

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to add new Chapter XXXVII to its Rules of the Board of Governors of the Boston Stock Exchange, Inc. The purpose of the new chapter will be to set forth the Allocation Process for BOX Market Maker⁴ appointments and accompanying deposit requirements related to the launch of the proposed Boston Options Exchange ("BOX"), an options trading facility of the Exchange currently being proposed.

The proposed BOX market model provides for an "open" policy where the goal is to have no restrictions on the number of market makers assigned per class. To properly manage the launch of the initial 250 classes, BOX will request that prospective market maker firms declare their interest for market making assignments. BOX will fully allocate all the assignments requested by the market maker firms within 6 months of the start date of the proposed BOX market ("initial allocation").

Nevertheless, as with any exchange venture the size and complexity of the proposed BOX, prudence requires that the rollout of trading occur in a planned and controlled manner that will ensure

the maintenance of a fair and orderly market. In this regard, BOX intends to phase in trading, during the first three months following the launch date, the 250 classes with 1,886 assignments allocated first. Then, any remaining assignments will be assigned on a class-by-class basis during the following three months.

Accordingly, a market maker class allocation plan is necessary to manage the rollout, and to select on a fair and transparent basis the assignments that will be initially allocated. The process will be managed by the BSE.

The following categories and criteria are proposed for the initial allocation process:

Category	Ranking of classes	Number of market makers per class	OCC average daily volume (# of contracts)
A	1	12	>100,000.
B	2-6	12	50,000 to 99,999.
C	7-11	12	25,000 to 49,999.
D	12-53	12	10,000 to 24,999.
E	54-106	10	5,000 to 9,999.
F	107-250	5	Less than 5,000.

The names and ranking of the 250 classes to be listed at launch are based on OCC volume.

Furthermore, in order to ensure market quality, the model proposes to allocate in priority some appointments in each class to experienced firms. The following criteria will be used as consideration to determine which market making firms qualify as experienced:

1. Have been a market maker or specialist on an organized fully automated market on a minimum of 50 classes for at least 6 months; and,
2. Have sufficient capital committed to its options activities to effectively support an automated market in BOX, as determined by the BSE.

Subject to an applicant's approval as an Options Participant⁵ and a Market Maker on the BOX Market, the BSE will allocate classes based on the procedures set forth in the proposed allocation plan model. The model is based on the allocation of assignments sequentially by way of two rounds. This process will ensure that all firms will get a fair share of assignments while ensuring market quality by giving some priority to experienced firms. The allocation will be run by the BSE using a random lottery program (the "program")

developed by BOX, and externally audited to verify its integrity, neutrality and fairness.

Round 1—allocate assignments to experienced firms. The first round provides for the allocation to experienced firms of 50% of all assignments available for the first allocation in categories A, B, C, D and E, and 40% of assignments available for the first allocation in category F. Accordingly, a total of 871 assignments will be allocated. If for a given class, the number of assignments available for the first allocation is smaller than the number of assignments requested by the firms who qualify as experienced, the lottery program will be used. The program will work based upon the following principles: the names of all experienced firms requesting the class will be put in a pool; and the names will be drawn one by one until the experienced assignments available on the class for this round are exhausted.

Round 2—allocate remaining assignments. All applicants will participate in this round during which a total of 1,015 assignments will be allocated. On classes where the demand is smaller than or equal to the number of assignments available for the first allocation, all firms requesting an

assignment will be allocated. On classes where the demand is greater than the number of assignments available for the first allocation, the lottery program will be used. The program will work based upon the following principles: the names of all the firms requesting the class, including experienced candidates not selected in Round 1, will be put in a pool; and the names will be drawn one by one until the assignments available for the first allocation on the class are exhausted.

To establish priority between applicants not having received appointments in this first allocation, the process will continue until all the applicants have been drawn and a waiting list is established. This order of priority on the waiting list will be used in order to allocate new assignments as they become available within 6 months following the launch date, or if a selected market maker decides to withdraw.

To ensure that firms are not overbidding to maximize the number of posts they will be allocated in the first allocation and to ensure their commitment to make markets on their requested assignments, a deposit will be required from each market-making firm immediately prior to the allocation

⁴ See proposed BOX Rules, Chapter I, *General Provisions*, Sec. 1(a)(31) (definition of "Market Maker").

⁵ See proposed BOX Rules, Chapter I, *General Provisions*, Sec. 1(a)(39) (definition of "Options Participant").