

things, the Options Participant's capital, operations, personnel, technical resources, and disciplinary history. Upon receipt by the Options Participant of notice of the BSE's approval, the Options Participant's Market Maker registration would become effective.<sup>23</sup> If the application is disapproved, the applicant Options Participant would have the opportunity to appeal the specific grounds of the denial under the provisions of Chapter II, *Participation*, Section 3, *Denial of and Conditions to Participation*. A Market Maker's registration could be suspended or terminated by the BOXR upon a determination that the Market Maker has failed to properly comply with the Market Maker's obligations under proposed Chapter VI Section 5 of the BOX Rules, as discussed below.

(2) Appointments. In addition to registering as a Market Maker generally, a Market Maker must obtain an appointment in each options class in which it wishes to make a market on BOX by filing an application with BOXR. In determining whether to approve or disapprove the Market Maker's appointment in a class, BOXR could consider, among other things: (1) The financial and technical resources available to the Market Maker; (2) the Market Maker's experience, expertise and past performances in making markets or options trading; and (3) the maintenance and enhancement of competition among Market Makers in each class of options to which it is appointed.<sup>24</sup>

Each Market Maker may be appointed to any options class listed on BOX for trading. Such an appointment would consist of at least one class and may include all classes traded on the Exchange. BOXR would not list an options class for trading unless at least two Market Makers are appointed to the options class.<sup>25</sup> In addition, before BOXR opens trading for any additional series of an options class, it would require at least two Market Makers to be appointed for trading that particular class. Upon appointment, BOXR would require Market Makers to maintain active markets in that class for a period

of at least six months.<sup>26</sup> However, BOXR would not require a Market Maker in a class to continue trading in that class if BOXR makes an affirmative determination that continued trading in that class by a single Market Maker is to the detriment of that Market Maker, of no adverse consequence to an existing Customer of BOX or an Options Participant, and serves no greater purpose in the fair and orderly functioning of the marketplace.<sup>27</sup> Once a class is opened for trading and subsequently only one Market Maker remains appointed to that class, BOXR may continue trading in that class if BOXR makes an affirmative determination that halting of trading in such class would be detrimental to the remaining Market Maker, and that continued trading in such class by one Market Maker would be in the interest of maintaining a fair and orderly marketplace and would not create adverse consequence to an existing Customer of BOX or an Options Participant.<sup>28</sup>

Under the proposal, BOXR may suspend or terminate any appointment of a Market Maker and may make additional appointments or change the options classes included in a Market Maker's appointment whenever, in BOXR's judgment, the interests of a fair and orderly market are best served by such action.<sup>29</sup>

(3) Obligations. Market Makers on BOX would electronically engage in a course of dealing for their own account to enhance liquidity available on BOX and to assist in the maintenance of fair and orderly markets. In addition, Market Makers may interact with directed order flow, subject to price improvement requirements and certain obligations and duties. Specifically, Market Makers would have to satisfy the following responsibilities and duties during trading: (1) Maintain continuous firm, two-sided quotes, which are limit orders submitted to BOX by a Market Maker, in those options classes in which the Market Maker is appointed to trade; (2) maintain adequate minimum capital in accordance with Chapter VI Section 9;

(3) remain in good standing with BOXR; (4) inform BOXR of any material change in financial or operational condition or in personnel; and (5) clear and settle transactions through the facilities of a registered clearing member.<sup>30</sup> If BOXR found any substantial or continued failure by a Market Maker to meet the above obligations and duties, BOXR would subject the Market Maker to disciplinary action, suspension or revocation of the Market Maker's appointment in one or more options classes.<sup>31</sup> Subject to certain limitations, a Market Maker may enter all order types permitted to be entered by Customer participants under the Rules to buy or sell options in classes of options listed on BOX to which the Market Maker is not appointed.<sup>32</sup>

#### (B) Order Flow Providers

Order Flow Providers ("OFPs") would be those Options Participants representing orders of Public Customers and other Broker Dealers on the BOX market. OFPs may also register as Market Makers. OFPs may trade as principal, both as contra party to Customer Orders submitted to BOX by such OFP and as contra party to unrelated orders submitted to BOX by other Options Participants. OFPs may only act as contra party to their own Customer Orders pursuant to the rules of the Price Improvement Period (see discussion below).<sup>33</sup>

(ii) The BOX Trading Host. BOX would operate an automated trading system for standardized equity options. This section describes the most significant rules and procedures governing trading on BOX.

#### (A) Generally

Each Market Maker on BOX would enter its own independent quotations into the BOX Trading Host ("Trading Host"). Market Makers would enter a quantity with their quotations, which must meet the minimum size requirements established by the Exchange.<sup>34</sup> OFPs would enter agency and principal orders into the Trading Host. Market Makers and OFPs may enter into BOX the following standard types of orders: market orders, limit orders, Day Orders, Good-Til-Canceled (GTC) Orders, Fill-or-Kill Orders, Fill-

<sup>23</sup> See proposed BOX Rules, Chapter II, *Participation*, Sec. 2, *Qualification Requirements for Options Participants* and proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 1, *Market Maker Registration*.

<sup>24</sup> See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 4(b), *Appointment of Market Makers*.

<sup>25</sup> See proposed BOX Rules, Chapter IV, *Securities Traded on the Boston Options Exchange Facility*, Sec. 5(a), *Minimum Participation Requirement for Opening Trading of Option Classes*.

<sup>26</sup> See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 5(a)(viii), *Obligations of Market Makers*.

<sup>27</sup> See proposed BOX Rules, Chapter IV, *Securities Traded on the Boston Options Exchange Facility*, Sec. 5(b), *Minimum Participation Requirement for Opening Trading of Option Classes*.

<sup>28</sup> See proposed BOX Rules, Chapter IV, *Securities Traded on the Boston Options Exchange Facility*, Sec. 5(c), *Minimum Participation Requirement for Opening Trading of Option Classes*.

<sup>29</sup> See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 4(c), *Appointment of Market Makers*.

<sup>30</sup> See, generally, proposed BOX Rules, Chapter VI, *Market Makers*.

<sup>31</sup> See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 5(e), *Obligations of Market Makers*.

<sup>32</sup> See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 6(e), *Market Maker Quotations*.

<sup>33</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 18, *The Price Improvement Period*.

<sup>34</sup> See proposed BOX Rules, Chapter VI, *Market Makers*, Sec. 6(a), *Market Maker Quotations*.