

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66792; File No. SR-BX-2012-025)

April 12, 2012

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Chapter V, Section 16 of the BOX Trading Rules

Pursuant to Section 19(b)(1) under the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 3, 2012, NASDAQ OMX BX, Inc. (the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as constituting a non-controversial rule change under Rule 19b-4(f)(6) under the Act,<sup>3</sup> which renders the proposal effective upon filing with the Commission. 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

NASDAQ OMX BX, Inc. (the “Exchange”) proposes to amend Chapter V, Section 16 of the rules of the Boston Options Exchange (“BOX”) to address how BOX processes inbound orders when the BOX best price on the same side of the market locks, or is locked by the opposite side national best bid or offer (“NBBO”). 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

<http://nasdaqomxbx.cchwallstreet.com/NASDAQOMXBX/Filings/>, and on the Commission's website at <http://www.sec.gov>.

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 Exchange 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 Exchange 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 purpose of the proposed rule change is to amend Chapter V, Section 16 of the BOX Rules to address how inbound orders are processed when the BOX best price on the same side of the market locks, or is locked by the opposite side national best bid or offer ("NBBO"). Currently, Chapter V, Section 16(b) sets forth that inbound orders on BOX are filtered prior to their entry on the BOX Book to ensure such orders will not Trade-Through the NBBO in accordance with the Options Order Protection and Locked / Crossed Market Plan (the "Plan"). The rule provides that all of the filtering rules described are independent of whether the NBBO is locked or crossed, except where the BOX best price on the same side of the market as the inbound order has crossed, or is crossed by the opposite side NBBO, the order will be routed, if eligible, or rejected immediately. The Exchange proposes to amend the rule so that, in addition, where the BOX best price on the same side of the market as the inbound order has *locked*, or is *locked by*, the opposite side NBBO, the order will also be

routed, if eligible, or rejected immediately. As such, the BOX trading engine is systemically either routing to an Away Exchange<sup>4</sup> or immediately rejecting such an order. Immediately rejecting such an order, which is not eligible for routing, prevents that order from being exposed,<sup>5</sup> and thereby removes the potential that such order could join the pre-existing locked market.

The following two examples illustrate how the proposed rule change would apply to inbound orders when the BOX best price on the same side of the market locks the opposite side NBBO and the orders are not designated as Eligible Orders: Example 1: When the NBBO is \$6.65 x \$6.60 and the BOX best price is \$6.60 x \$6.80, BOX receives a public customer order to buy at \$6.60. Such an order is rejected by the trading engine back to the order sender. Example 2: When the NBBO is x \$4.00 x \$4.00 and the BOX best price is \$4.00 x \$4.05, BOX receives a public customer order to buy at \$4.00. Such an order is rejected by the trading engine. In the above examples, if the order was an Eligible Order, then the order will be routed to an Away Exchange.

The BOX NBBO filtering process set forth in Chapter V, Section 16 continues to be designed in a manner to prevent a sell order from being executed on BOX at a price inferior to the best bid available at any Away Exchange; similarly, any order to buy would not be executed on BOX at a price worse than the best offer available at any Away Exchange.

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<sup>4</sup> See BOX Trading Rules, Chapter XII, Section 5(a), providing in pertinent part, “[o]nly orders that are specifically designated by Options Participants as eligible for routing will be routed to an Away Exchange (“Eligible Orders).

<sup>5</sup> See Chapter V, Section 16(b)(iii), providing that where an order is received which is executable against the NBBO and there is not a quote on BOX that is equal to the NBBO, that the order is exposed on the BOX Book at the NBBO for a period of one second. If the order is not executed during the one second exposure period, then the order is either routed or cancelled.

Finally, Section (b)(i) is being amended to reflect that the term ISO is defined in subsection (h) of Chapter XII and not (g) as currently reflected in Section 16(b)(i).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>7</sup> in particular, in that it is designed to perfect the mechanisms of a free and open market and the national market system, protect investors and the public interest and promote just and equitable principles of trade by proposing the rule change to address how BOX processes inbound orders when the BOX best price on the same side of the market locks, or is locked by the opposite side national best bid or offer (“NBBO”).

The Plan provides a framework for order protection and addressing locked and crossed markets. As discussed above, the proposed rule change provides that where the BOX best price on the same side of the market as an inbound order has crossed or locked, or is crossed by, or locked by the opposite side NBBO, the order will be routed, if eligible, or rejected immediately. The Exchange believes handling the order as described above is consistent with the objectives of the Plan and assists BOX Options Participant in that it systemically removes the potential that such an order could join a pre-existing locked market. As such, the Exchange believes the proposed rule change is consistent with the Plan, necessary and appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to, and perfect the mechanisms of, a national market system.

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<sup>6</sup> 15 U.S.C 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

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

The Exchange does not believe 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

No written comments were either solicited or received.

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

Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>8</sup> and Rule 19b-4(f)(6) thereunder.<sup>9</sup>

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 change should be approved or disapproved.

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(6). Pursuant to Rule 19b-4(f)(6)(iii) under the Act, the Exchange is required to give the Commission written notice of its 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.

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2012-025 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-BX-2012-025. 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-BX-2012-025 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.<sup>10</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).