



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68759; File No. SR-BOX-2013-06)

January 29, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change to List and Trade Option Contracts Overlying 1,000 Shares of the SPDR S&P 500 Exchange-Traded Fund

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 January 18, 2013, BOX Options Exchange LLC (“Exchange” or “BOX”) 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 self-regulatory organization. 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 its rules to define certain contract terms for trading option contracts overlying 1,000 SPDR® S&P 500® exchange-traded fund (“SPY ETF”),³ (“SPY”) Shares. 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>.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ “SPDR®,” “Standard & Poor’s®,” “S&P®,” “S&P 500®,” and “Standard & Poor’s 500” are registered trademarks of Standard & Poor’s Financial Services LLC. The SPY ETF represents ownership in the SPDR S&P 500 Trust, a unit investment trust that generally corresponds to the price and yield performance of the SPDR S&P 500 Index.

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.

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 Rule 5050 (Series of Contracts Open for Trading) to define certain contract terms for trading option contracts overlying 1,000 SPDR® S&P 500® exchange-traded fund (“SPY ETF”),⁴ (“SPY”) Shares. In order to list these option contracts overlying 1,000 SPY Shares (“Jumbo options”) the Exchange is initially proposing to restrict the listing of Jumbo options to the SPY ETF, and also proposing to define how strike prices and bids and offers will be expressed for Jumbo option contracts by further amending Rule 5050.

First, the Exchange proposes to add to Rule 5050(e) a provision to permit BOX to list Jumbo contracts on SPY for all expirations applicable to options overlying 100 shares of SPY. Note that SPY options are currently the most actively traded option class in terms of average daily volume (“ADV”).⁵ The Exchange proposes to designate this most active ETF as eligible

⁴ “SPDR®,” “Standard & Poor’s®,” “S&P®,” “S&P 500®,” and “Standard & Poor’s 500” are registered trademarks of Standard & Poor’s Financial Services LLC. The SPY ETF represents ownership in the SPDR S&P 500 Trust, a unit investment trust that generally corresponds to the price and yield performance of the SPDR S&P 500 Index.

⁵ SPY ADV was 2,156,482 contracts in April 2012. ADV for the same period for the next four most actively traded options was: Apple Inc. (option symbol AAPL) – 1,074,351; S&P 500 Index (option symbol SPX) – 656,250; PowerShares QQQ TrustSM, Series 1

for 1,000 share contracts, and restrict Jumbo contracts to SPY, for which the Securities and Exchange Commission (the “Commission”) has approved the elimination of any Position Limit.

Contract Terms

To avoid investor confusion with SPY options that overly [sic]100 shares, the Exchange further proposes to amend Rule 5050 to define how strike prices will be set and how bids and offers will be defined for Jumbo options. The Exchange proposes that bids and offers shall be expressed in terms of dollars per 1/1000th part of the total value of the contract.

Rule 5050(e)(2) proposes that strike prices be set at the same level as for regular options. Thus, a Jumbo option contract to deliver an ETF at \$145 per share would carry a total deliverable value of \$145,000, and the strike price would be set at \$145. Proposed Rule 5050(e)(3) provides that bids and offers in Jumbo option contracts shall be expressed in terms of dollars per 1/1000th part of the total value of the contract. Thus, if an ETF with a Jumbo option strike price of \$145 was trading at \$146 per share, the intrinsic \$1 per share value would denote a total contract value of \$1,000, and be expressed as a bid or offer quote around such intrinsic value.

The table below demonstrates the difference between a Jumbo option contract and a standard option contract to call or put shares at \$45 per share, with a bid or offer of \$3.20 per share:

	Standard	Jumbo
Shares Deliverable Upon Exercise	100 shares	1,000 shares
Strike Price if underlying is \$45 per share	45	45
Bid or Offer	3.20	3.20
Premium Multiplier	\$100	\$1,000
Total Value of Deliverable	\$4,500	\$45,000
Total Value of Contract	\$320	\$3,200

(option symbol QQQ) – 573,790; and iShares® Russell 2000® Index Fund (option symbol IWM) – 550,316. The Exchange notes that any expansion of the program would require that a subsequent proposed rule change be submitted to the Commission.

Additionally, the Exchange believes that price protection would not apply across standard and Jumbo SPY options on an intramarket basis, as these are separate products. While the Exchange recognizes that trading different options products that overlie the same security or index could disperse trading interest across the products to some extent, with highly-liquid options on the liquid SPY, there generally exists a critical mass of willing buyers and sellers for both the options and the underlying securities to mitigate the price protection concerns. Further, the Exchange believes that because of the liquidity in SPY and options on SPY, existing market forces should keep the prices between standard contracts and Jumbo SPY options contracts consistent. With respect to the related arbitrage, the Exchange understands that the OCC's portfolio margining process will be set to have positions in a standard contract and a Jumbo options contract set against each other, and that consistent cross margining will be available between standard contracts and Jumbo options contracts. Accordingly, the Exchange believes that the availability of Jumbo SPY options contracts is likely to result in more efficient pricing through arbitrage with standard contracts.

Additionally, the Exchange will designate Jumbo SPY options contracts with a different trading symbol (SPYJ) than the related standard contract. Moreover, the Exchange believes the terms of Jumbo SPY options contracts are consistent with the terms of the Options Disclosure Document.

With regard to the impact of this proposal on system capacity, BOX has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading of Jumbo SPY options contracts. The Exchange has further discussed the proposed listing and

trading of Jumbo SPY options contracts with the OCC, which has represented that it is able to accommodate the proposal.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,⁶ in general, and Section 6(b)(5) of the Act,⁷ in particular, that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange believes that the proposed rule change is also consistent with Section 6(b)(8) of the Act in that it does not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

In particular, the Exchange believes this proposed rule change will benefit investors by providing additional methods to trade highly liquid options on SPY, and providing greater ability to mitigate risk in managing large portfolios. Specifically, the Exchange believes that investors would benefit from the introduction and availability of Jumbo SPY options by making options on large blocks of the SPY ETF more available as an investing tool, particularly for institutional investors. As noted above, the proposed rule change intends to adopt a different trading symbol to distinguish Jumbo SPY options from the related regular option contracts and therefore, ease any investor confusion as to the product they are trading.

The Exchange also believes Jumbo SPY options will provide investors with an additional tool for hedging risk in the highly liquid ETF. Further, the proposed rule change is limited to just the SPY ETF, a single, high-priced, highly liquid security.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

Finally, the Exchange notes that the Commission previously approved option contracts on ETFs that overly [sic] 1,000 shares for NYSE Amex.⁸

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

The Exchange believes this proposed rule change will benefit investors by providing additional methods to trade options on the liquid SPY, and providing greater ability to mitigate risk in managing large portfolios. Specifically, the Exchange believes that investors would benefit from the introduction and availability of Jumbo SPY options by making options on large blocks of the SPY ETF more available as an investing tool, particularly for institutional investors. The Exchange also believes Jumbo SPY options will provide investors with an additional tool for hedging risk in the highly liquid ETF. Further, the proposed rule change is limited to just the SPY ETF, a single, high-priced, highly liquid security. Finally, the Exchange is not proposing any limitations regarding market participants that will be able to trade Jumbo SPY options if they choose.

For all the reasons stated, 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, and believes the proposed change will enhance competition.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds

⁸ See Exchange Act Release No. 40157 (July 1, 1998), 63 FR 37426 (July 10, 1998) (Order Approving SR-Amex-96-44).

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization 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 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-2013-06 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-2013-06. 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-2013-06 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.⁹

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2013-02301 Filed 02/01/2013 at 8:45 am; Publication Date: 02/04/2013]

⁹ 17 CFR 200.30-3(a)(12).