

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69186; File No. SR-BOX-2013-12)

March 20, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add Interpretive Material to Rule 7080 in Connection with the Implementation of the Limit Up- Limit Down Plan

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on March 8, 2013, BOX Options Exchange LLC (“BOX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to add Interpretive Material to Rule 7080 in connection with the implementation of Limit Up-Limit Down procedures for securities that underlie options traded on BOX. 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

Previously, the Commission approved a National Market System Plan to Address Extraordinary Market Volatility across the equities markets (as amended, the “Plan”).³ The purpose of the proposed rule change is to implement joint industry principles across the options exchanges to address the implementation of the Plan. In particular, the proposed rule change will address the trading conditions for options on BOX Market LLC (the Exchange’s options trading facility, “BOX”), when an underlying equity security enters a Limit State, or Straddle State, as those terms are defined within the Plan.

The Exchange currently allows the entry of market orders, which are orders to buy or sell at the best price available at the time of execution (“Market Orders”).⁴ The purpose of this proposed rule change is to add to the Exchange Rules new IM-7080-1 (Trading Conditions During Limit State or Straddle State) to provide for how the Exchange will treat orders during occurrences when an underlying NMS stock is in a Limit State or a Straddle State. IM-7080-1 will provide that if the underlying security has entered a Limit State or Straddle State as those terms are defined within the Plan, certain conditions shall apply during the Limit State or Straddle State. Specifically, all Market Orders and BOX-Top Orders will be rejected and any resting Market Orders and BOX-Top Orders will be cancelled.

³ See Securities Exchange Act Release No. 67091 (May 31, 2012) 77 FR 33498 (June 6, 2012)(the “Limit Up-Limit Down Release”).

⁴ See BOX Rule 7110(c).

The Limit Up/Limit-Down Plan is designed to prevent executions from occurring outside of dynamic price bands disseminated to the public by the single plan processor as defined in the Limit Up-Limit Down Plan. Under the Plan, a Limit State will be declared if the national best offer equals the lower price band and does not cross the national best bid, or the national best bid equals the upper price band and does not cross the national best offer. A Straddle State is when the national best bid (offer) is below (above) the lower (upper) price band and the security is not in a Limit State, and trading in that security deviates from normal trading characteristics such that declaring a trading pause would support the Plan's goal to address extraordinary market volatility. Accordingly, when the underlying security is in a Limit State or Straddle State, there will not be a reliable price for the security to serve as a benchmark for the price of the related option.

In such a state, the Exchange does not believe that it should permit the execution of Market Orders or BOX-Top Orders, which are un-priced orders that execute at the best price available at the time the Exchange receives such orders. However, limit orders, which are orders to buy or sell at the price stated or better ("Limit Orders"), contain a limit price that will protect them from being executed at inferior prices.⁵ Limit Orders will not be rejected during the Limit or Straddle State.⁶

⁵ Id.

⁶ The Exchange will not reject pending transactions in the Exchange's Facilitation or Solicitation Mechanisms (BOX Rule 7270), as all such transactions are initiated with a limit price. Market Orders received via the Exchange's Price Improvement mechanism (BOX Rule 7150) will be rejected, while Limit Orders will be accepted. However, if the PIP auction commences before the underlying has moved into a Limit or Straddle State it will not be terminated or canceled, as market conditions were reasonable when the auction started. Subject to regulatory approval, the Exchange expects to launch a Complex Order Offering. See Securities Exchange Act Release No. 69027 (March 4, 2013), 78 FR 15093 (March 8, 2013) (SR-BOX-2013-01) (Notice of Filing Regarding Complex Orders). When this functionality is approved Complex Orders that are Market

The Exchange believes that the rejection of Market Orders or BOX-Top Orders when the underlying security is subject to a Limit State or Straddle State will help to maintain a fair and efficient marketplace for the execution of options. Furthermore, the Exchange will reject all incoming Market Orders or BOX-Top Orders during the opening of in the event that the underlying NMS stock is open, but has entered into a Limit State or Straddle State. When this occurs, any resting Market Orders will be eliminated and new Market Orders will be rejected during the pre-opening. The series will open as scheduled, but Market Orders and BOX-Top Orders will continue to be rejected until the underlying NMS stock stays out of a Limit or Straddle State.

Lastly, the Exchange proposes that current IM-7080-1 regarding Trading Pause be renumbered to IM-7080-2.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),⁷ in general, and furthers the objections of Section 6(b)(4) of the Act,⁸ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. Specifically, the Exchange believes that the proposal is designed to help maintain fair and orderly markets by imposing certain modified conditions for Market Orders and BOX-Top Orders during times of uncertainty regarding the price of the underlying security due to extraordinary market volatility in such underlying security.

Orders will be also be rejected when the underlying enters a Limit or Straddle State.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(4).

When the underlying equity security is in a Limit State or Straddle State, there will not be a reliable price for the security to serve as a benchmark for the price of the option. This circumstance raises particular concerns for the quality of execution for retail customers buying or selling options. Accordingly, the Exchange and its options exchange competitors are proposing rules that will treat listed options on the subject underlying security in a uniform fashion across the various markets. As such, the Exchange believes it is in the interests of the public and for investor protection to reject Market Orders and BOX-Top Orders and cancel such resting orders when the underlying equity security enters a Limit State or Straddle State.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange and its options exchange competitors are proposing rules designed to treat listed options on any underlying equity security affected as part of the Plan in a uniform fashion across the various markets. As such, the Exchange believes the proposals among the various options exchanges will impact all market participants equally, and will benefit market participants in periods of extraordinary market volatility and as consistent with the purposes of the Act. For this reason, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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 comments on the proposed rule change.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act⁹ and Rule 19b-4(f)(6) thereunder.¹⁰ Because the proposed rule change does not: (i)

⁹ 15 U.S.C. 78s(b)(3)(A)(iii).

significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B) of the Act¹¹ to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

¹⁰ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹¹ 15 U.S.C. 78s(b)(2)(B).

- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-BOX-2013-12 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 No. SR-BOX-2013-12. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File No. SR-BOX-2013-12 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.¹²

Kevin M. O'Neill
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).