

New language
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BOX Options Exchange LLC

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Rule 3130 Exemptions from Position Limits

- [(a)] Exemption Granted by Other Exchanges: An Options Participant may rely upon any available exemptions from applicable position limits granted from time to time by another Options Exchange for any options contract traded on BOX provided that such Options Participant (1) provides the Exchange with a copy of any written exemption issued by another Options Exchange or a written description of any exemption issued by another Options Exchange other than in writing containing sufficient detail for the Exchange to verify the validity of that exemption with the issuing Exchange, and (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemptions with respect to its trading on BOX.
- [(b)] *Equity Hedge Exemption.* The following qualified hedging transactions and positions described in paragraphs (1) through (5) below shall be exempt from established position and exercise limits as prescribed under Rule 3120(d) (Position Limits), IM-3120-3 and IM-3120-4. The equity hedge exemption is in addition to the standard limit and other exemptions available under the Exchange Rules. Hedge transactions and positions established pursuant to paragraphs 6) and (7) below are subject to a position limit equal to five (5) times the standard limit established under Rule 3120(d) (Position Limits), IM-3120-3 and IM-3120-4:
- (1) Where each option contract is "hedged" or "covered" by 100 shares (10 shares in the case of a Mini Option or 1,000 shares in the case of Jumbo SPY Options) of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract:
 - (i) long call and short stock;
 - (ii) short call and long stock;
 - (iii) long put and long stock;
 - (iv) short put and short stock.
 - (2) A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long

call and short put is equal, and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option or 1,000 shares in the case of Jumbo SPY Options) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("reverse conversion").

- (3) A short call position accompanied by a long put position where the short call expires with the long put, and the strike prices of the short call and long put are equal, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option or 1,000 shares in the case of Jumbo SPY Options) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("conversion").
- (4) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call equals or exceeds the strike price of the long put, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option or 1,000 shares in the case of Jumbo SPY Options) of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time the position is established ("collar").
- (5) A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option or 1,000 shares in the case of Jumbo SPY Options) of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established ("reverse collar").
- (6) A long call position accompanied by a short put position with the same strike prices and a short call position accompanied by a long put position with a different strike prices ("box spread").
- (7) A listed option position hedged on a one-for-one basis with an over-the-counter ("OTC") option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.
- (8) For those strategies described under (2), (3), (4), and (5) above, one component of the option strategy can be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the Customer account.
- (9) An OTC option contract is defined as an option contract that is not listed on a national securities exchange or cleared at the OCC.

- (c) *Delta-Based Equity Hedge Exemption.* The Delta-Based Equity Hedge Exemption is in addition to the standard limit and other exemptions available under these Rules, interpretations, and policies. An equity option position of a Participant or non-Participant Affiliate of a Participant that is delta neutral shall be exempt from established position limits as prescribed under Section (d) of Rule 3120 (Position Limits) above, subject to the following:
- (i) The term "delta neutral" refers to an equity options position that is hedged, in accordance with a permitted pricing model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position.
 - (ii) An equity option position that is not delta neutral shall be subject to position limits in accordance with Section (d) of Rule 3120 (Position Limits), subject to the availability of other position limit exemptions. Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The "options contract equivalent of the net delta" is the net delta divided by the number of shares underlying the option contract. The term "net delta" means, at any time, the number of shares (either long or short) required to offset the risk that the value of an equity option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.
 - (iii) A "permitted pricing model" means –
 - 1) A pricing model maintained and operated by the Clearing Corporation ("OCC Model");
 - 2) A pricing model maintained and used by a Participant subject to consolidated supervision by the Commission pursuant to Appendix E of Commission Rule 15c3-1, or by an Affiliate that is part of such Participant's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the Participant or Affiliate of a Participant relying on this exemption in connection with the use of such model is an

entity that is part of such Participant's consolidated supervised holding company group;

- 3) A pricing model maintained and used by a financial holding company or a company treated as a financial holding company under the Bank Holding Company Act of 1956, or by an Affiliate that is part of either such company's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with:
 - (a) the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Board of Governors of the Federal Reserve System, provided that the Participant or Affiliate of a Participant relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group; or
 - (b) the standards published by the Basel Committee on banking Supervision, as amended from time to time and as implemented by such company's principal regulator, in connection with the calculation of risk-based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company - where "principal regulator" means a member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company - provided that the Participant or Affiliate of a Participant relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;
- 4) A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEC Rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital for market risk thereunder, provided that only

such OTC derivatives dealer and no other affiliated entity (including a Participant) may rely on this subparagraph (c)(iii)(4); or

- 5) A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a Participant) may rely on this subparagraph (iii)(5).

(iv) Effect on Aggregation of Accounts

- 1) Participants and non-Participant Affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in or relating to the security underlying the relevant option position that are owned or controlled by such Participant or non-Participant Affiliate.
- 2) Notwithstanding subparagraph (iv)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in or relating to the security underlying the option position held by an affiliated entity or by another trading unit within the same entity, provided that:
 - (a) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Section (f) of Rule 3120, exists between such Affiliates or trading units*; And
 - (b) the entity has provided the Exchange written notice in advance that it intends to be considered separate and distinct from any Affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

* Note: The Exchange will set forth by Regulatory Circular the conditions under which it will deem no control relationship to exist between Affiliates and

between separate and distinct trading units within the same entity.

- 3) Notwithstanding subparagraph (iv)(1) or (iv)(2), a Participant or non-Participant Affiliate who relies on this exemption shall designate, by prior written notice to the Exchange, each trading unit or entity whose option positions are required under these Rules to be aggregated with the option positions of such Participant or non-Participant Affiliate that is relying on this exemption for purposes of compliance with the Exchange position limits or exercise limits. In any such case:
 - (a) the permitted pricing model shall be applied, for purposes of calculating such Participant's or Affiliate's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and
 - (b) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under these Rules to be aggregated with the option positions of such Participant or Affiliate.
- (v) Obligations of Participants and Affiliates
 - 1) A Participant that relies on this exemption for a proprietary equity options position:
 - (a) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (iii) above; and
 - (b) by such reliance authorizes any other person carrying for such Participant an account including, or with whom such Participant has entered into, a position in or relating to a security underlying the relevant option position to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the

Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

- 2) The equity option positions of a non-Participant relying on this exemption must be carried by a Participant with which it is affiliated.
- 3) A Participant carrying an account that includes an equity option position for a non-Participant Affiliate that intends to rely on this exemption must obtain from such non-Participant:
 - (a) a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (iii) above; and
 - (b) a written statement confirming that such non-Participant Affiliate:
 1. is relying on this exemption;
 2. will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;
 3. will promptly notify the Participant if it ceases to rely on this exemption;
 4. authorizes the Participant to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-Participant Affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and
 5. if the non-Participant Affiliate is using the OCC Model, has duly executed and delivered to the Exchange such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(vi) Reporting

- 1) Each Participant that holds or carries an account that relies on this exemption shall report, in accordance with Rule 3150, all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such Participant on its own behalf or on behalf of a designated aggregation unit pursuant to Rule 3130(c)(iv) above shall also report, in accordance with Rule 3150, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in Rule 3120, the net delta and the options contract equivalent of the net delta of such position.

(vii) Records

- 1) Each Participant relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-Participant Affiliate of the Participant relying on this exemption retains a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

(d) *Market Maker Exemption.* The provisions set forth below apply only to Market Makers seeking an exemption to the standard position limits in all options traded on BOX for the purpose of assuring that there is sufficient depth and liquidity in the marketplace, and not for the purpose of conferring a right upon the Market Maker applying for an exemption.

- (1) In light of the procedural safeguards, the purpose of this exemption process, and the prohibition against the granting of retroactive exemptions, decisions granting or denying exemptions are not subject to review under the Rule 12000 Series.
- (2) An exemption may be granted for the purpose of maintaining a fair and orderly market in the options on a given underlying security.
- (3) Generally, an exemption will be granted only to a Market Maker who has requested an exemption, who is appointed to the options class in which the exemption is requested pursuant to Rule 8030 (Appointment of Market Makers), whose positions are near the current position limit and who is significant in terms of daily volume. The positions must generally be within ten percent (10%) of the limits contained in Rule 3120 (Position Limits) for equity options and twenty percent (20%) of those limits for broad-based index options.

- (4) If an exemption is granted, it will be effective at the time the decision is communicated, and retroactive exemptions will not be granted.
 - (5) The size and length of an exemption will be determined on a case by case basis; however, an exemption usually will be granted until the nearest expiration. The exemption may specify the extent to which the resulting position may be carried in options in one or more expiration cycles.
 - (6) Procedures for Market Makers nearing the limits due to general market conditions:
 - (i) A request for an exemption from the established position and exercise limits must be in writing and must state the specific reasons why an exemption should be granted.
 - (ii) The request should be submitted to the Exchange no later than 1:00 p.m. for same-day review.
 - (iii) Review of the request will be conducted informally, *i.e.*, the Exchange may receive information in such manner as is most effective, in its discretion, to ascertain whether an exemption is necessary to maintain depth and liquidity in the market.
 - (iv) The Exchange will communicate the exemption decision to the requesting Market Maker and his or its Clearing Participant as soon as possible, generally on the day following review.
 - (iv) Requests for instant exemptions may be made for extraordinary situations, such as when there is an order imbalance or a Market Maker is near the limits intraday. Following immediate review of the situation, the Exchange will decide whether an exemption is warranted.
- (e) *Firm Facilitation Exemption.* To the extent that the following procedures and criteria are satisfied, an Options Participant may receive and maintain for its proprietary account an exemption ("facilitation exemption") from the applicable standard position limit in non-multiply-listed options traded on BOX for the purpose of facilitating: (i) orders for its own Public Customer (one that will have the resulting position carried with the firm); or (ii) orders received from or on behalf of a Public Customer for execution only against the Options Participant firm's proprietary account.
- (1) The Options Participant must receive approval from the Exchange prior to executing facilitating trades.
 - (2) The facilitation exemption shall be granted to the Options Participant owning or controlling the account in which the exempt options positions are held. For purposes of this paragraph (e),

control shall be determined in accordance with the provision of Rule 3120(f).

- (3) Exchange approval may be given on the basis of verbal representations; however, the Options Participant must, within a period of time to be designated by the Exchange, furnish the appropriate forms and documentation substantiating the basis for the exemption. The approval of the facilitation exemption will specify the maximum number of contracts that may be exempt under this paragraph (d). In no event may the aggregate exempted position under this paragraph (d) exceed twice the applicable standard limit.
- (4) The facilitation exemption is in addition to the standard limit and other exemptions available under these Rules. An Options Participant so approved is hereinafter referred to as a "facilitation firm."
- (5) The facilitation firm must provide all information required by BOX on approved forms and keep such information current. The facilitation firm shall promptly provide to BOX any information or documents requested concerning the exempted options positions and the positions hedging them.
- (6) Regarding the execution of its Public Customer Order and its own facilitating order, a facilitation firm shall make neither order contingent on "fill or kill" instructions.
- (7) To remain qualified, a facilitation firm must, within five (5) business days after the execution of a facilitation exemption order, hedge all exempt options positions that have not previously been liquidated, and furnish BOX with documentation reflecting the resulting hedging positions.
- (8) The facilitation firm shall:
 - (i) liquidate and establish its Public Customer's and its own options and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate its Public Customer's or its own stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;
 - (ii) promptly notify BOX of any material change in the exempted options position or the hedge; and
 - (iii) not increase the exempted options position once it is closed unless approval is received again pursuant to a reapplication under this paragraph (d).

- (9) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the facilitation exemption and may form the basis for subsequent denial of an application for a facilitation exemption hereunder.]

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