

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70668; File No. SR-BOX-2013-48)

October 11, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Interpretive Material to Rule 5050 and Rule 6090

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 October 4, 2013, BOX Options Exchange LLC (“BOX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a 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 amend interpretive material to Rule 5050 (Series of Options Contracts Open for Trading) and Rule 6090 (Terms of Index Options Contracts) to give the Exchange the ability to initiate strike prices in more granular intervals for Short Term Options (“STOs”) in the same manner as on other options exchanges. 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.

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 IM-5050-6 to Rule 5050 (Series of Options Contracts Open for Trading) and IM-6090-2 to Rule 6090 (Terms of Index Options Contracts) to give the Exchange the ability to initiate strike prices in more granular intervals for Short Term Options (“STOs”). This is a competitive filing being proposed as a response to immediately effective filings recently submitted by the Chicago Board Options Exchange, Inc. (“CBOE”), NASDAQ OMX PHLX, LLC (“Phlx”), NYSE Arca, Inc. (“Arca”), NYSE MKT LLC (“MKT”), MIAX Options Exchange (“MIAX”) and the International Securities Exchange, LLC (“ISE”).³

The Commission recently approved filings submitted by ISE and Phlx that amended the strike price interval setting parameters for their Short Term Option Series (“STOS”) Programs, but the revisions to their respective rules differ.⁴ Specifically, the ISE filing permits \$0.50

³ See Securities Exchange Act Release Nos. 68074 (October 19, 2012), 77 FR 65241 (October 25, 2012) (SR-CBOE-2012-92); 69633 (May 23, 2013), 78 FR 32498 (May 30, 2013) (SR-Phlx-2013-55); 68194 (November 8, 2012), 77 FR 68172 (November 15, 2012) (SR-NYSEArca-2012-114); 68193 (November 8, 2012), 77 FR 68177 (November 15, 2012) (NYSEMKT-2012-53); 69809 (June 20, 2013), 78 FR 38416 (June 26, 2013) (SR-MIAX-2013-30); 70335 (September 6, 2013), 78 FR 56253 (September 12, 2013) (SR-ISE-2013-47).

⁴ See Securities Exchange Act Release Nos. 67754 (August 29, 2012), 77 FR 54629 (September 5, 2012 [sic]) (order approving SR-ISE-2012-33) (“ISE filing”) and 67753 (August 29, 2012) 77 FR 54635 (September 5, 2012) (order approving SR-Phlx-2012-78) (“Phlx filing”).

strike price intervals for STOs for option classes that trade in one dollar increments in Related non-short Term Options and are in the STOS Program. The Phlx filing permits \$0.50 strike price intervals when the strike price is below \$75, and \$1 strike price intervals when the strike price is between \$75 and \$150. Subsequent to the approval of these two competing methodologies, CBOE, Phlx, Arca, MKT, MIAX, and ISE filed immediately effective rule changes that integrated the two prior methodologies for establishing strike price intervals for STOs.⁵

The Exchange recently amended the strike price interval setting parameters for its STOS Program, however, the Exchange did not adopt a consolidated methodology and instead elected to adopt changes based on the Phlx filing.⁶ In order to remain competitive, the Exchange is now proposing to adopt a consolidated methodology for strike price interval setting parameters for the STOS Program similar to the other exchanges. Specifically, the Exchange is proposing that the strike price interval for STOs may be \$0.50 for option classes that trade in one dollar increments in Related non-short Term Options and are in the STOS Program.

The STOS Program is codified in the BOX Rules 5050 and 6090. These rules state that after an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day, series of options on no more than thirty option classes that expire on each of the next five consecutive Fridays that are business days. In addition to the thirty option class limitation, there is also a limitation that no more than twenty series for each expiration date in those classes may be opened for trading.⁷

⁵ See supra, note 3.

⁶ See Securities Exchange Act Release No. 67870 (September 17, 2012), 77 FR 58600 (September 21, 2012) (Notice of Filing and Immediate Effectiveness of SR-BOX-2012-012).

⁷ However, the Exchange may open up to 10 additional series for each option class that

Furthermore, the strike price of each STO series has to be fixed with approximately the same number of strike prices being opened above and below the value of the underlying security at about the time that the STOs are initially opened for trading on the Exchange, and with strike prices being within thirty percent (30%) above or below the closing price of the underlying security from the preceding day. The Exchange does not propose any changes to the current program limitations. The Exchange only proposes to amend IM-5050-6 and IM- 6090-2 to specify that the strike price interval for STOs may be \$0.50 for option classes that trade in one dollar increments in Related non-short Term Options and are in the STOS Program.⁸ Like the other options exchanges, the Exchanges rules will continue to permit strike price intervals to be

participates in the Short Term Option Series Program when deemed necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current price of the underlying security. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current price of the underlying security provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market Makers trading for their own account shall not be considered when determining customer interest under this provision. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration month, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under IM-5050-6(b), that are between 10% and 30% above or below the price of the underlying security. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened. IM-5050-6(b)(4) and IM-6090-2(b)(4).

⁸ The Exchange also proposes to add the word “index” to the last sentence of IM-6060-2(b)(5) to clarify that the provision is referring to the expiration week of the index option class.

\$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150.

The Exchange notes that while it believes that there is substantial overlap between the two strike price interval setting parameters, the Exchange believes there are gaps that would enable one of the options exchanges listed above to initiate a series that the Exchange would not be able to initiate.⁹ Since strict inter-exchange rule uniformity is not required for the STOS Programs that have been adopted by the various options exchanges, the Exchange proposes to revise its strike price intervals setting parameters so that it has the ability to initiate strike prices in the same manner (i.e., intervals) as CBOE, PHLX, Arca, MKT, MIAX, and ISE. Accordingly, the Exchange proposes to adopt rule text language substantially similar in all material respects to that adopted by the other exchanges, and in this way consolidate the two different approaches regarding strike price intervals for STOs.

In support of this proposal, the Exchange states that the principal reason for the proposed expansion is in response to market and customer demand to list actively traded products in more granular strike price intervals and to provide Participants¹⁰ and their customers increased trading opportunities in the STOS Program, which is one of the most popular and quickly-expanding options expiration programs. The Exchange has observed increased demand for STO classes

⁹ The Exchange is making a distinction between initiating series and cloning series. The Exchange and the majority, if not all, of the other options exchanges that have adopted a STOS Program have a rule similar to the Exchange's that permits the listing of series that are opened by other exchanges. See IM-5050-6(b)(1) and IM-6090-2(b)(1). This filing is concerned with the ability to initiate series. For example, the strike price interval for ETF options is generally \$1 or greater where the strike price is \$200 or less. If an ETF class is selected to participate in the Short Term Option Program, the Exchange believes that the other exchanges would be permitted to initiate \$0.50 strike price intervals where the strike price is between \$151 and \$200, but the Exchange would not be.

¹⁰ See Rule 100(40).

and/or series, particularly when market moving events such as significant market volatility, corporate events, or large market, sector, or individual issue price swings have occurred. There are substantial benefits to market participants in the ability to trade eligible option classes at more granular strike price intervals. The Exchange notes that the STOS Program has been well-received by market participants, in particular by retail investors. The Exchange believes that the current proposed revisions to the STOS Program will permit the Exchange to meet increased customer demand for more granular strike prices.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any potential additional traffic associated with this current amendment to the STOS Program. The Exchange believes that its Participants will not have a capacity issue as a result of this proposal. The Exchange represents that it will monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange’s automated systems.

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”),¹¹ in general, and Section 6(b)(5) of the Act,¹² 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 facilitating transactions in securities, to remove

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

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 Exchange believes that giving it the ability to initiate strike prices in \$0.50 intervals for option classes that trade in one dollar increments in Related non-short Term Options and are in the STOS Program, as provided in the proposed rule text, is reasonable because it will benefit investors by providing them with the flexibility to more closely tailor their investment and hedging decisions. While the proposed rule change may generate additional quote traffic, the Exchange does not believe that any increased traffic will become unmanageable since the proposal remains limited to a fixed number of classes. The Exchange also believes that the proposed rule change will ensure competition because it will allow the Exchange to initiate series in the same strike intervals as other options exchanges, including CBOE, PHLX, Arca, MKT, MIAX and ISE.

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

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. The Exchange believes that the proposed rule change will in fact relieve any burden on, or otherwise promote, competition. In this regard and as indicated above, the Exchange notes that the rule change is being proposed as a competitive response to immediately effective filings recently submitted by CBOE, PHLX, Arca, MKT, MIAX and ISE.¹³ The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges with respect to STOS Programs.

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.

¹³ See supra, note 3.

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and, by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁴ and Rule 19b-4(f)(6) thereunder.¹⁵

The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the 30-day operative delay will allow BOX to initiate strikes prices in more granular intervals for STOs in the same manner as other options exchanges. In sum, the proposed rule change presents no novel issues, and waiver will allow the Exchange to remain competitive with other exchanges. Therefore, the Commission designates the proposal operative upon filing.¹⁶

At any time within 60 days of the filing of the 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 to determine whether the proposed rule should be approved or disapproved.

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) 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.

¹⁶ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2013-48 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-2013-48. 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-2013-48 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.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).