

*Proposed Chapter V, Section 16(b)*—The BSE has added to this section rules governing the BSE's proposed filtering of in-bound orders to prevent executions on the BOX at prices inferior to the NBBO. All in-bound orders to BOX from Customers as well as inbound Principal ("P") and Principal as Agent ("P/A") orders received via the InterMarket Linkage will be filtered by BOX prior to entry on the BOX Book in order to ensure that these orders will not execute at a price outside the current NBBO ("trade-throughs"). In this manner, the BSE believes that it has added an extra level of efficiency to its BOX trading engine, which will serve to enhance both the best execution of orders as well as BOX's participation in the Intermarket Linkage. The filter will operate by analyzing each in-bound Customer Order, P Order or P/A Order as follows:

Step 1: The filter will determine if the order is executable against the NBBO (by definition the answer is "yes" in the case of a BOX-Top Order).

- If NO, then the order would be placed on the BOX Book.
- If YES, then the filter will proceed to Step 2.

Step 2: The filter will determine whether there is a quote on BOX, which is equal to the NBBO.

- If NO, then the order is exposed on the BOX Book at the NBBO for a period of three seconds, during which time any Options Participant may execute against the order. At the conclusion of the three-second period, if there is any remaining quantity, the filter will proceed to Step 3.
- If YES, then the order would execute against the quote/orders on the BOX Book.

Step 3: If there is any unexecuted quantity at the end of three seconds, then:

- In the case of Public Customer orders, a P/A Order will be generated and sent to the away exchange that is displaying the NBBO.
- In the case of P and P/A Orders, any unexecuted portion will be returned to the originating exchange.

In determining the length of time for an exposure period for orders which might otherwise trade through NBBO, but are "caught" by the filter, the BSE has determined that three seconds is ample time, in an electronic trading environment, for an Options Participant to match the NBBO in those instances in which BOX is not quoting at the NBBO. This exposure period will give all the BOX Market Makers, as well as Participants in general, an opportunity to trade at the NBBO should they choose to do so.

*Proposed Chapter V, Section 17 (c)*—The BSE has eliminated the provision, which imposed a surcharge on Options Participants that submitted orders on behalf of broker-dealers in excess of two times the number of Public Customer contracts they executed in a given month. Similar to the rationale for the elimination of a charge to Market Makers set forth in Chapter VI, Section 4(e), discussed below, the BSE is concerned that such surcharges could be construed as a barrier to entry to BOX's flat and open marketplace.

*Proposed Chapter V, Section 17, Supplementary Material .03*—Concurrent with changes to certain sections regarding Information Barriers and Directed Orders (see discussion below of Chapter VI, Section 5(c)), the BSE has added a provision detailing the obligations of OFPs and Market Makers in regards to communications of information about orders being submitted to the PIP, or otherwise directed. The obligations are set forth as follows:

Prior to submitting an order to a PIP, an OFP cannot inform an Options Participant of any of the terms of the order, except as provided for in Chapter VI, Section 5(c) of these Rules. (See BSE Rules, Chapter II, "Dealings on the Exchange", Section 36, "Specialist Member Organizations Affiliated with an Approved Person").

The BSE is confident that these measures, along with other protections set forth elsewhere in the BOX Rules, will ensure that adequate measures are in place to protect against the use or misuse of any material, non-public information by any BOX Participant in regard to any order entrusted to him/her.

*Proposed Chapter V, Section 18(b)*—The Exchange is not changing or adding language to this section, but notes that this section is not intended to replace best execution principles. Rather, the BSE is supplementing best execution standards by the language set forth herein.

*Proposed Chapter V, Section 18(c)*—Similar to the above discussion, the BSE has added language in this section regarding orders for which matching business has been found. Previously, the provision limited Participants to only utilizing the PIP for these types of orders. To allow more flexibility to OFPs, the BSE has determined that OFPs can execute such orders on the BOX Book, but only after one of the following two prerequisites have been met "(i) agency orders are first exposed to the BOX book for at least thirty (30) seconds, or (ii) the OFP has been bidding or offering on BOX for at least thirty (30) seconds prior to receiving an

agency order that is executable against such bid or offer." These two alternatives are not applicable to Market Makers, rather they must abide by the requirements of Chapter VI, Section 5(b) and (c), regarding Directed Orders, discussed below. The first alternative in this section requires exposing the order on the BOX Book for a period of thirty seconds before attempting to execute against it. Under the second alternative, the OFP can execute the order immediately on the BOX Book if that OFP has been bidding or offering on the BOX Book for at least thirty seconds prior to receiving an agency order that is executable against such bid or offer. Additionally, the provisions state that an OFP must not otherwise deliberately attempt to effect a transaction, either under a single Participant or between two Participants, without following PIP procedures. With these provisions, the BSE is offering an OFP the flexibility of best-execution decision making, coupled with protections to ensure that Information Barriers are not breached, and that Participants are not acting in any way contrary to their customer's best interests.

*Proposed Chapter V, Section 18(e)*—In order to maximize the potential for price improvement of orders submitted to the PIP (which already, by definition, price improves all orders by at least one cent better than the NBBO), the BSE is requiring that in order for a PIP to commence there be at least three Market Makers quoting in a relevant series at the time a Participant submits a Primary Improvement Order to initiate a PIP. The BSE is confident that this requirement will be easily satisfied, given the accessibility to the BOX Market for Market Makers. Additionally, the BSE has clarified that a PIP will commence upon the dissemination of a broadcast message by BOX, which states "(1) that a Primary Improvement Order has been processed by BOX, (2) which contains information concerning series, size, price and side of market, and (3) states when a PIP will conclude."

*Proposed Chapter V, Section 18(g)*—The BSE has added a new paragraph to Chapter V, Section 18. This new paragraph provides that OFPs may access the PIP on behalf of customers that are not broker-dealers (i.e., Public Customers) via a new order type, the Customer PIP Order, or "CPO." CPOs shall include terms that state a price in standard increments (five or ten cents) at which the order will be placed on the BOX Book, as well as a price in pennies at which the Public Customer wishes to participate in any PIPs that may occur while his/her order is on the BOX Book. In order for a CPO to be eligible for