

and-Kill Orders, Market-on-Open Orders, and Minimum Volume Orders.<sup>35</sup> Market Makers and OFPs would receive from BOX information on all of the orders and quotations pending in the Trading Host, including a display of up to the five best bids and offers currently quoted on BOX in each options series, as well as the aggregate size at each of the five best prices.<sup>36</sup>

#### (B) Order Ranking and Display

The BOX Book contains all the Options Participants' orders. Limit orders of Options Participants submitted to BOX would be ranked and maintained in the BOX Book according to price/time priority, such that within each price level, all orders would be organized by the time of entry.<sup>37</sup> No distinction is made to this priority with regard to account designation (Public Customer, Broker/Dealer or Market Maker). The orders are ranked based on the specified limit price and the time of original order entry in the Trading Host. If an order is executed in its entirety, its price/time priority is also exhausted and so, the next order in price/time priority would move to the top of the BOX Book. An Options Participant must submit a new order if it wishes to refresh its order. This new order would be ranked at the specified limit price according to the time that the new order was entered.

#### (C) Order Execution and Priority Rules

Trades would occur when orders or quotations match in the Trading Host. If more than one order has been entered into the Trading Host at the same price, priority would be based on the time of order entry.<sup>38</sup> If an Options Participant enters a limit order into the Trading Host that matches an order already in the Trading Host, a trade would occur at the price of the order already in the Trading Host up to the available size. After executing against that order, the limit order would trade against other orders in the Trading Host until the limit order is filled in its entirety or the limit order depletes the available size at that price. If any amount of the limit order remains unexecuted, the balance

of the order would become either the best bid or offer.<sup>39</sup>

#### (D) Price Improvement Period

The BOX PIP system would enhance the traditional firm facilitation mechanism and provide guaranteed price improvement opportunities for Customers. Chapter V Section 18 of the BOX Rules provides an OFP with the ability to use the PIP to enter a Customer Order and execute that order as principal.<sup>40</sup> An OFP is not otherwise permitted to execute an agency order as principal unless the order is first permitted to interact with other interest on BOX through the PIP system.<sup>41</sup>

In order to preclude unfair internalization, BOX Rules prevent an OFP from entering simultaneous Customer and proprietary orders before there is an opportunity for the Customer Order to interact with other trading interest on BOX.<sup>42</sup> BSE has proposed supplementary material in the BOX Rules to provide that it is a violation of Chapter V, Section 17 for an OFP to circumvent the Rules by providing an opportunity for a Customer to execute against agency orders handled by the OFP immediately upon their entry into the Trading Host. In addition, it would be a violation for an OFP to cause the execution of an order it represents as agent on BOX by orders it solicited from Options Participants and non-Option Participant broker-dealers to transact with such orders, whether such solicited orders are entered into the Trading Host directly by the OFP or by the solicited party (either directly or through another Participant), if the OFP fails to expose those orders on BOX as required by Chapter V, Section 17. The BSE believes that these interpretations would prevent an OFP from thwarting the restrictions on trading as principal.

#### (1) Key Features of the Price Improvement Period

(a) An OFP may submit any Customer Order for price improvement into the PIP at a price of at least one cent better than the prevailing NBBO.

(b) Market Makers and the introducing OFP may compete for the

Customer execution in one-cent increments; however, all BOX Participants are informed of each PIP and may submit competing orders at standard price increments.

(c) A Market Maker would need to match or improve the price proposed by the Primary Improvement Order<sup>43</sup> for the opportunity to participate in the execution.

(d) The PIP would run for three seconds and cannot be cancelled by the OFP.

(e) Execution is in price and time priority at the end of the PIP with two exceptions: (1) The OFP is guaranteed no more than a minimum quantity,<sup>44</sup> provided he has matched the PIP execution price and (2) a Market Maker Prime<sup>45</sup> may in some cases have partial time priority over other Market Makers at the end of the PIP.

(f) As the execution of the Customer Order is guaranteed at the start of the PIP, the Customer Order has priority over all other orders on his side of the market during the PIP.

#### (2) OFP Submission of Order to PIP

OFPs executing agency orders may designate market and marketable limit Customer Orders for price improvement and submission to the PIP. Customer Orders designated for the PIP would be submitted to BOX with a matching contra order, the "Primary Improvement Order,"<sup>46</sup> equal to the full size of the Customer Order. The Primary Improvement Order would be on the opposite side of the market than that of the original Customer Order and represent a bid (offer) that is at least \$.01 greater than the bid (less than the

<sup>43</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 18(e), *The Price Improvement Period*. See also, the discussion of OFP Submission of Order to PIP and PIP Participants and Improvement Orders in Sections (d)(ii)(D)(2) and (4) below.

<sup>44</sup> See the discussion of PIP Trade Allocation in Section (d)(ii)(D)(7).

<sup>45</sup> The Market Maker Prime is a BOX Market Maker who has partial time priority over all other Market Makers in the matching mechanism of the PIP. The Market Maker Prime is the first Market Maker who has a quote that is equal to the NBBO on the contra side of the market as the Customer Order at the instant the PIP is initiated. See the discussion of Market Maker Prime in Section (d)(ii)(E) below.

<sup>46</sup> An Improvement Order is any order entered into the PIP by the OFP at a price better than the specified NBBO or any order enter by a Market Maker at or better than the OFP's Primary Improvement Order. The subsequent price modifications to an OFP's Primary Improvement Order are treated as new Improvement Orders for the sake of establishing priority in the PIP process. See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 18(e)(i)-(ii), *The Price Improvement Period*. See also, the discussion of PIP Participants and Improvement Orders in Section (d)(ii)(D)(4) below.

<sup>35</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 14, *Order Entry*.

<sup>36</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 16(a)(ii), *Execution and Price/Time Priority*.

<sup>37</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 16(a)(i), *Execution and Price/Time Priority*.

<sup>38</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 16(a)(iv)(2), *Execution and Price/Time Priority*.

<sup>39</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 16(a)(iv)(3), *Execution and Price/Time Priority*.

<sup>40</sup> BOX Order Flow Providers and Market Makers may attempt to interact with their own orders by initiating a PIP. However, for purposes of simplicity in this discussion, initiators of PIPs generally are referred to as "Order Flow Providers."

<sup>41</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Sec. 17(b), *Customer Orders and Order Flow Providers*.

<sup>42</sup> See proposed BOX Rules, Chapter V, *Doing Business on BOX*, Section 17, *Supplementary Material .01 and .02, Customer Orders and Order Flow Providers*.