SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69027; File No. SR-BOX-2013-01)

March 4, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Regarding Complex Orders.

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 February 20, 2013, BOX Options Exchange LLC (the "Exchange" or "BOX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On February 27, 2013, the Exchange filed Amendment No. 1 to the proposed rule change. 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 proposes to amend its rules related to complex orders. 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 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.

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

2 17 CFR 240.19b-4.

(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 the rules related to trading Complex Orders[3] on BOX Market LLC ("BOX"), the options trading facility of the Exchange. In particular, the Exchange is proposing rules to facilitate interaction on a continuous and real-time basis among orders on BOX, consisting of Complex Orders on the Complex Order Book[4] and interest on the BOX Book.[5]

The proposed rule change generally sets forth rules to facilitate and permit (i) Complex Orders to trade with interest on the BOX Book and (ii) the combination of a Complex Order and an order on one of its component single option series trading on the BOX Book (each a "Leg") to trade with orders on the other component Leg on the BOX Book.

The Exchange believes this proposal is a reasonable modification to its rules, designed to facilitate increased interaction between orders on the BOX Book and orders on the Complex Order Book, and to do so in such a manner as to ensure a dynamic, real-time trading mechanism that maximizes the opportunity for trade executions for both Complex Orders and orders on single option series. The Exchange believes that it is appropriate and consistent with the Act, for the purpose of clarity and in the public interest, to (i) adopt the proposed amendments to

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3 "Complex Order" is defined as "any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy." See proposed Rule 7240(a)(5).

4 "Complex Order Book" is defined as "the electronic book of Complex Orders maintained by the BOX Trading Host." See proposed Rule 7240(a)(6).

5 "BOX Book" (also the "Central Order Book") is defined as "the electronic book of orders on each single series of options maintained by the BOX Trading Host." See proposed Rule 100(a)(10).

Rules 100(a)(10) and 100(a)(33), (ii) adopt the proposed amendments to Rule 7110(c)(2), (iii) adopt the proposed amendments to Rule 7130(a)(2)(iv), (iv) adopt the proposed amendments to Rules 7150(f)(3), 7150(i) and 7150(j), and (v) delete in its entirety the existing provisions of Rule 7240 (Complex Orders) and adopt the proposed Rule 7240.

a. Principles of Complex Orders and Interaction with the BOX Book

The proposed rule change will require that, before executing against another Complex Order, an executable inbound Complex Order on BOX will execute first against interest on the BOX Book if the net price of such interest on the BOX Book is equal to the best price on the Complex Order Book,[6] provided that each of its component Legs is equal to or better than its respective NBBO.

The Exchange believes this proposed rule change represents two improvements to the rules on other options exchanges regarding Complex Order trading: (i) the priority of the BOX Book is not limited to "if any of the bids or offers established in the marketplace consist of a Customer Order"[7] and (ii) any Complex Order execution, whether against another Complex Order or against interest on the BOX Book, will be at a price at least equal to the cNBBO.[8]

Consequently, a Complex Order will execute against other Complex Orders resting on the Complex Order Book only if the net price is better than cBBO[9] and is equal to or better than

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6 See proposed Rule 7240(b)(3)(i).

7 See, e.g., International Securities Exchange ("ISE") Rule 722(b)(2) and Commentary .08(c)(iii)(A) to PHLX Rule 1080.

8 "cNBBO" is defined as the "the best net bid and offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy." See proposed Rule 7240(a)(3).

9 "cBBO" is defined as "the best net bid and offer price for a Complex Order Strategy based on the BBO on the BOX Book for the individual options components of such Strategy." See proposed Rule 7240(a)(1).

the cNBBO,[10] except in the case of Complex Orders on Non-standard Strategies (as defined below). Complex Order executions on BOX will be subject to an NBBO price control filtering process similar to that presently provided for the trading of individual options series on BOX.[11] Thus, where two Complex Orders trade against each other, the resulting execution prices will be at a price equal to or better than NBBO and BOX best bid or offer ("BBO") for each of the component Legs.[12]

The exception to the priority of the BOX Book is the execution of a Complex Order on Strategies[13] that have a Leg ratio other than one-to-one (herein referred to as "Non-standard Strategies") as provided in proposed Rule 7240(b)(2)(ii). Complex Orders for Non-standard Strategies will execute against interest on the BOX Book for the individual Legs of the Strategy for all of the quantity available at the best price in a permissible ratio until the quantities remaining on the BOX Book are insufficient to execute against the Complex Order while respecting the ratio. Following such execution, the remaining quantity of the Complex Order may execute against other Complex Orders and the component Legs of the Complex Order may trade at prices equal to the corresponding prices on the BOX Book (for more detail, see discussion in 2(d) and Example 5 below related to Non-standard Strategies).

The Exchange proposes to apply the straightforward principle of allowing execution of a Complex Order against another Complex Order when interest on the BOX Book at the same net price has already been executed. Thus, the execution price will be at a price better than cBBO

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10 See proposed Rules 7240(b)(3)(i) and 7240(b)(3)(iii)(A).

11 See proposed Rule 7240(b)(3)(iii). See existing Rule 7130(b) for a more detailed description of the current filtering process for orders inbound for the BOX Book.

12 See proposed Rule 7240(b)(3)(ii).

13 "Complex Order Strategy" or "Strategy" is defined as "a particular combination of components of a Complex Order and their ratios to one another. BOX will assign a strategy identifier to each Strategy." See proposed Rule 7240(a)(7).

(except in the case of insufficient quantity for Non-standard Strategies where the execution could occur at a price equal to cBBO). In the case of Non-standard Strategies, interest on the BOX Book will still have priority and be executed before a Complex Order, to the extent that there is sufficient quantity on the BOX Book to respect the ratio of the Strategy.

b. Complex Order Priority and Execution

The Exchange proposes new provisions in Rule 7240(b)(2) and (3) regarding Complex Order Priority and Execution. Where multiple Complex Orders are at the same price and eligible for execution, they will execute in time priority. BOX will ensure that any such executions are at a price at least equal to cNBBO. The following discussion describes the interaction between orders on the Complex Order Book and interest on the BOX Book.

1) Priority of Interest on the BOX Book Over Complex Orders

Proposed Rule 7240(b)(3) provides that a Complex Order will be automatically executed first against interest on the BOX Book for the individual Legs of the Strategy to the extent the Complex Order can be executed in the permissible ratio (as defined by the Strategy) and the price is equal to or better than both the cNBBO and the best price on the Complex Order Book.[14]

[14] BOX operates a single order queue for execution processing that precludes the possibility of a Complex Order and an order on the BOX Book for a component Leg instrument receiving the same time stamp. In other words, since orders on Legs and Complex Orders are all received and processed in the same order queue, there is no possibility, on BOX, of an order on a Leg and a Complex Order having the same time stamp. For the same reason, an Implied Order on a Strategy cannot have the same time stamp as a Complex Order on the same Strategy. Similarly, a Legging Order cannot have the same time stamp as an order on the same Leg because Legging Orders are executed in time priority based on the time stamp of the Complex Order causing the Legging Order to be generated (See discussion in Section 3(b) "Priority of Legging Orders" of this Statement of Purpose and the associated Example 8 for a more detailed explanation of Legging Order execution priority). In any case, having the same time stamp (even though impossible) would be irrelevant due to the fact that interest on the BOX Book has priority over Complex Orders at the same price and outright orders on Legs have priority over Legging Orders at the same price.

A Complex Order may be executed at a net credit or debit price with one other Participant; provided, however, that, except as set forth in Rule 7240(b)(2)(ii), the price of at least one Leg of the Complex Order must trade at a price that is at least one cent better than the corresponding bid or offer in the marketplace.[15]

Since a Complex Order will execute against another Complex Order once all interest on the BOX Book at the same price has been executed, any executions of two Complex Orders against each other will necessarily be at a price better than cBBO (except in the case of Complex Orders on Non-standard Strategies where the execution could occur at a price equal to cBBO). This is because, having given priority to the BOX Book, an opposite side Complex Order may execute against a Complex Order once all interest at the same price on the Strategy has been filled on the BOX Book (except in the case of Complex Orders on Non-standard Strategies where, following execution against interest on the BOX Book at the best price in a permissible ratio until the quantities remaining on the BOX Book are insufficient to execute against the Complex Order, the Complex Order may execute against another Complex Order); thus, by definition, any subsequent trade of the remaining quantity of the Complex Order takes place at a price better than the cBBO updated for the executions against the BOX Book (except in the case of Complex Orders on Non-standard Strategies where the execution could occur at a price equal to cBBO).

"Implied Order" is defined as "a Complex Order at the cNBBO that is derived from the orders at the BBO on the BOX Book for each component Leg of a Strategy." See proposed Rule 7240(d)(1).

"Legging Order" is defined as "a limit order on the BOX Book that represents one side of a Complex Order that is to buy or sell an equal quantity of two options series resting on the BOX Complex Order Book." See proposed Rule 7240(c)(1).

15 See proposed Rule 7240(b)(2)(i).

For additional discussion of the applicability of certain priority rules, see *Priority Rules* section below.

EXAMPLE 1: PRIORITY OF INTEREST ON THE BOX BOOK OVER COMPLEX ORDERS

BOX Book for Option A is:

Order to buy 10 at $1.00	Order to sell 10 at $1.05
Order to buy 5 at $0.99	Order to sell 20 at $1.06

BOX Book for Option B is:

Order to buy 15 at $1.00	Order to sell 50 at $1.05
Order to buy 5 at $0.98	

BOX Book for Option C is:

Order to buy 10 at $1.00	Order to sell 50 at $1.05
Order to buy 12 at $0.99	

Complex Order Book for Strategy A+B+C:

Complex Order to buy 20 at $3.00

An order to sell 10 A+B+C at $3.00 is received.

Prior to execution of this order against the order to buy A+B+C at $3.00 on the Complex Order Book, BOX will determine whether it is possible to execute the inbound Complex Order to sell against interest on the BOX Book at a price equal to or better than the best bid on the Complex Order Book. Since this is the case, the sell order will execute against the bids on A, B and C at $1.00 each for 10 contracts each. As this execution will exhaust the inbound sell order, the Complex Order to buy 20 at $3.00 receives no trade allocation.

The remaining order books are then as follows:

BOX Book for Option A is:

Order to buy 5 at $0.99	Order to sell 10 at $1.05
	Order to sell 20 at $1.06

BOX Book for Option B is:

Order to buy 5 at $1.00	Order to sell 50 at $1.05
Order to buy 5 at $0.98	

BOX Book for Option C is:

Order to buy 12 at $0.99	Order to sell 50 at $1.05

Complex Order Book for Strategy A+B+C:

Complex Order to buy 20 at $3.00

EXAMPLE 2: PRIORITY OF INTEREST ON THE BOX BOOK OVER COMPLEX ORDERS

Beginning with the initial scenario in Example 1, an order to sell 30 (rather than 10 in Example 1) A+B+C at $3.00 is received.

For purposes of this example, assume that BOX is at NBBO on A, B and C and that the NBBO bid for each of A, B and C after these trades is equal to BBO.

The first 10 contracts execute against the BOX Book as in Example 1 above but an order to sell 20 A+B+C at $3.00 remains.

The cBBO for 5 A+B+C is then $2.98 (A: $0.99 + B: $1.00 + C: $0.99) while the best bid on the Complex Order Book is for 20 at $3.00. Since the Complex Order is at a price equal to cNBBO and better than the new cBBO, the remaining 20 to sell at $3.00 will match with the Complex Order bid. The resulting prices for each of the Legs will respect the requirement of "at least one Leg price better than BBO"[16] since each Leg will execute at $1.00.

The remaining order books are then as follows:

BOX Book for Option A is:

Order to buy 5 at $0.99	Order to sell 10 at $1.05
	Order to sell 20 at $1.06

BOX Book for Option B is:

Order to buy 5 at $1.00	Order to sell 50 at $1.05
Order to buy 5 at $0.98	

BOX Book for Option C is:

Order to buy 12 at $0.99	Order to sell 50 at $1.05

Complex Order Book for Strategy A+B+C:

None

2) Complex Order Filter Against NBBO

All inbound Complex Orders to BOX will be filtered to ensure that each Leg of a Complex Order will be executed at a price that is equal to or better than the NBBO and the BOX BBO for each of the component Legs.[17]

If an inbound Complex Order is executable (against either opposite side Complex Orders on the Complex Order Book or interest on the BOX Book) on BOX, BOX will determine if the potential execution price is equal to or better than both cNBBO and cBBO. If so, the inbound Complex Orders will be automatically executed against bids and offers on the Complex Order Book in price/time priority; provided, however, that Complex Orders will execute against other

[16] See proposed Rule 7240(b)(2)(i).

[17] See proposed Rule 7240(b)(3)(iii).

Complex Orders only after interest at the same net price on the BOX Book for the individual Legs have been executed.[18]

If an inbound Complex Order is executable (against either opposite side Complex Orders on the Complex Order Book or interest on the BOX Book) on BOX at a price that is not equal to or better than both cNBBO and cBBO, the incoming Complex Order will be exposed on the Complex Order Book for a period of up to one second at a price that is equal to cNBB[19] (in the case of a sell order) or cNBO[20] (in the case of a buy order). Any executable, opposite side orders received during the exposure period, including interest on the BOX Book, will immediately execute against the exposed Complex Order. Any unexecuted quantity of the Complex Order remaining at the end of the exposure period will be cancelled.[21]

If an inbound Complex Order is not executable on BOX but is executable against cNBBO, Complex Limit Orders will be entered on the BOX Complex Order Book and BOX-Top Complex Orders and Market Complex Orders will be exposed on the BOX Complex Order Book at cNBB (in the case of a sell order) or cNBO (in the case of a buy order) for a period of up to one second; any executable, opposite side orders received during the exposure period, including interest on the BOX Book, will immediately execute against the exposed Complex

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18 See proposed Rule 7240(b)(3)(iii)(A).

19 "cNBB" is defined as "the best net bid price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy." See proposed Rule 7240(a)(2).

20 "cNBO" is defined as "the best net offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy." See proposed Rule 7240(a)(4).

21 See proposed Rule 7240(b)(3)(iii)(B).

Order and any unexecuted quantity remaining at the end of the exposure period will be cancelled.[22]

If an inbound Complex Order is not executable on BOX and is not executable against cNBBO, it will be entered on the BOX Complex Order Book.[23]

EXAMPLE 3: FILTERING OF COMPLEX ORDERS AGAINST NBBO

> Begin with the initial scenario in Example 1. However, in Examples 1 and 2, it was assumed that each of the orders on a Leg were equal to NBBO for the related options series. For this example, suppose instead that the NBBO for Option B is $1.01 and $1.05 (better than BBO) and that Options A and C on the BOX Book are equal to NBBO. Accordingly, cNBBO for A+B+C would be $3.01-$3.15.
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> An order to sell 30 A+B+C at $3.00 is received.

In this case, the inbound order to sell 30 A+B+C at $3.00 would not be able to execute against either the BOX Book or the resting Complex Order bid because of the Complex Order filter.[24] Instead, the inbound sell order would be exposed on the Complex Order Book at $3.01; any unexecuted quantity after the exposure would be cancelled.

3) Implied Order Calculation, Broadcast and Priority

Proposed Rule 7240(d)(1) defines an Implied Order to mean "a Complex Order at the cNBBO, derived from the orders at the BBO on the BOX Book for each component Leg of a Strategy, provided each component Leg is at a price equal to NBBO for that series." In other words, an Implied Order for a Strategy is calculated and broadcast if each of the prices of the component Legs is equal to NBBO. Implied Orders are executed in the same manner as regular

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22 See proposed Rule 7240(b)(3)(iii)(C).

23 See proposed Rule 7240(b)(3)(iii)(D).

24 See proposed Rule 7240(b)(3)(iii).

Complex Orders, including with respect to priority of the BOX Book.[25] At the same price on the BOX Complex Order Book, an Implied Order has priority over a resting Complex Order.[26] An Implied Order is broadcast to Participants as an order on the Complex Order Book. Implied Orders are only generated and broadcast for Strategies with two Legs and with a ratio of one-to-one.[27] Also, an Implied Order is not generated if the subject series order is going through NBBO exposure pursuant to Rule 7130(b), or using orders in the PIP, Facilitation Auction, or Solicitation Auction.[28] The quantity associated with the Implied Order is limited to the smaller quantity of the two Legs comprising the Strategy to ensure a one-to-one ratio is maintained. As shown in the example below, if there exists an order to buy 10 contracts of Option A and an order to buy 15 contracts of Option B, BOX will only generate an Implied Order to buy 10 of Strategy A+B.

When an Implied Order is no longer at the cNBBO, the Implied Order will be removed and a new Implied Order will be generated, provided there is interest on the BOX Book to generate an Implied Order at the new cNBBO.[29] Implied Orders will be removed if either component order on a Leg is executed in full, in part, or cancelled and, where appropriate, recalculated.[30]

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[25] See proposed Rule 7240(d)(6)(i).

[26] See proposed Rule 7240(d)(6)(ii).

[27] See proposed Rule 7240(d)(3).

[28] See proposed Rule 7140(d)(4).

[29] See proposed Rule 7240(d)(2).

[30] See proposed Rule 7240(d)(5).

<u>EXAMPLE 4: CALCULATION AND EXECUTION OF IMPLIED ORDER</u>

BOX Book for Option A is:

Order to buy 10 at $1.00	Order to sell 10 at $1.05
Order to buy 5 at $0.99	Order to sell 20 at $1.06

BOX Book for Option B is:

Order to buy 15 at $1.00	Order to sell 50 at $1.05

Complex Order Book for Strategy A+B:

Complex Order to buy 20 at $2.00	Implied Order to sell 10 at $2.10
Implied Order to buy 10 at $2.00	

Assume the bids on A and B on BOX are equal to NBBO for each such that cNBBO is $2.00.

Suppose in this example that the Complex Order to buy 20 at $2.00 is received prior to the receipt of the order to buy 15 B at $1.00. Thus, the Complex Order to buy 20 at $2.00 has time priority over the Implied Order to buy 10 at $2.00.

Subsequently, a Complex Order to sell 20 A+B is received, which could trade with both the Implied Order to buy and the Complex Order to buy. Because, at the same price on the Complex Order Book, an Implied Order has priority over a resting Complex Order even if the Complex Order was entered first,[31] the first 10 contracts of the order to sell Strategy A+B will be executed against orders on A and B, respectively, on the BOX Book: 10 of A are sold at $1.00 and 10 of B are sold at $1.00. After this execution, the order books would be as follows:

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31 <u>See</u> proposed Rule 7240(d)(6)(ii).

BOX Book for Option A is:

Order to buy 5 at $0.99	Order to sell 10 at $1.05
	Order to sell 20 at $1.06

BOX Book for Option B is:

Order to buy 5 at $1.00	Order to sell 50 at $1.05

Complex Order Book for Strategy A+B:

Complex Order to buy 20 at $2.00	Implied Order to sell 10 at $2.10

The remaining 10 of the Complex Order to sell Strategy A+B at $2.00 will be executed against the resting Complex Order to buy A+B at $2.00 ($1.00 for each component Leg). Note that no Implied Order for 5 A+B at $1.99 is generated since this would be worse than cNBBO of $2.00.

4) Price Improvement Requirement

Except in the case of Complex Orders on Non-standard Strategies which may execute at a price equal to cBBO after executions against the BOX Book, the Exchange proposes to allow two Complex Orders to execute against each other at a net price that is better than cBBO by one cent.[32] On some options exchanges that provide auctions for Complex Orders, a Complex Order may execute against another Complex Order if one leg of the Complex Order trades at a price that is at least one cent better than customer orders in the same series.[33] On one options exchange that has no auction for Complex Orders, a Complex Order may execute against another

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32 See proposed Rule 7240(b)(2)(i).

33 See, e.g., Securities Exchange Act Release Nos. 57556 (March 26, 2008), 73 FR 18018 (April 2, 2008) (Order Approving CBOE-2008-03) and 63558 (December 16, 2010) 75 FR 80553 (December 22, 2010) (Order Approving NYSEAmex-2010-100).

Complex Order if one leg of the Complex Order trades at a price that is better than priority customer interest in that series by at least one minimum trading increment.[34]

Although BOX is not proposing to establish an auction for Complex Orders at this time, the Exchange believes that it is consistent with the protection of investors and the public interest to permit Complex Orders (other than Non-standard Strategies) to execute against each other at a price that is better than cBBO by one cent, rather than the minimum trading increment for one of the component series for the following reasons.

First, BOX will always execute Complex Orders first against interest on the BOX Book to the extent the Complex Order can be executed in full or in a permissible ratio by such interest.[35]

Second, the Exchange believes that one cent is a significant and material improvement to customers.[36] While the Exchange is not currently proposing a Complex Order auction, the Exchange believes its proposal is appropriate in light of the price competition for Complex Orders on BOX driven by other features in the proposal. For example, the Exchange believes that the generation of Legging Orders will provide enhanced price competition and greater integration of the BOX Book and Complex Order Book. Also, the Exchange notes that each leg of a Complex Order must be executed at a price equal to NBBO. The Exchange believes these

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34 See ISE Rule 722(b)(2).

35 See proposed Rule 7240(b)(3)(i) and (ii).

36 Various options mechanisms such as the BOX PIP and the NOM price improving order have been implemented because it is recognized that one cent is a significant and material improvement to customers. See Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775, 2799 (January 20, 2004) (SR-BSE-2002-15) (Order Approving BOX Facility), and 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004) (Order Approving NASDAQ Options Market).

benefits will enhance the efficiency of the BOX Book and the Complex Order Book, and therefore, is consistent with the protection of investors and the public interest.[37]

Third, the Exchange believes that permitting price improvement by one cent rather than by the minimum trading increment could permit more active Complex Order trading by allowing execution where participants may not otherwise be willing to offer better prices in larger increments.

Fourth, since the implementation of the Penny Pilot Program, many of the options instruments involved in Complex Order trading now already have a minimum increment of one cent.[38] As a result, even though the initial implementation of complex order trading rules on other exchanges largely pre-dates the Penny Pilot Program, the effect of the Exchange's proposal is already implemented in a significant portion of Complex Order trading on other options exchanges.

In the case of Non-standard Strategies, the execution of two Complex Orders against each other could occur at prices where the condition that "at least one Leg of the Complex Order must trade at a price that is better than the corresponding bid or offer in the marketplace" is not met. A Complex Order for a Non-standard Strategy will execute against the bids and offers on the BOX Book for the individual Legs of the Strategy for all of the quantity available at the best price in a permissible ratio until the quantities remaining on the BOX Book are insufficient to

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[37] The Chicago Board Options Exchange, Inc. permits trading Complex Orders in one cent minimum increments, providing additional price points at which Complex Orders could be executed. See Securities Exchange Act Release Nos. 57556 (March 26, 2008), 73 FR 18018 (April 2, 2008) (Order Approving CBOE-2008-03)

[38] The Penny Pilot Program has been in effect since January 26, 2007. See Securities Exchange Act Release No. 55155 (Jan. 23, 2007), 72 FR 4741 (Feb. 1, 2007) (SR-BSE-2006-49). At the beginning of 2013, more than 350 classes of options are included in the Penny Pilot Program. See BOX Regulatory Circular 2012-30, available online at http://boxexchange.com/f_circulars/_RC-2012-30_Penny_Pilot_Classes_Listed_on_BOX.pdf

execute against the Complex Order. Following such execution, a Complex Order may execute against other Complex Orders, and the component Legs of the Complex Order may trade at prices equal to the corresponding prices on the BOX Book.[39] In other words, the fact that interest on the BOX Book for a Non-standard Strategy is not sufficient to execute an opposite side Complex Order in its entirety does not mean there is no interaction or a loss of priority. Interest on the BOX Book will execute against a Complex Order for a Non-standard Strategy to the extent possible, after which the Complex Order may be executed against another Complex Order at a price equal to, but not worse than, the corresponding price on the BOX Book.

This treatment of Non-standard Strategies promotes just and equitable principles of trade, removes impediments to and perfects the mechanism of a free and open market and national market system and otherwise is consistent with the requirements of Section 6(b)(5) of the Act[40] because the alternatives to this proposal would be either to create a locked market on the Complex Order Book or to reject an incoming Complex Order that is readily executable against a resting Complex Order. The Exchange does not believe that either of these alternatives is consistent with the requirements of Section 6(b)(5)[41] of the Act because the two Complex Orders would miss an opportunity for execution, but the orders on the BOX Book gain no benefit because these orders cannot interact with the incoming Complex Order either. The Exchange believes, therefore, that its proposal is the best solution to the dilemma. Furthermore, the Exchange believes this procedure is consistent with the intent of the principle that a Complex Order execute "at least one Leg better than BBO for each options instrument" as this principle assumes there is sufficient quantity to respect the ratio of a Complex Order when prices are

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39 See proposed Rule 7240(b)(2)(ii).

40 15 U.S.C. 78f(b)(5).

41 15 U.S.C. 78f(b)(5).

otherwise in line. In other words, orders are executable only against one another where both match at a price and a quantity. Therefore, the Exchange believes its proposal is consistent with the rationale for otherwise having one Leg price better than BBO since it will give priority to interest on the BOX Book over Complex Orders where the quantity on the BOX Book is sufficient to respect the ratio of the executable Complex Order for a Non-standard Strategy.

<u>EXAMPLE 5: EXECUTION OF LEG ORDERS ON NON-STANDARD STRATEGY</u>

Assume a Non-standard Strategy consisting of the simultaneous purchase of one Option A instrument and two Option B instruments (A+2B).

The order books are initially as follows:

BOX Book for Option A is:

Order to buy 2 at $1.00	Order to sell 20 at $1.06
Order to buy 5 at $0.99	Order to sell 2 at $1.10

BOX Book for Option B is:

Order to buy 3 at $1.00	Order to sell 3 at $1.10

Complex Order Book for Strategy A+2B:

Complex Order to buy 2 at $3.00	Complex Order to sell 10 at $3.20
Complex Order to buy 5 at $2.90	

Since A+2B is a Non-standard Strategy (a one-for-two ratio), no Implied Order for A+2B is broadcast. The cBBO is $3.00 bid, $3.26 offered.

In this example, a Complex Order is received to sell 2 A+2B at $3.00. This order can match with the existing bid for three Strategies at $3.00 on A+2B.

However, as the Exchange proposes to give priority to interest on the BOX Book over executable Complex Orders even where no Implied Order is being broadcast for the

Strategy, 1 of the 2 contracts to sell A+2B at $3.00 will execute against the orders on the respective Legs (selling 1 A and 2 B at $1.00 each ($1.00 + 2($1.00) = $3.00)). After this initial execution against the BOX Book, the order books are as follows:

BOX Book for Option A is:

Order to buy 1 at $1.00	Order to sell 20 at $1.06
Order to buy 5 at $0.99	Order to sell 2 at $1.10

BOX Book for Option B is:

Order to buy 1 at $1.00	Order to sell 3 at $1.10

Complex Order Book for Strategy A+2B:

Complex Order to buy 2 at $3.00	Complex Order to sell 10 at $3.20
Complex Order to buy 5 at $2.90	

One Complex Order to sell A+2B at $3.00 remains.

Because insufficient quantity remains on the bid of B at $1.00 to combine with the bid on A to respect the Complex Order ratio, the remaining order to sell 1 A+2B at $3.00 will be executed against the resting Complex Order to buy at $3.00. In this case, the proposed rules for trading Complex Orders on BOX may result in the match of two Complex Orders without at least one Leg having a price better than the best prices on the BOX Book.[42]

5) Valid Order Types for Complex Orders

Proposed Rule 7240(b)(4)(i) provides that Complex Orders may be entered as Fill-and-Kill orders, Limit Orders, BOX-Top Orders, Market Orders, or Session Orders, each as defined in existing Rule 7110. The Exchange proposes to delete the provision in existing

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[42] See proposed Rule 7240(b)(2)(ii).

Rule 7240(b)(4) that provides that Complex Orders may be entered as all-or-none orders because BOX does not have such orders. BOX currently permits Fill-and-Kill Orders which are immediately executed against any existing orders at the specified price or better, up to the volume of the Fill-and-Kill Order. Any residual volume left is cancelled.[43] The Exchange proposes Rule 7240(b)(4)(i) to add Limit Orders, BOX-Top Orders, Market Orders and Session Orders as order types permitted for Complex Orders. Each of these order types are currently permitted on BOX for single option series and are defined in existing Rule 7110.

The Exchange proposes Rule 7240(b)(4)(ii) to specify that BOX-Top Complex Orders are executed at the best price available in the market for the total quantity available from any contra bid (offer). Any residual volume left after part of a BOX-Top Complex Order has been executed is automatically converted to a limit order on the Complex Order Book at the net Strategy price at which the original BOX-Top Complex Order was executed. See the additional discussion in Section 3(c) and Example 11 below for details on the handling of BOX-Top Orders which partially execute against a Legging Order on a non-penny series.

c. Legging Order Execution and Priority

The Exchange proposes Rule 7240(c) to permit the implementation of Legging Orders. Proposed Rule 7240(c)(1) defines a Legging Order as "a Limit Order on the BOX Book that represents one side of a Complex Order that is to buy or sell an equal quantity of two options series resting on the BOX Complex Order Book." A Legging Order is a firm order that is included in the BBO if it is equal to, or better than, the existing BBO.

[43] See existing Rule 7110(e)(1)(ii).

The Exchange proposes that Legging Orders will only be generated for Complex Orders with two Legs and with a ratio of one-to-one.[44] As a result, no Legging Orders will be generated for Complex Orders with more than two Legs or with a ratio other than one-to-one. Legging Orders will be automatically generated on behalf of a Complex Order so that they are represented on the BOX Book.[45] Unlike Implied Orders, a Legging Order will not necessarily be equal to or better than NBBO; however, the usual Exchange rules regarding filtering against NBBO[46] will continue to apply to the BOX Book to ensure no Legging Order will be executed at a price outside NBBO.

A Legging Order may be automatically generated for one Leg of a Complex Order at a price at which the net price can be achieved when the other Leg is executed against the best displayed bid or offer on the BOX Book at a price equal to or better than NBBO.[47] In other words, a Legging Order to buy Option A, derived from a Complex Order to buy A+B, will only be generated if the outright best offer on BOX for Option B is equal to or better than NBBO.[48] This does not necessarily mean that the Legging Order bid on Option A will be equal to the best bid on Option A on the BOX Book, nor that it will be equal to or better than NBBO for Option A. However, due to the NBBO filtering rules already in place for interest on the BOX

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44 See proposed Rule 7240(c)(1).

45 See proposed Rule 7240(b)(3)(ii).

46 See existing Rule 7130(b).

47 See proposed Rule 7240(c)(2). The proposed Legging Order rules are based on ISE Rules 715(k) and 722(b)(3)(ii). A market participant on the NASDAQ Options Market ("NOM") may enter Price Improving Orders on NOM that would potentially execute at a one cent increment within the NBBO. See NOM Approval Order, SEC Release No. 34-57478 (March 12, 2008) 73 FR 14521 at 14528-14530 (March 18, 2008).

48 See proposed Rule 7240(c)(2).

Book,[49] the Legging Order on Option A will only be eligible for execution if it is equal to NBBO and at a better price than any outright bid on Option A on the BOX Book.

Similar to price improving orders on the NASDAQ Options Market ("NOM"), the Exchange believes that automatically generating Legging Orders, which will not be executed until after all other executable interest on the BOX Book at the same price is executed in full, will provide additional execution opportunities for Complex Orders without negatively impacting any investors in the regular market.[50] In fact, the generation of Legging Orders may enhance execution quality for investors in the regular market by improving the price and/or size of the BBO and by providing additional execution opportunity for resting orders on the BOX Book.

1) Calculation and Display of Legging Orders

A Legging Order may be priced and ranked on the BOX Book at a price other than its generated price to buy (sell) and may be displayed at a different price in the following two cases.

First, where the Legging Order price does not respect the price increment of the option series, for display purposes, it will be rounded down (in the case of a buy order) or up (in the case of a sell order) to the nearest valid trading increment. Legging Orders will be automatically generated at prices in one cent increments but, for series trading in nickels or larger increments, will be displayed at the nearest minimum trading increment.

Legging Orders to buy (sell) in an options series with a minimum trading increment greater than one cent are displayed at the appropriate minimum trading increment permitted for the series below (above) the price of the automatically generated Legging Order, (rounding down

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49 See existing Rule 7130(b).

50 See NOM Approval Order, SEC Release No. 34-57478 (March 12, 2008) 73 FR 14521 at 14529-14530 (March 18, 2008).

to the proper increment for buy orders and up to the proper increment for sell orders). While a Legging Order will be displayed at the rounded price in the case of non-penny series, any execution of the Legging Order will occur at the price at which it is generated and will be in a one cent increment.[51]

Second, where the generated price of a Legging Order locks or crosses the best bid or offer of another exchange it will be ranked at the opposite side NBBO price and displayed on the BOX Book at a price rounded down (up) in the case of a buy (sell) Legging Order to the nearest trading increment for the options instrument. The displayed price of the Legging Order will be adjusted for subsequent changes to the opposite side NBBO in accordance with these principles if the adjustment will result in an improvement to the previously displayed price. If an incoming order is executable against such Legging Order, it will be executed at the NBBO. [52]

EXAMPLE 6: DISPLAY AND EXECUTION OF LEGGING ORDER THAT LOCKS/CROSSES NBBO

Assume the following for Option A:

NBBO for Option A is:

NBBO Bid is $1.03	NBBO Offer is $1.04

BOX Book for Option A is:

Order to buy 10 at $1.03	Order to sell 10 at $1.05

First Event:

A Complex Order to buy 10 A+B is received. The best BOX offer on Option B generates a Legging Order to buy 10 A at $1.04. Since this would lock the opposite

51 See proposed Rule 7240(c)(2).

52 See proposed Rule 7240(c)(2).

side NBBO, it is displayed on the BOX Book as an order to buy at $1.03. The BOX Book for Option A then is as follows:

BOX Book for Option A is:

Legging Order to buy 10 at $1.03	Order to sell 10 at $1.05
Order to buy 10 at $1.03	

Second Event:

Following the First Event, an order to sell 5 A at $1.03 is received. This executes against the Legging Order at $1.04. Even though the Legging Order and the outright order to buy Option A were displayed at the same price, the Legging Order trades first because the price at which it can trade (opposite side NBBO of $1.04) gives it price priority.

The NBBO and BOX Book for Option A then are as follows:

NBBO for Option A is:

NBBO Bid is $1.03	NBBO Offer is $1.04

BOX Book for Option A is:

Legging Order to buy 5 at $1.03	Order to sell 10 at $1.05
Order to buy 10 at $1.03	

Third Event:

Following the Second Event, the NBBO offer subsequently changes to $1.05 and the remaining 5 contracts of Option A on the Legging Order will be displayed at $1.04.

The NBBO and BOX Book for Option A are then as follows:

NBBO for Option A is:

NBBO Bid is $1.04 NBBO Offer is $1.05

BOX Book for Option A is:

Legging Order to buy 5 at $1.04 Order to sell 10 at $1.05

Order to buy 10 at $1.03

Where an options instrument is part of two or more distinct strategies, multiple Legging Orders may be generated. In this case, the principles above regarding display and ranking prices in the case of locked or crossed opposite side NBBO will be observed. The example below illustrates how trade allocations will be performed in the case where several Legging Orders are displayed and ranked at the same price.

<u>EXAMPLE 7: DISPLAY AND EXECUTION OF LEGGING ORDERS FROM MULTIPLE COMPLEX ORDERS</u>

Assume the following for Option A:

NBBO for Option A is:

NBBO Bid is $1.03 NBBO Offer is $1.04

BOX Book for Option A is:

Order to buy 10 at $1.03 Order to sell 10 at $1.07

First Event:

A Complex Order to buy 10 A+B is received. The best BOX offer on Option B generates a Legging Order ("Order 1") to buy 10 A at $1.04. Order 1 is ranked on the BOX Book at $1.04 and displayed on the BOX Book as an order to buy at $1.03.

Next, a Complex Order to buy 10 A+C is received. The best BOX offer on Option C generates a Legging Order ("Order 2") to buy 10 A at $1.05. Order 2 is ranked on the BOX Book at $1.04 and displayed on the BOX Book as an order to buy at $1.03.

Next, a Complex Order to buy 10 A+D is received. The best BOX offer on Option D generates a Legging Order ("Order 3") to buy 10 A at $1.06. Order 3 is ranked on the BOX Book at $1.04 and displayed on the BOX Book as an order to buy at $1.03.After the foregoing three Complex Orders have been entered, and the resulting Legging Orders generated, the BOX Book for Option A then is as follows:

BOX Book for Option A is:

Legging Order to buy 10 at $1.04 (Order 1, displayed at $1.03)	Order to sell 10 at $1.07
Legging Order to buy 10 at $1.04 (Order 2, displayed at $1.03)	
Legging Order to buy 10 at $1.04 (Order 3, displayed at $1.03)	
Order to buy 10 at $1.03	

Second Event:

Following the First Event, the NBBO Offer for Option A changes from $1.04 to $1.05.

The NBBO and BOX Book for Option A, in order of priority, then are as follows:

NBBO for Option A is:

NBBO Bid is $1.03	NBBO Offer is $1.05

BOX Book for Option A is:

Legging Order to buy 10 at $1.05 (Order 2, displayed at $1.04)	Order to sell 10 at $1.07
Legging Order to buy 10 at $1.05 (Order 3, displayed at $1.04)	
Legging Order to buy 10 at $1.04 (Order 1, displayed at $1.04)	

Order to buy 10 at $1.03

Third Event:

Following the Second Event, the NBBO Offer for Option A changes from $1.05 to $1.06.

The NBBO and BOX Book for Option A, in order of priority, then are as follows:

NBBO for Option A is:

NBBO Bid is $1.03	NBBO Offer is $1.06

BOX Book for Option A is:

Legging Order to buy 10 at $1.06 (Order 3, displayed at $1.05)	Order to sell 10 at $1.07
Legging Order to buy 10 at $1.05 (Order 2, displayed at $1.05)	
Legging Order to buy 10 at $1.04 (Order 1, displayed at $1.04)	
Order to buy 10 at $1.03	

Fourth Event:

Following the Third Event, an order to buy 10 A at $1.05 is received.

The NBBO and BOX Book for Option A, in order of priority, then are as follows:

NBBO for Option A is:

NBBO Bid is $1.03	NBBO Offer is $1.06

BOX Book for Option A is:

Legging Order to buy 10 at $1.06 (Order 3, displayed at $1.05)	Order to sell 10 at $1.07
Order to buy 10 at $1.05	
Legging Order to buy 10 at $1.05 (Order 2, displayed at $1.05)	

Legging Order to buy 10 at $1.04
(Order 1, displayed at $1.04)

Order to buy 10 at $1.03

2) Priority of Legging Orders

A Legging Order may execute against an incoming order only after all other executable orders and quotes at the same price are executed in full.[53] Legging Orders will only be eligible for execution after being filtered against NBBO pursuant to existing Rule 7130(b).[54] When a Legging Order is executed, the other component Leg of the Complex Order will be automatically executed against the displayed BBO.[55]

The following example illustrates the interaction of orders on the BOX Book, Complex Orders and Legging Orders.

EXAMPLE 8: LEGGING ORDER EXECUTION

BOX Book for Option A is:

Order to buy 10 at $1.00	Order to sell 20 at $1.20
Order to buy 5 at $0.99	Order to sell 20 at $1.25

BOX Book for Option B is:

Order to buy 10 at $1.00	Order to sell 20 at $1.20

Complex Order Book for Strategy A+B:

Complex Order to buy 10 at $2.25	Implied Order to sell 20 at $2.40
Implied Order to buy 10 at $2.00	

53 See proposed Rule 7240(c)(3).

54 See proposed Rule 7240(c)(3).

55 See proposed Rule 7240(c)(3).

Legging Orders to buy 10 A at $1.05 (resulting from the Complex Order to buy 10 A+B at $2.25 minus the order to sell 20 B at $1.20) and 10 B at $1.05 (resulting from the Complex Order to buy 10 A+B at $2.25 minus the order to sell 20 A at $1.20) may be automatically generated, improving the BOX best bid for each of Leg A and Leg B, respectively, to $1.05.

The resulting order books are as follows:

BOX Book for Option A is:

Legging Order to buy 10 at $1.05	Order to sell 20 at $1.20
Order to buy 10 at $1.00	Order to sell 20 at $1.25
Order to buy 5 at $0.99	

BOX Book for Option B is:

Legging Order to buy 10 at $1.05	Order to sell 20 at $1.20
Order to buy 10 at $1.00	

Complex Order Book for Strategy A+B:

Complex Order to buy 10 at $2.25	Implied Order to sell 20 at $2.40
Implied Order to buy 10 at $2.00	

Subsequently, an outright order to sell 10 of A is received. This order will execute against the Legging Order to buy A at $1.05 and there will be an automatic execution of the other Leg of the Complex Order against the displayed offer for B at $1.20. As a result, the net price of $2.25 is achieved for the Complex Order (buy A at $1.05 + buy B at $1.20 = $2.25 net). Since the Complex Order to buy 10 at $2.25 has been filled, the Legging Order to buy B at $1.05 will be automatically cancelled.

In addition to enabling the execution of the Complex Order at a net price of $2.25, which otherwise would not have been possible, the Legging Order also enhanced execution for outright orders on the BOX Book because (i) the incoming outright order to sell A received a better price ($1.05 instead of $1.00); and (ii) additional liquidity to execute resting interest to sell 10 of B at $1.20 was provided by the Complex Order.

<u>EXAMPLE 9: PRIORITY OF LEGGING ORDERS AT SAME PRICE</u>

BOX Book for Option A is:

Legging Order to buy 10 at $1.00	Order to sell 20 at $1.20
Order to buy 10 at $1.00	Order to sell 20 at $1.25
Order to buy 5 at $0.99	

BOX Book for Option B is:

Legging Order to buy 10 at $1.00	Order to sell 20 at $1.20
Order to buy 10 at $1.00	

Complex Order Book for Strategy A+B:

Complex Order to buy 10 at $2.20	Implied Order to sell 20 at $2.40
Implied Order to buy 10 at $2.00	

The Complex Order to buy A+B at $2.20 results in Legging Orders on each of Option A and Option B equal to the best outright orders on the BOX Book for each Leg at $1.00.

Assume the Complex Order to buy 10 A+B at $2.20 was received prior to the receipt of the outright order to buy 10 A at $1.00. Thus, the Legging Order at $1.00 would have "time priority" over the outright order to buy A at $1.00.

Subsequently, an order to sell 15 A at $1.00 is received. Since interest on the BOX Book have priority over Legging Orders at the same price,[56] 10 contracts on Option A are executed against the order to buy 10 A at $1.00. The remaining 5 contracts to sell Option A are then executed, together with a matching 5 contracts of Option B purchased at $1.20, against the Complex Order.

The order books then are as follows:

BOX Book for Option A is:

Legging Order to buy 5 at $1.00	Order to sell 20 at $1.20
Order to buy 5 at $0.99	Order to sell 20 at $1.25

BOX Book for Option B is:

Legging Order to buy 5 at $1.00	Order to sell 15 at $1.20
Order to buy 10 at $1.00	

Complex Order Book for Strategy A+B:

Complex Order to buy 5 at $2.20	Implied Order to sell 15 at $2.40
Implied Order to buy 5 at $1.99	

A Legging Order may be generated when at least one Complex Order and at least one order on the other component Leg of such Complex Order(s) are received. Where there are multiple Complex Orders on the same Strategy at the same price, which is also the best price on the Complex Order Book, generated Legging Orders will be aggregated such that only one Legging Order will exist, relating to that Strategy, with respect to any single option series at any time on the BOX Book. Partial executions against a Legging Order that is generated from

[56] See proposed Rule 7240(c)(3).

multiple Complex Orders will be allocated among such Complex Orders and the related orders on the component Leg based on time priority of such Complex Orders and orders on the BOX Book,[57] regardless of when the Legging Order is generated.

The following Example 10 illustrates the allocation of orders when a Legging Order is generated from multiple Complex Orders.

<u>EXAMPLE 10: TIME PRIORITY OF LEGGING ORDERS</u>

Assume the following orders on A+B bids and B offers (orders below are shown in descending time priority with the earliest orders at the top):

Bids on A+B:	**Offers on B:**
10 at $2.00 (order x)	5 at $1.00 (order a)
7 at $2.00 (order y)	8 at $1.00 (order b)
<u>12 at $2.00 (order z)</u>	<u>10 at $1.00 (order c)</u>
Total: 29 Bids on A+B	23 Offers on B

The above results in the generation of a Legging Order to buy 23 A at $1.00 since sufficient bids on A+B exist to accommodate all 23 existing offers on B.

Assume no outright order to buy A at $1.00 exists and that, subsequently, an order to sell 20 A at $1.00 (order m) is received. BOX will allocate trades on A+B and B according to the time priority of each until the first 20 orders have been filled. The resulting trade executions are as follows (all trades at $1.00):

[57] <u>See</u> proposed Rule 7240(c)(3).

		Option A		Option B	
	Qty	Buyer	Seller	Buyer	Seller
	5	order x	order m	order x	order a
	5	order x	order m	order x	order b
	3	order y	order m	order y	order b
	4	order y	order m	order y	order c
	3	order z	order m	order z	order c
Total:	20 Option A executions			20 Option B executions	

The allocation of orders to buy A+B is determined by time priority because all are at the same price ($2.00). Similarly, the allocation of orders to sell B is determined by time priority because all are at the same price ($1.00). In this Example 8, note that each buyer of Option A is also buying an equal number of Option B because such buyer is actually buying A+B.

3) Other Rules for Legging Orders

A Legging Order is automatically removed from the BOX Book if: (i) execution of the Legging Order would no longer achieve the net price of the Complex Order when the other component Leg is executed against the best displayed bid or offer on the BOX Book, (ii) the other component Leg of the Complex Order cannot be executed at a price equal to the NBBO, (iii) the Complex Order is executed in full or in part, or (iv) the Complex Order is cancelled or modified.[58]

The Exchange proposes to amend Rule 7110(c)(2) regarding BOX-Top Orders to account for a unique result that occurs when a BOX-Top Order executes with a Legging Order at a one cent increment in a series traded in a larger increment. Under existing Exchange rules, BOX-Top Orders entered into the BOX Book are executed at the best price available in the market for the total quantity available from any contra bid (offer), and any residual volume is automatically converted to a limit order at the price at which the BOX-Top Order was executed.[59] When a

58 See proposed Rule 7240(c)(4).

59 The Exchange notes for comparison that Market Orders are executed at the best price

BOX-Top Order executes against a Legging Order at a one cent increment in a series traded in a larger increment, the Exchange proposes that any remaining BOX-Top Order quantity will be priced, ranked and displayed on the BOX Book at the nearest increment tick permitted for the series (rounding down to the proper increment for buy orders and up to the proper increment for sell orders).[60]

EXAMPLE 11: PARTIAL EXECUTION OF BOX-TOP ORDER ON NON-PENNY SERIES INSTRUMENT WITH LEGGING ORDER

Assume Option A is a non-penny series with a trading increment at five cent intervals. The BOX Book for Option A is as follows:

BOX Book for Option A is:

Legging Order to buy 10 at $5.02	Order to sell 15 at $5.10
(Legging Order displayed at $5.00)	Order to sell 10 at $5.15
Order to buy 10 at $5.00	

A BOX-Top Order to sell 15 A is received. The order will execute for 10 contracts of A against the Legging Order at $5.02. The remaining quantity will be booked as a sell order for 5 at $5.05. The resulting BOX Book for Option A would then be:

BOX Book for Option A is:

Order to buy 10 at $5.00	Order to sell 5 at $5.05 (ex BOX-Top Order)
	Order to sell 15 at $5.10

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obtainable for the total quantity available when the order reaches the BOX market and any remaining quantity is executed at the next best price available for the total quantity available. This process continues until the Market Order is fully executed. Use of a BOX-Top Order maintains the initial execution price as a limit on the execution of the remainder of an order. See existing Rule 7110(c)(2).

60 See proposed Rule 7110(c)(2).

Order to sell 10 at $5.15

The unexecuted quantity of a BOX-Top Order that executes against a Legging Order on a non-penny series at the Legging Order's generated (not displayed) price will be rounded up (down) for sell (buy) orders to the nearest valid price increment. The unexecuted portion of a BOX-Top Order will be booked at the same price as its displayed price.

4) Proposed Amendments to PIP on Legging Orders

At the conclusion of a PIP, any Legging Order with a price eligible for execution against the PIP Order will cede priority to all quotes and orders, including the Primary Improvement Order and any other Improvement Orders at the same price. In other words, a Legging Order may execute against a PIP Order at the end of a PIP once all other interest at the same price has been fully executed.[61] The exception would be that a Legging Order on the same side and at the same price as the Primary Improvement Order at the end of a PIP may receive trade allocation if the Primary Improvement Order has included a "surrender quantity" as set forth in existing Rule 7150(g)(6). Note that in the case of a surrender quantity submitted by the Primary Improvement Order, such a Legging Order will trade with the PIP Order only after all other interest (e.g., Unrelated Orders[62] and Improvement Orders) at the same price has been filled. In other words, such Legging Order will only receive a trade allocation after all other interest at same price at the end of a PIP has been filled.

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61 See proposed Rule 7150(f)(3).

62 Rule 7150(a) defines Unrelated Order as a non-Improvement Order entered in the BOX market during a PIP.

Example 12: "Surrender Quantity" at End of PIP with Legging Order at Price Equal to Primary Improvement Order

Assume at the end of a PIP to sell 30 contracts of A, the Order Book is as follows:

BOX Book for Option A is:

Improvement Order to buy 20 at $1.02   PIP Order to sell 30 at $1.02

Legging Order to buy 10 at $1.02

Primary Improvement Order to buy 30 at $1.02

Absent a "surrender quantity" submitted with the Improvement Order, the 30 contracts on Option A would be allocated as follows:

- 18 (60%) to the Improvement Order
- 12 (40%) to the Primary Improvement Order
- None to the Complex Order which generated the Legging Order.

Suppose instead that the Primary Improvement Order had included a surrender quantity of 6 contracts (e.g., the Primary Improvement Order wishes to only trade 24 contracts at end of PIP). In this case, the trade allocation would be:

- 20 to the Improvement Order
- 6 to the Primary Improvement Order
- 4 to the Complex Order which generated the Legging Order

The proposed amendments to Rules 7150(i) and 7150(j) provide that Legging Orders on the BOX Book will be treated in the PIP in the same manner as Unrelated Orders are currently. While a PIP is underway on a Leg which is itself part of a Strategy, it is possible that a new order on the Strategy or on the other component Leg (in the case of a Strategy with two Legs and with a ratio of one-to-one) will cause a new Legging Order to be generated for the Leg for which the

PIP is in progress. Legging Orders generated on the BOX Book during a PIP will interact with orders in the PIP in the same manner as Unrelated Orders are currently.[63]

Like Unrelated Orders, a Legging Order must be executable to prematurely terminate the PIP or execute with the PIP Order. If a Legging Order is not executable, the PIP will continue through its duration.

Executable Orders on Same Side as a PIP Order

The generation of a Legging Order that is on the same side as the PIP Order and whose price is executable against the opposite side BBO, an Improvement Order, a Legging Order, or the Primary Improvement Order, will cause the PIP to terminate early and the PIP Order will execute pursuant to proposed Rule 7150(f)(3).[64]

The following example shows how Legging Orders on the same side as the PIP Order will interact in a PIP on a single Leg:

EXAMPLE 13: EXECUTABLE LEGGING ORDER ON SAME SIDE AS PIP ORDER

BOX Book for Option A is:

Primary Improvement Order to buy 15 at $1.01	PIP Order to sell 15 at $1.01
Legging Order to buy 10 at $1.02	Order to sell 10 at $1.05
Order to buy 10 at $1.00	Order to sell 20 at $1.06
Order to buy 5 at $0.99	

BOX Book for Option B is:

Legging Order to buy 10 at $1.02	Order to sell 50 at $1.05

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63 No amendments to existing Rules 7150(g) or (h) are necessary. Proposed Rule 7150(f)(3) describes the execution of orders at the end of the PIP, including Legging Orders. A Legging Order is executed only after all other executable orders and quotes at the same price are executed in full.

64 See proposed Rule 7150(i).

Order to buy 15 at $1.00

Complex Order Book for Strategy A+B:

Complex Order to buy 10 at $2.07	Implied Order to sell 10 at $2.10

The Complex Order to buy 10 A+B at $2.07 was received after the start of the PIP. Subsequently, an order on the BOX Book to sell 5 A at $1.02 is received prior to the end of the PIP on A. As this order is executable against the Legging Order at $1.02, the PIP will terminate prematurely and the PIP Order will execute to sell 10 at $1.02 against the Legging Order to buy 10 at $1.02. Thereafter, the BOX Trading Host will execute a purchase of 10 B at $1.05 to complete the Complex Order. The 5 remaining contracts of the PIP Order will execute at $1.01 with the PIP Primary Improvement Order.

EXAMPLE 14: EXECUTABLE LEGGING ORDER ON SAME SIDE AS PIP ORDER

Assume the same initial facts as in Example 13 above, except that the Complex Order received after the start of the PIP is to buy 10 A+B at $2.06, in which case the Legging Orders on Option A and Option B are generated to buy 10 at $1.01 each. The order books would be as follows:

BOX Book for Option A is:

Primary Improvement Order to buy 15 at $1.01	PIP Order to sell 15 at $1.01
Legging Order to buy 10 at $1.01	Order to sell 10 at $1.05
Order to buy 10 at $1.00	Order to sell 20 at $1.06
Order to buy 5 at $0.99	

BOX Book for Option B is:

Legging Order to buy 10 at $1.01	Order to sell 50 at $1.05

Order to buy 15 at $1.00

Complex Order Book for Strategy A+B:

Complex Order to buy 10 at $2.06 Implied Order to sell 10 at $2.10

Subsequently, an order to sell 5 A at $1.01 is received, causing the PIP to terminate early. However, in this case, the PIP Order would trade with the Primary Improvement Order at $1.01 because all other orders have priority over Legging Orders at the same price. After the completion of the PIP, the sell order for 5 at $1.01 would execute against the Legging Order to buy 5 at $1.01. Thereafter, the BOX Trading Host will execute a purchase of 5 B at $1.05 to complete the Complex Order.

Executable Orders on Opposite Side of a PIP Order

The generation of a Legging Order that is on the opposite side of the PIP Order and can be executed against the opposite side NBBO, BBO, or a Legging Order, will trade against the PIP Order at one cent better than NBBO if BBO is equal to NBBO, or at NBBO if BBO is worse than NBBO.[65]

The following example shows how Legging Orders on the opposite side of the PIP Order will interact in a PIP on a single Leg.

EXAMPLE 15: EXECUTABLE LEGGING ORDER ON OPPOSITE SIDE OF PIP ORDER

BOX Book for Option A is:

Primary Improvement Order to buy 15 at $1.01

Order to buy 10 at $1.00	PIP Order to sell 15 at $1.01
Order to buy 5 at $0.99	Order to sell 10 at $1.05
	Order to sell 20 at $1.06

65 See proposed Rule 7150(j).

BOX Book for Option B is:

Order to buy 15 at $1.00 Order to sell 50 at $1.03

Complex Order Book for Strategy A+B:

Implied Order to buy 10 at $2.00

Assume NBBO for A is $1.00 and $1.04. While the PIP is underway, a Complex Order on A+B to buy 10 at $2.07 is received, generating a Legging Order to buy 10 A at $1.04. Since the Legging Order can execute against the NBBO offer on A at $1.04, the Legging Order to buy 10 A at $1.04 will execute with the PIP Order. Thereafter, the BOX Trading Host will execute a purchase of 10 B at $1.03 to complete the Complex Order.

d. Related Modifications to Rules

The following discusses proposed additional changes to the rules necessitated by the rule changes discussed above.

1) HSVF Broadcast

The Exchange proposes to amend Rule 7130(a)(2)(iv) (Execution and Price/Time Priority) to add Implied Orders and Legging Orders to the specific items that are displayed to BOX Options Participants through the proprietary High Speed Vendor Feed ("HSVF"). The HSVF is made available to all BOX Options Participants at no charge and, currently, the five best limit prices for single Legs on BOX are provided through the HSVF. The proposed amendment to Rule 7130(a)(2)(iv) will provide that the five best price limit prices and the best-ranked Legging Order (if any), as applicable and defined in Rule 7240(c)(1), will be provided through HSVF for each Leg. Additionally, the Exchange proposes that the five best limit prices and the best-ranked Implied Order (if any), as defined in Rule 7240(d)(1), will be provided through HSVF for each Strategy. All the other items in the HSVF as set forth in Rule 7130(a)(2) will also apply to Complex Orders.

2) Definitions

The Exchange proposes to amend the definition of "Central Order Book" or "BOX Book" in Rule 100(a)(10) to mean the electronic book of orders on each single option series maintained by the BOX Trading Host. The Exchange believes this clarifying change will convey the intended meaning to exclude Complex Orders from this definition.

The Exchange proposes to amend existing Rule 100(a)(33) to include definitions of "NBB" to mean the national best bid and "NBO" to mean the national best offer, each as calculated by BOX based on market information received by BOX from OPRA. These definitions are necessary to support the definitions of "cNBB" and "cNBO" in proposed Rule 7240(a).

The Exchange proposes that the terms "cBBO" be defined to mean the best net bid and offer price for a Complex Order Strategy based on the BBO on the BOX Book for the individual options components of such Strategy, "cNBB" be defined to mean the best net bid price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy, "cNBBO" be defined to mean the best net bid and offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy, and "cNBO" be defined to mean the best net offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy.[66]

The Exchange proposes to amend the definition of "Complex Order" in Rule 7240(a)(5) to mean any order involving the simultaneous purchase and/or sale of two or more different options

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66 See proposed Rule 7240(a)(1)-(4).

series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.[67]

The Exchange proposes that the term "Complex Order Book" be defined to mean the electronic book of Complex Orders maintained by the BOX Trading Host.[68]

The Exchange proposes that the term "Complex Order Strategy" or "Strategy" be defined to mean a particular combination of components of a Complex Order and their ratios to one another.[69] The Exchange also specifies in this rule that BOX will assign a Strategy identifier to each Strategy.

3) Minimum Increments

The Exchange proposes Rule 7240(b)(1) to provide that bids and offers on a Strategy (i.e., any Complex Order) may be expressed in any decimal price, and that the Legs of a Complex Order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual Legs of the Complex Order. The Exchange also proposes to delete a reference to Stock-Option Order consistent with the change to existing Rule 7240(b)(3) discussed below. Further, the Exchange proposes to delete a reference to priority for Complex Orders at a net price that is not a multiple of the minimum increment. The Exchange believes that this provision is unnecessary if Complex Orders may be expressed in any decimal price.

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67 See proposed Rule 7240(a)(5). See ISE Rule 722(a)(1). See also, the definition of "Complex Trade" in the Options Order Protection and Locked/Crossed National Market System Plan Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (August 6, 2009). See also Exchange Rule 15000(e) and ISE Rule 1900(d).

68 See proposed Rule 7240(a)(6).

69 See proposed Rule 7240(a)(7).

4) Elimination of Unnecessary Order Types

The Exchange proposes to delete existing Rule 7240(b)(3) regarding Execution of Complex Orders and is proposing various new provisions discussed above regarding Complex Order execution. In connection with amending the definition of Complex Order, the Exchange proposes to delete references to the various types of Complex Orders previously included in the rules (Spread, Straddle, Strangle, Combination, Ratio, Butterfly Spread, BOX Spread and Collar) because these designations will be unnecessary upon implementation of the other proposed rule changes. References to certain order types (Stock-Option Orders and SSF-option Orders) are proposed to be deleted because BOX does not have these order types. If these order types are to be traded on BOX in the future, the Exchange will file an appropriate rule change under Section 19(b)(1) of the Act.[70]

The Exchange proposes deleting Rule 7240(b)(4) regarding Types of Complex Orders, to be replaced by newly proposed 7240(b)(4) discussed above. Additionally, the Exchange proposes renumbering Rule 7240(b)(5), which prohibits Complex Orders being submitted to BOX as Directed Orders or to the PIP, to proposed 7240(b)(4)(iii). The Exchange also proposes deleting Rule 7240(c) regarding how a Participant may propose trading a Strategy on BOX. The planned implementation of the new BOX functionality for Complex Orders will permit Participants to create a Strategy simply by submitting a Complex Order for that Strategy to BOX. The current provision describes a more manual process for establishing a Strategy that will now be unnecessary and thus, not applicable. As such, the Exchange believes it is appropriate to delete this provision. The Exchange proposes to also delete IM-7240-1 regarding trading Stock-

70 15 U.S.C. 78s(b)(1).

Option Orders and SSF-option Orders as inapplicable because BOX does not have these order types.

5) BOX Trading System Capacity

The number of Strategies created on a Complex Order Book requires adequate systems support and overhead and the number of different Strategies that could be created is nearly endless. Complex Order transactions represent approximately one-fourth of overall options industry volume. Complex Order trading is generally concentrated in a limited number of classes. However, the Complex Order market relies on orders rather than the standard options market reliance on quoted liquidity. As a result, message traffic for Complex Orders is only a fraction of the overall options market. BOX maintains a rigorous capacity planning program that monitors system performance and projected capacity demands. This program is designed to ensure that the system has sufficient capacity to support existing and future trading needs of BOX. As a general matter, the Exchange considers the potential impact on systems capacity of all new initiatives. In particular, the Exchange analyzed the potential for additional message traffic resulting from implementation of this Complex Order proposal and concluded that the Exchange has sufficient systems capacity to handle this implementation without degrading systems performance.

Consistent with the limitations set forth in proposed Rule 7240(d) and above, the Exchange will closely monitor the generation of Implied Orders to ensure that they do not negatively impact system capacity and performance. The Exchange also will closely monitor the generation of Legging Orders to ensure that they do not negatively impact system capacity and performance. While generating Implied Orders and Legging Orders does require additional systems processes, the Exchange expects the impact of these activities to be negligible under all but the most severe market conditions. Therefore, the Exchange believes that it possesses sufficient capacity to meet investor demand.

2. Statutory Basis

a. Principles of Complex Orders and Interaction with the BOX Book

The proposed rule change is consistent with the requirements of the Act and the rules and regulation thereunder applicable to the Exchange as required by Section 19(b)(2) of the Act.[71] As described more fully below, the Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,[72] in general, and furthers the objectives of Section 6(b)(5) of the Act[73] 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 regulating, clearing, settling, processing information with respect to, and 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.

The proposed rule changes are consistent with the Act and further the foregoing objectives of Section 6(b)(5) of the Act[74] by increasing interaction between Complex Orders and interest on the BOX Book, including components of Complex Order Strategies; providing greater liquidity by providing increased opportunity for order execution; and improving execution prices compared to those otherwise available in the market.

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71 15 U.S.C. 78s(b)(2).

72 15 U.S.C. 78f(b).

73 15 U.S.C. 78f(b)(5).

74 15 U.S.C. 78f(b)(5).

The Exchange believes this proposal is a reasonable modification to its rules, designed to facilitate increased interaction between orders on the Complex Order Book and orders on the BOX Book, and to do so in such a manner as to ensure a dynamic, real-time trading mechanism that maximizes the opportunity for trade executions for both Legs and Complex Orders. The Exchange believes that it is appropriate and consistent with the Act, for the purpose of clarity and in the public interest, to (i) adopt the proposed amendments to Rules 100(a)(10) and 100(a)(33), (ii) adopt the proposed amendments to Rule 7110(c)(2), (iii) adopt the proposed amendments to Rule 7130(a)(2)(iv), (iv) adopt the proposed amendments to Rules 7150(f)(3), 7150(i) and 7150(j), and (v) delete in its entirety the existing provisions of Rule 7240 (Complex Orders) and adopt the proposed Rule 7240.

b. Complex Order Execution and Priority

The Exchange believes the proposed rule changes will result in more efficient trading and reduce the risk that Complex Orders fail to execute for investors by providing additional opportunities to fill Complex Orders, and that the changes are consistent with the Act. The Exchange believes that increased interaction, where possible, on a continuous and real-time basis of the bids and offers on each Leg comprising a Strategy with the bids and offers on the corresponding Strategy and vice versa, through Implied Orders and Legging Orders, will benefit market participants and investors. The proposed rule changes will allow Complex Orders to interact with interest on the BOX Book and, conversely, allow interest on the BOX Book to interact with Complex Orders in an efficient and orderly manner. Orders on the BOX Book comprising a Strategy may interact with Complex Orders on the Strategy and a combination of a Complex Order and an order on a Leg comprising the Complex Order may also interact with orders on other Legs comprising the Strategy.

The Exchange also believes the interaction of orders will benefit investors by increasing the opportunity for Complex Orders to receive execution, while also enhancing execution quality for orders on the BOX Book. Generally, the options industry rules for the execution of Complex Orders, and the current Exchange Rules, provide that two Complex Orders may execute against one another if the execution prices of the component Legs result in a net price that is better than the best customer limit order available for the individual component Legs. This permits an exchange, when executing two Complex Orders against one another, to execute each component Leg on the market's best bid or offer so long as the execution does not trade ahead of customer interest.

The Exchange believes the proposed rule change for trading Complex Orders on BOX is a step forward in options Complex Order execution. The proposed rules require that, before executing against another Complex Order, a Complex Order on BOX will execute first against orders on the BOX Book if the net price of such orders is equal to the best price on the Complex Order Book, provided that all of the orders on the BOX Book are equal to or better than their respective NBBO.[75] The Exchange believes this is consistent with the Act and represents two improvements to the rules on other options exchanges regarding Complex Order trading: (i) the priority of the BOX Book is not limited to "if any of the bids or offers established in the marketplace consist of a Customer Order"[76] and (ii) any Complex Order execution, whether against another Complex Order or against interest on the BOX Book, will be at a price at least equal to the cNBBO.[77] Thus, each Leg of a Complex Order will be executed at a price that is equal to or better than NBBO and BBO for that series.

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75 See proposed Rule 7240(b)(3).

76 See, e.g., ISE Rule 722(b)(2).

77 "cNBBO" is defined as the "the best net bid and offer price for a Complex Order Strategy

A Complex Order will execute against other Complex Orders resting on the Complex Order Book if the net price is better than cBBO[78] and is equal to or better than the cNBBO,[79] except in the case of Complex Orders on Non-standard Strategies as described below. The proposed definitions of cBBO and cNBBO are consistent with the rules of another options exchange as previously approved by the Commission. Therefore, the Exchange believes this proposed change is consistent with the goals of the Act that an Exchange's rules be designed to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The exception to the priority of the BOX Book is the execution of a Complex Order on Non-standard Strategies,[80] as provided in proposed Rule 7240(b)(2)(ii). Complex Orders for Non-standard Strategies will execute against interest on the BOX Book for the individual Legs of the Strategy for all of the quantity available at the best price in a permissible ratio until the quantities remaining on the BOX Book are insufficient to execute against the Complex Order while respecting the ratio. Following such execution, the remaining quantity of the Complex Order may execute against other Complex Orders and the component Legs of the Complex Order

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based on the NBBO for the individual options components of such Strategy." See proposed Rule 7240(a)(3).

78 "cBBO" is defined as "the best net bid and offer price for a Complex Order Strategy based on the BBO on the BOX Book for the individual options components of such Strategy." See proposed Rule 7240(a)(1) and Commentary .08(a)(iv) to PHLX Rule 1080.

79 "cNBBO" is defined as "the best net bid and offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy." See proposed Rules 7240(a)(3) and 7240(b)(3)(iii)(A). See also, Commentary .08(a)(vi) to PHLX Rule 1080.

80 "Complex Order Strategy" or "Strategy" is defined as "a particular combination of components of a Complex Order and their ratios to one another. BOX will assign a strategy identifier to each Strategy." See proposed Rule 7240(a)(7).

may trade at prices equal to the corresponding prices on the BOX Book (for more detail, see Example 5 above related to Non-standard Strategies).

The Exchange proposes to apply the straightforward principle of allowing execution of a Complex Order against another Complex Order when interest on the BOX Book at the same net price has already been executed. Thus, the execution price will be at a price better than cBBO (except in the case of insufficient quantity for Non-standard Strategies where the execution could occur at a price equal to cBBO). In the case of Non-standard Strategies, interest on the BOX Book will still have priority and be executed before a Complex Order, to the extent that there is sufficient quantity on the BOX Book to respect the ratio of the Strategy.

The Exchange believes its proposed rules regarding executions of Non-standard Strategies are consistent with the goals of the Act 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 proposed rules ensure that interest on the BOX Book will have priority to the extent sufficient quantity exists on each Leg to respect the ratio of the Strategy.[81] Thereafter, Complex Orders for a Non-standard Strategy may execute against one another and the component Legs of the Complex Orders may trade at prices equal to the corresponding prices on the BOX Book. The proposed rules prevent circumstances that may otherwise create a locked market on the Complex Order Book or require rejection of an incoming Complex Order that is executable against a resting Complex Order. In the absence of these safeguards, otherwise executable Complex Orders would lose opportunities for execution without any compensating benefit to interest on the BOX Book that are unable to interact with the incoming Complex Order. Accordingly, the Exchange believes that it proposes the best

[81] See proposed Rule 7240(b)(2)(ii).

solution to the dilemma consistent with the requirements of the Act, and specifically Section 6(b)(5) thereof.[82] Furthermore, the Exchange believes this procedure is consistent with the intent of the principle that a Complex Order execute "at least one Leg better than BBO for each options instrument" as this principle obviously assumes that there is sufficient quantity to respect the ratio of a Complex Order when prices are otherwise in line. In other words, orders can only execute against orders and an order must have both a price and a quantity. Therefore, the Exchange believes the proposed rules regarding executions of Non-standard Strategies will benefit market participants and investors, provide additional opportunities for market participants to obtain executions of their Non-standard Strategies and thus, create a more efficient market. As such, the Exchange believes the proposal is consistent with the goals of the Act.

In requiring this, the principle is designed to ensure that at least one Leg will execute at a price better than BBO, except in the limited circumstance where there is insufficient quantity, with respect to one of the Legs, on the BOX Book to respect the ratio of the Complex Order. The Exchange believes the proposed rule change is a step forward in Complex Order execution because Implied Orders and Legging Orders will increase the interaction of orders on BOX and increase opportunities for order execution. Additionally, the proposed rules for filtering Complex Orders against NBBO should provide Complex Order executions at prices comparably better than otherwise available in the market.[83] As such, the Exchange believes the proposed rule change regarding Complex Order execution and priority is consistent with the goals of the Act to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

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[82] 15 U.S.C. 78f(b)(5).

[83] <u>See</u> proposed Rule 7240(b)(3)(iii).

Other exchange rules currently provide that an incoming Complex Order would trade with a Complex Order that is resting on the Complex Order Book, unless the best bid/offer on either of the component Legs of the Strategy were a customer.[84] For the reason stated below, the Exchange is proposing no such limitation to restrict Complex Order execution on BOX. Because of the priority of the BOX Book over the Complex Order Book in the proposed rule change, a Complex Order will execute first against the BOX Book with respect to each component Leg, and any subsequent execution of the remaining quantity of the Complex Order will be at a price that ensures that "at least one Leg of the Complex Order must trade at a price that is better than the corresponding bid or offer in the marketplace,"[85] (i.e., on BOX, at least one Leg of the Complex Order will execute at a price better than BBO), except for Complex Orders on Non-standard Strategies, which may be executed against other Complex Orders and the component Legs of the Complex Orders may trade at prices equal to the corresponding prices on the BOX Book.

This principle is not limited to instances where a customer limit order is at a price equal to the BBO. Because the component Leg Orders of a Complex Order will have priority and this interest on the BOX Book can execute with a Complex Order on the opposite side of the market, the proposed rule change would ensure that no resting Complex Orders trade before orders on the BOX Book for the component Legs. The Exchange believes this will provide greater opportunities for executions of Complex Orders on BOX, and will benefit the overall BOX market for the component Legs as well.

For the reasons set forth above, the Exchange believes the proposed rule change regarding Complex Order execution, and the priority proposed for interest on the BOX Book, is

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[84] See, e.g., ISE Rule 722(b)(2) and Commentary .08(c)(iii) to PHLX Rule 1080.

[85] See proposed Rule 7240(b)(2)(i).

consistent with the goals of the Act to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

1) Implied Orders and Priority of the BOX Book

The Exchange proposes to define an Implied Order to mean "a Complex Order at the cNBBO, derived from the orders at the BBO on the BOX Book for each component Leg of a Strategy, provided each component Leg is at a price equal to NBBO for that series."[86] The Exchange believes the generation of Implied Orders is consistent with the goals of the Act to remove the impediments to and perfect the mechanism of a free and open market because their addition to the marketplace should facilitate additional transactions and interaction between orders on the Complex Order Book and orders on the BOX Book. The Exchange believes the addition of Implied Orders to the BOX market will benefit market makers, traders, and retail investors trading on BOX by enhancing execution quality and the likelihood and efficiency of trade execution. In the absence of the proposed rule, Complex Orders that would otherwise execute against interest on the BOX Book would not trade.

Implied Orders are generated and broadcast for Strategies with two Legs and with a ratio of one-to-one.[87] This limitation results in a manageable and useful set of possible Implied Orders, removing impediments to and perfecting the mechanism of a free and open market. Limiting Implied Orders to Strategies with two Legs and with a ratio of one-to-one is consistent with the purposes of the Act because the massive number of different, potential Strategies for which Implied Orders could otherwise be generated would be unwieldy and consume significant

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86 See proposed Rule 7240(d)(1).

87 See proposed Rule 7240(d)(3).

system resources generating, screening and displaying unnecessary Implied Orders, resulting in a less efficient market.

An Implied Order for a Strategy is calculated and broadcast if each of the prices of the component Leg Orders is equal to NBBO.[88] When an Implied Order is no longer at the cNBBO, the Implied Order will be removed and a new Implied Order will be generated, provided there is interest on the BOX Book to generate an Implied Order at the new cNBBO.[89] Also, an Implied Order is not generated if the subject series is going through NBBO exposure pursuant to Rule 7130(b), or using orders in the PIP, Facilitation Auction, or Solicitation Auction.[90] Implied Orders will be removed if either component Leg Order is executed in full, or in part, or cancelled.[91] Until such removal, Implied Orders provide additional likelihood and efficiency of trade execution in furtherance of the goals of the Act. Applying the limitations set forth in proposed Rule 7240(d) and above, the Exchange will closely monitor the generation of Implied Orders to ensure they do not negatively impact system capacity and performance.

The Exchange believes automatically generating Implied Orders will provide additional execution opportunities for Complex Orders and interest on the BOX Book and thus, enhance execution quality for investors on BOX. The Exchange believes the additional opportunities for potential execution through the interaction of orders on the Complex Order Book and orders on the BOX Book as achieved through Implied Orders, and the potential for enhanced execution quality, as outlined above, promote just and equitable principles of trade, remove impediments to

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88 See proposed Rules 7130(a)(2)(iv) and 7240(d)(1).

89 See proposed Rule 7240(d)(2).

90 See proposed Rule 7240(d)(4).

91 See proposed Rule 7240(d)(5).

and perfect the mechanism of a free and open market, are in the public interest and, therefore, consistent with the Act.

The Exchange believes the principles set forth in this proposal regarding Complex Order execution and priority are an improvement over the existing rules in the marketplace, and further, are consistent with the goals of the Act to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

2) Valid Complex Order Types

The Exchange proposes that Complex Orders may be entered as Fill-and-Kill Orders, Limit Orders, BOX-Top Orders, Market Orders, or Session Orders, each as defined in Rule 7110.[92] The proposed order types currently exist on BOX today with regard to orders on the BOX Book and the Exchange proposes to apply them to Complex Orders. In particular, the Exchange believes that Fill-and-Kill Orders, Limit Orders, BOX-Top Orders, and Session Orders all provide valuable limitations on execution price and time that may protect Participants and investors. Additionally, Session Orders reduce the risk of erroneous or stale orders on the Complex Order Book in the event that a Participant encounters unforeseen systems issues with its connectivity with BOX. The Exchange believes that permitting Complex Orders to be entered with these varying order types will give Participants greater control and flexibility over the manner and circumstances in which their orders may be executed, modified, or cancelled, and thus, will provide for the protection of investors and contribute to market efficiency. Accordingly, the Exchange believes the proposed rule change is consistent with the Act.

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92 See proposed Rule 7240(b)(4)(i).

c. Legging Orders

Legging Orders may be automatically generated on behalf of a Complex Order so they are represented at the BBO on individual Legs.[93] A Legging Order is executed after all other executable orders and quotes at the same price are executed in full.[94] When a Legging Order is executed, the other component Leg of the Complex Order will be automatically executed against the BBO.[95] At the same price on the BOX Book, Legging Orders will be executed in time priority according to the corresponding Complex Order entry time.[96] Legging Orders will only be eligible for execution after being filtered against NBBO pursuant to 7130(b).[97]

The Exchange believes that automatically generating Legging Orders, which will be executed after all other executable interest at the same price is executed in full, will provide additional execution opportunities for Complex Orders without negatively impacting any investors in the regular market.[98] In fact, the generation of Legging Orders may enhance execution quality for investors on the BOX Book by improving the price and/or size of the BBO and by providing additional execution opportunity for resting interest on the BOX Book.

The Exchange also believes that the generation of Legging Orders is compliant with Rule 602 of Regulation NMS (the "Quote Rule") because each Legging Order is a firm order that is

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93 See proposed Rule 7240(c)(2).

94 See proposed Rule 7240(c)(3).

95 See proposed Rule 7240(c)(3).

96 See proposed Rule 7240(c)(3).

97 See proposed Rule 7240(c)(3).

98 See NOM Approval Order, SEC Release No. 34-57478 (March 12, 2008) 73 FR 14521 at 14529-14530 (March 18, 2008).

included in the BBO if it is equal to or better than the otherwise existing BBO.[99] The Quote Rule requires responsible brokers and dealers to be firm for their quotes.

1) Increments

The Exchange proposes that a Legging Order will be placed on the BOX Book at its generated price to buy (sell) and will be displayed at the minimum trading increment permitted for the series (rounding down to the nearest valid increment for the series for buy orders and up to the nearest valid increment for the series for sell orders). Legging Orders will be automatically generated at prices in one cent increments but, for series trading in nickels or other larger increments, will be displayed at the nearest minimum trading increment for the series.[100] The Exchange believes Legging Orders will provide market participants greater ability to execute trades at prices between the minimum trading increments for these series.[101]

The Exchange believes Legging Orders will increase opportunities for execution of Complex Orders, potentially increase executions of interest on the BOX Book, and will lead to tighter spreads and finer pricing on BOX. While Legging Orders may not always be displayed at their actual penny increment price, Legging Orders will provide investors the opportunity to trade at a better price than would otherwise be available—inside the disseminated best bid and offer for a particular Leg. The Exchange believes that this opportunity for investors to receive executions inside the disseminated BBO could result in better executions for investors, and that Legging Orders are consistent with the Act.[102]

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99 See NOM Approval Order, SEC Release No. 34-57478 (March 12, 2008) 73 FR 14521 at 14528-14529 (March 18, 2008).

100 See proposed Rule 7240(c)(1).

101 See NOM Approval Order, SEC Release No. 34-57478 (March 12, 2008) 73 FR 14521 at 14529-14530 (March 18, 2008).

102 See NOM Approval Order, SEC Release No. 34-57478 (March 12, 2008) 73 FR 14521 at

When a BOX-Top Order executes against a Legging Order at a one cent increment in a series traded in a larger increment, the Exchange proposes that any remaining BOX-Top Order quantity will be priced, ranked and displayed on the BOX Book at the nearest increment tick permitted for the series (rounded up (down) in the case of a sell (buy) order).[103] The Exchange notes for comparison that market orders are executed at the best price obtainable for the total quantity available when the order reaches the BOX market and any remaining quantity is executed at the next best price available for the total quantity available. This process continues until the Market Order is fully executed. Use of a BOX-Top Order maintains the initial execution price as a limit on the execution of the remainder of an order. BOX-Top Orders have existed on BOX since its inception because they are designed to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest and the Exchange believes the continued use of this order type is consistent with the Act.[104]

2) Proposed Amendments to PIP on Legging Orders

Legging Orders may be automatically generated on behalf of a Complex Order so they are represented on the BOX Book at the BBO for the individual Legs, and will be eligible for execution after being filtered against NBBO. At the conclusion of a PIP, Legging Orders will be executed after all other executable orders and quotes at the same price are executed in full.[105] Therefore, the Exchange believes it is appropriate and consistent with the Act that Legging

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14529 (March 18, 2008).

103 See proposed Rule 7110(c)(2).

104 See Securities Exchange Act Release No. 49068 (January 13, 2004) 69 FR 2796 (January 20, 2004).

105 See proposed Rule 7150(f)(3).

Orders be treated as other orders on the BOX Book are treated in connection with the PIP, subject to the same process and priority.

Proposed amendments to Rules 7150(i) and 7150(j) reflect that Legging Orders on the BOX Book will be treated, in connection with the PIP, in the same manner as Unrelated Orders are treated currently. Existing Rule 7150(a) defines Unrelated Order as a non-Improvement Order entered in the BOX market during a PIP. A Legging Order may be generated on the BOX Book for a Leg while a PIP on that Leg is underway. The Commission has previously found the Exchange's treatment of Unrelated Orders received during the PIP consistent with the Act.[106] Legging Orders generated during a PIP are treated in the same manner as Unrelated Orders received during a PIP and will interact with orders in the PIP in the same manner as Unrelated Orders.[107] A Legging Order is executed only after all other executable orders and quotes at the same price are executed in full. As a result, the Exchange believes the proposed changes regarding Legging Orders and their interaction with a PIP on a Leg is consistent with the Act.

d. Related Modifications to Rules

1) HSVF

The Exchange proposes to add Complex Orders, Implied Orders and Legging Orders to the specific items that are displayed to Participants through the proprietary HSVF.[108] In adopting Regulation NMS, the Commission granted self-regulatory organizations and broker-dealers increased authority and flexibility to offer new and unique market data to the public. It was believed that this authority would expand the amount of data available to consumers, and

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106 See Securities Exchange Act Release No. 55415 (March 7, 2007) 72 FR 11411 (March 13, 2007) (Approval Order Relating to the Treatment of Limit Orders Submitted to BOX During a PIP).

107 See proposed Rules 7150(f)(3) and 7150(i) – (j).

108 See proposed Rule 7130(a)(2)(iv).

also spur innovation and competition for the provision of market data. The Exchange believes that the proposed rule change to add certain order information to the HSVF adheres to those principles by promoting increased transparency through the dissemination of more useful proprietary data and also by clarifying its availability to Participants. The HSVF is made available to all market participants at no charge. The Exchange is making a voluntary decision to make this data available, unlike the BBO which must be made available under the Act. The Exchange chooses to make the data available as proposed in order to improve market quality, to attract order flow, and to increase transparency. The Exchange believes this proposed change to make certain additional order information available through the HSVF is designed to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and, in general, will protect investors and the public interest, consistent with the Act.

2) Complex Order Definition

The Exchange believes that amending the definition of a Complex Order in Rule 7240(a) is consistent with the Act. The Exchange notes that the definition is consistent with the rules of other options exchanges and with the definition of "Complex Trade" in the Options Order Protection and Locked/Crossed National Market System Plan.[109] Therefore, the Exchange believes this proposed change is consistent with the goals of the Act that an Exchange's rules be designed 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.

3) Price Improvement Requirement

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[109] See ISE Rule 722(a)(1). See also, the definition of "Complex Trade" in the Options Order Protection and Locked/Crossed National Market System Plan, Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (August 6, 2009). See also Exchange Rule 15000(e) and ISE Rule 1900(d).

Except in the case of Complex Orders on Non-standard Strategies which may execute at a price equal to cBBO after executions against the BOX Book, the Exchange proposes to allow two Complex Orders to execute against each other at a net price that is better than cBBO by one cent.[110] On some options exchanges that provide auctions for Complex Orders, a Complex Order may execute against another Complex Order if one leg of the Complex Order trades at a price that is at least one cent better than customer orders in the same series.[111] On one options exchange that has no auction for Complex Orders, a Complex Order may execute against another Complex Order if one leg of the Complex Order trades at a price that is better than priority customer interest in that series by at least one minimum trading increment.[112]

Although BOX is not proposing to establish an auction for Complex Orders at this time, the Exchange believes that it is consistent with the protection of investors and the public interest to permit Complex Orders (other than Non-standard Strategies) to execute against each other at a price that is better than cBBO by one cent, rather than the minimum trading increment for one of the component series for the following reasons.

First, BOX will always execute Complex Orders first against interest on the BOX Book to the extent the Complex Order can be executed in full or in a permissible ratio by such interest.[113]

Second, the Exchange believes that one cent is a significant and material improvement to customers.[114] While BOX is not currently proposing a Complex Order auction, the Exchange

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110 See proposed Rule 7240(b)(2)(i).

111 See, e.g., Securities Exchange Act Release Nos. 57556 (March 26, 2008), 73 FR 18018 (April 2, 2008) (Order Approving CBOE-2008-03) and 63558 (December 16, 2010) 75 FR 80553 (December 22, 2010) (Order Approving NYSEAmex-2010-100).

112 See ISE Rule 722(b)(2).

113 See proposed Rule 7240(b)(3)(i) and (ii).

believes the BOX Complex Order proposal is appropriate in light of the price competition for Complex Orders on BOX driven by other features in the proposal. For example, the Exchange believes that the generation of Legging Orders will provide enhanced price competition and greater integration of the BOX Book and BOX COB. Also, the Exchange notes that each leg of a Complex Order must be executed at a price equal to NBBO. The Exchange believes these benefits will enhance the efficiency of the BOX Book and the BOX COB, and therefore, is consistent with the protection of investors and the public interest.[115]

Third, the Exchange believes that permitting price improvement by one cent rather than by the minimum trading increment could permit more active Complex Order trading by allowing execution where participants may not otherwise be willing to offer better prices in larger increments.

Fourth, since the implementation of the Penny Pilot Program, many of the options instruments involved in Complex Order trading now already have a minimum increment of one cent.[116] As a result, even though the initial implementation of complex order trading rules on

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114 Various options mechanisms such as the BOX PIP and the NOM price improving order have been implemented because it is recognized that one cent is a significant and material improvement to customers. See Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775, 2799 (January 20, 2004) (SR-BSE-2002-15) (Order Approving BOX Facility), and 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004) (Order Approving NASDAQ Options Market).

115 The Chicago Board Options Exchange, Inc. permits trading Complex Orders in $0.01 minimum increments, providing additional price points at which Complex Orders could be executed. See Securities Exchange Act Release Nos. 57556 (March 26, 2008), 73 FR 18018 (April 2, 2008) (Order Approving CBOE-2008-03)

116 The Penny Pilot Program has been in effect since January 26, 2007. See Securities Exchange Act Release No. 55155 (Jan. 23, 2007), 72 FR 4741 (Feb. 1, 2007) (SR-BSE-2006-49). At the beginning of 2013, more than 350 classes of options are included in the Penny Pilot Program. See BOX Regulatory Circular 2012-30, available online at http://boxexchange.com/f_circulars/_RC-2012-30_Penny_Pilot_Classes_Listed_on_BOX.pdf

other exchanges largely pre-dates the Penny Pilot Program, the effect of the Exchange's proposal is already implemented in a significant portion of Complex Order trading on other options exchanges.

For all of the foregoing reasons, the Exchange believes the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to the Exchange.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not currently trade Complex Orders. While the proposed rule changes would permit BOX to trade and display Complex Orders, the Exchange expects that no market participant or investor will have any additional cost or obligation with respect to the Exchange, BOX or Complex Orders relating to the proposed rule changes. No duties are imposed on any party by the proposed rule changes.

The Exchange believes any impact of the proposed rule changes on market participants or investors would be at least neutral and could result in improved liquidity, finer pricing, better executions and increased competition. The Exchange further believes the proposed rule changes may facilitate additional executions for all BOX Options Participants. Moreover, the Exchange believes the proposal will enhance competition among the various markets for Complex Order execution, potentially resulting in more active Complex Order trading.

For these reasons, the Exchange does not believe the proposed rule change will have any negative impact, and will not impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act.

(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 written comments on the proposed rule change.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be 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 Exchange 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-2013-01 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-2013-01. 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-2013-01 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.[117]

Kevin M. O'Neill
Deputy Secretary

[117] 17 CFR 200.30-3(a)(12).