter fails to raise any novel issues or concerns that have not previously been refuted. ISE made the same argument when this fee was instituted as a pilot in 2011.⁴ At the request of the Commission, the Exchange published monthly data reports to assess the impact on

³ See BZX Fee Schedule, Chicago Board Options Exchange, Inc. Fee Schedule, International Securities Exchange, Inc. Schedule of Fees, MIAX Options Fee Schedule, NASDAQ OMX PHLX LLC Pricing Schedule, and NASDAQ Options Market Chapter XV Options Pricing, Section 2.

⁴ See ISE Comment Letters on SR-BX-2011-046. While fees and credits applicable under the Program first went into effect on August 1, 2011, the Program was suspended by the Commission on September 13, 2011. The Exchange then filed a notice of intention to petition for review on September 20, 2011, which triggered an automatic stay of the suspension and the previous fee schedule was reinstated. On October 19, 2011, the Commission denied the Exchange's petition and the applicable fees and credits were once again suspended. The Commission approved the proposed fee change on a pilot basis on January 30, 2012 and the Program was in effect on the Exchange from February 1, 2012 to August 31, 2013. See Securities Exchange Commission Release Nos. 65330 (September 13, 2011), 76 FR 58065, 58066 (September 19, 2011) (SR-BX-2011-046) (Suspension of and Order Instituting Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change To Amend the BOX Fee Schedule With Respect to Credits and Fees for Transactions in the BOX Price Improvement Period); and 66278 (January 30, 2012), 77 FR 5590 (February 3, 2012) (SR-BX-2011-46) ("Approval Order").



competiveness within the PIP and the extent of price improvement obtained for customers. The long term data trends established through these reports clearly demonstrate that the increased fees and credits did not have the negative impact as suggested by the ISE. Consequently, in September of this year the Exchange made the fee change free of any pilot restrictions.⁵ Furthermore, the Exchange has examined the relevant PIP transaction data for November 2013⁶ and believes nothing in the data supports the assertions made by the ISE.

In conclusion, the BOX market model and fee structure aims to benefit retail customers above other interests. BOX Participants serving retail customers appreciate this approach, and we believe the Commission should as well. BOX believes that more than \$457 million in price improvement benefits to investors is consistent with both the public interest and the Exchange Act. As such, we urge the Commission not to suspend the Proposal, nor to institute proceedings to disapprove the Proposal. Please contact me at (312) 444-6328 if you have any questions regarding this matter.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Anthony D. McCormick".

Anthony D. McCormick
Chief Executive Officer

cc: Heather Seidel, Associate Director, Division of Trading and Markets

⁵ See Securities Exchange Act Release No. 70369 (September 11, 2013), 78 FR 57191 (September 17, 2013) (SR-BOX-2013-44).

⁶ See the attached BOX PIP Fee Report for November 2013. The report contains the following 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 Responders 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.

November 2013	When BOX is at the NBBO		When BOX is not at the NBBO	
	PIP Transactions Series in Penny Pilot Classes with a one-cent MPV	PIP Transactions in Series with an MPV greater than one cent	PIP Transactions Series in Penny Pilot Classes with a one-cent MPV	PIP Transactions in Series with an MPV greater than one cent
All order sizes				
TOTAL	370,011	672,987	1,247,457	616,586
Initiator* # of Contracts	144,838	245,363	605,557	297,731
Directed Non-Affiliate*** # of Contracts	2,192	8,986	33,409	20,917
Other**** # of Contracts	222,981	418,638	608,491	297,938
% of Contracts Receiving Price Improvement over NBBO when Initiator is the contra party	71%	97%	31%	87%
% of Contracts Receiving Price Improvement over NBBO when Directed Non-Affiliate is the contra party	73%	98%	18%	77%
% of Contracts Receiving Price Improvement over NBBO when Other is the contra party	51%	96%	26%	85%
Average # of Responders	2.61	3.92	2.45	2.56
Initiator Price Improvement Amt	\$145,805	\$613,435	\$245,366	\$582,502
Avg Price Improvement Amt (when improved)	\$0.0141	\$0.0257	\$0.0129	\$0.0238
% of Contracts Receiving Price Improvement greater than \$.01	17%	49%	14%	23%
% of Contracts Receiving Price Improvement greater than \$.02	8%	30%	6%	15%
% of Contracts Receiving Price Improvement greater than \$.03	5%	18%	4%	12%
Directed Non-Affiliate Price Improvement Amt	\$4,409	\$88,174	\$12,713	\$118,696
Avg Price Improvement Amt (when improved)	\$0.0276	\$0.0997	\$0.0210	\$0.0742
% of Contracts Receiving Price Improvement greater than \$.01	56%	92%	44%	78%
% of Contracts Receiving Price Improvement greater than \$.02	35%	82%	26%	65%
% of Contracts Receiving Price Improvement greater than \$.03	25%	68%	15%	53%
Other Price Improvement Amt	\$196,641	\$1,288,368	\$259,315	\$1,025,163
Avg Price Improvement Amt (when improved)	\$0.0173	\$0.0320	\$0.0161	\$0.0403
% of Contracts Receiving Price Improvement greater than \$.01	29%	64%	25%	52%
% of Contracts Receiving Price Improvement greater than \$.02	14%	38%	12%	34%
% of Contracts Receiving Price Improvement greater than \$.03	8%	23%	7%	26%