

and match" in order to participate in a trade on BOX.

(iii) All Orders Firm for All Traders. All orders on the BOX Book would be firm at all times for all trading Participants. An order on the BOX Book is available in its entirety to all parties on a "first come, first serve" basis whether from a Market Maker, Public Customer or broker/dealer account.

(iv) Price Improvement Period. To address the issues of internalization of Customer Orders by Order Flow Providers and Market Makers, BOX has developed PIP. The BOX PIP would be a very rapid auction starting at a price better than the current NBBO where BOX Participants could compete to improve the Customer side of the trade.

b. BOX Regulated as a Facility of the Exchange. The BSE has entered into various agreements with BOX LLC under which BOX LLC would operate BOX as a facility of the BSE. Pursuant to these agreements, the BSE would maintain responsibility for all regulatory functions related to the facility, and BOX LLC would be responsible for the business of the facility to the extent those activities are not inconsistent with the regulatory and oversight functions of the BSE. The BSE intends to file with the Commission under separate cover a proposed rule change regarding the delegation of authority from the BSE to Boston Options Exchange Regulation, LLC ("BOXR"), a wholly-owned subsidiary of the BSE, for regulatory functions related to the facility such as surveillance and compliance ("Delegation Plan"). In addition, the BSE intends to file under the Delegation Plan a proposed rule change regarding the relationship between the BSE, BOXR, and the BOX entities. In addition, the BSE intends to file the necessary rule changes to allow the BSE to join the Options Intermarket Linkage Plan, the Options Price Reporting Authority ("OPRA") and the Options Self-Regulatory Council ("OSRC"), which have been authorized under the applicable National Market System ("NMS") plans.¹⁶

c. The BSE Would Conduct All Necessary Surveillance of BOX. As part of its obligations under the Act and pursuant to its own rules, the BSE would conduct all necessary surveillance of the operation of and trading on BOX.¹⁷ The BSE intends to

implement a state-of-the-art electronic system for producing detailed audit trails of all orders submitted to BOX. The BSE emphasizes that it has not only the technological capability to establish and maintain an audit trail, but also, the staff expertise and capital resources to satisfactorily oversee a new electronic options market.

The BSE, as a well-established exchange, has the requisite staff experience to support and to supplement the technological surveillance necessary for the all-electronic BOX. As one of the nation's oldest securities exchanges, the BSE has repeatedly demonstrated its success in attracting qualified management and regulatory staff, who have proven their knowledge of the federal securities laws and the self-regulatory role of a registered exchange. Furthermore, consistent with the requirements of the Act, the BSE will demonstrate to the Commission, as necessary, that it has adequate financial resources to fund a surveillance program for a fully electronic options trading facility. In accordance with its regulatory responsibilities, the BSE will also demonstrate to the Commission that the technological capabilities of BOXR and BOX would be more than adequate for the surveillance of trading on BOX.¹⁸

d. The Boston Options Exchange. BOX, the proposed electronic options trading facility of the BSE, would offer liquidity, price quality and low cost of execution for market participants. BOX would function as a limit order book under the principle of price/time priority for all market participants' orders and would provide execution enhancements. Market Makers would participate electronically in BOX to enhance liquidity in the book and would be able to interact with order flow subject to automatic price improvement requirements. In addition, orders would be permitted facilitation on BOX subject to price improvement where the price and time priority of the limit order book is protected.

BOX is described in more detail in the following subsections. Specifically, subsection (i) describes the BOX membership structure and the

registration requirements as well as the trading obligations of Market Makers and Order Flow Providers. Subsection (ii) describes trading on the BOX Trading Host in detail, including a description of how orders are executed during BOX's trading session.

(i) BOX Membership Structure: Options Participants. With the introduction of BOX, the BSE intends to change its membership rules to reflect the new all-electronic options trading environment. BOX would have only one category of members, as that term is defined in the Section 3(a)(3)(A) of the Act:¹⁹ Options Participants. Any registered broker-dealer who wishes to be a member once BOX begins operation would have to become a BSE-approved Options Participant.²⁰ By becoming an Options Participant, the registered broker-dealer would be permitted to effect options transactions on BOX. An Options Participant: (1) Must agree to be bound by the Constitution, By-Laws and Rules of the BSE and the BOX Rules, and by federal securities laws, and by all applicable rules and regulations of the Commission; (2) would not acquire ownership or distribution rights in the BSE or BOX; and (3) would have representation as will be proposed in the Delegation Plan to be filed with the Commission by the BSE under separate cover.

BOXR would authorize any Options Participant who met certain enumerated requirements to obtain access to BOX. The requirements for access are as follows: First, all Options Participants must make application to, and be approved by, the BSE as Options Participants. Second, all approved Participants must enter into an Options Participation Agreement with the Exchange. Options Participants would be approved to participate on BOX as Market Makers, Order Flow Providers, or both.

(A) Market Makers

Registered BOX Market Makers would be designated as dealer-specialists on the BSE for all purposes under the Act.²¹

(1) Registration. To become a market maker on BOX, an Options Participant would have to register as a BOX Market Maker by filing a written application with the BSE.²² In determining whether to approve a Market Maker application, the BSE would consider, among other

proposed Delegation Plan to be filed by the BSE under separate cover.

¹⁶ The BSE will comply with the Commission's Automation Review Policy with regard to BOX. See Securities Exchange Act Release No. 27445 (Nov. 16, 1989), 54 FR 48703 (Nov. 24, 1989) ("ARP I Release") and Securities Exchange Act Release No. 29185 (May 9, 1991), 56 FR 22490 (May 15, 1991) ("ARP II Release"). The BSE will ensure that BOX has "the capacity to accommodate current and reasonably anticipated future trading volume levels adequately and to respond to localized emergency conditions."

¹⁶ The OSRC is currently operating under a draft agreement, as opposed to a formal plan declared effective by the Commission pursuant to Section 11A of the Act, 15 U.S.C. 78k-1.

¹⁷ The BSE will delegate to BOXR the authority to provide the necessary surveillance of the operation of and trading on BOX pursuant to the

¹⁹ See 15 U.S.C. 78c(a)(3)(A).

²⁰ See proposed BOX Rules, Chapter II, *Participation*, Sec. 1, *Options Participation*.

²¹ See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 1, *Market Maker Registration*.

²² See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 1(a), *Market Maker Registration*.