

participation in a PIP, the CPO must be priced at or better than the NBBO. If a PIP commences in a relevant series and the CPO is at or better than the NBBO, then the OFF may, on behalf of the Public Customer, submit the CPO to the PIP for participation. Upon submission, the CPO will be treated similar to a Market Maker Improvement Order in the PIP; however, its terms cannot be cancelled or amended during the PIP.

The BSE believes that this provision will permit Public Customers greater control and flexibility in how their orders are handled on BOX. Public Customers will now be able to participate in PIPs. In addition, the BSE believes that offering to OFFs the prospect of this service on behalf of Public Customers will serve to increase the number of Participants competing in PIPs, ultimately leading to greater price improvement for orders on BOX.

The additions are as follows:

(a) "OFFs may provide access to the PIP on behalf of a customer that is not a broker-dealer ("Public Customer") in the form of a Customer PIP Order ("CPO") provided that:

i. The terms of each CPO shall include a price stated in rounded five cent or ten cent increments, as appropriate, ("standard tick") at which the order shall be placed in the BOX Book ("BOX Book Reference Price") as well as a specific price stated in one cent increments ("penny tick") at which the Public Customer wishes to participate in any PIPs ("CPO PIP Reference Price") that may occur while his order is on the BOX Book and displayed at the BOX Book Reference Price;

ii. The terms of each CPO shall include a specific order size ("CPO Total Size"). The number of contracts that may be entered into a PIP must be equal to the lesser of (a) the CPO Total Size remaining on the BOX Book or (b) the size of the Primary Improvement Order submitted to the PIP;

iii. In order for the CPO to be eligible for participation in a PIP in the subject options series, the BOX Book Reference Price for a CPO at the time a PIP commences must be equal to the NBBO.

iv. The CPO may only participate in a PIP on the same side of the market as the Primary Improvement Order.

v. Upon initiation of a PIP for which a CPO is eligible to participate pursuant to paragraphs (i)-(iv) above, the OFF who submitted the CPO to the BOX Book must submit a CPO to the PIP at the CPO PIP Reference Price.

vi. The terms of any CPO submitted to a PIP may not be amended or cancelled at any time during a PIP."

*Proposed Chapter V, Section 19(a)*—To clarify that a Market Maker Prime

cannot be both the Market Maker Prime and the party who initiated the process in the same PIP, thereby guarantying receipt of more than 40% of any allocation resulting from that PIP, the BSE has added a provision that "the Market Maker Prime must not have submitted the Primary Improvement Order to commence the relevant PIP."

*Proposed Chapter V, Section 27(b)(i)*—In order to remain consistent with similar rules regarding Complex Orders on other options exchanges, the BSE has added an exception which sets forth that Complex Orders with net price increments that are not multiples of the minimum increments are not entitled to trade ahead of other interest at the BOX best bid and offer.

*Proposed Chapter VI, Section 4 (e)*—The BSE deleted the provision, which imposed a monetary penalty on Market Makers who transacted business in classes outside of their appointments. Rather than a specific monetary penalty, which may have been construed as a barrier to entry to the BOX Market, the BSE has chosen to mirror provisions common on other options exchanges that permit Market Makers to trade outside of their appointments. This amendment also sets forth an execution percentage requirement that Market Makers must meet within the classes to which they are appointed. The additions are as follows:

Market Makers may transact business outside of their appointments, but the total number of contracts executed during a quarter by a Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded by such Market Maker.

*Proposed Chapter VI, Section 5(b) and (c); Section 10(g) and (h)*—To clarify the intention that Market Makers would be able to handle orders on an agency basis directed to them by OFFs, the BSE has changed "Customer Order" to "Directed Order" throughout Section 5, as well as in Section 10, which addresses Information Barriers. As previously discussed above, in the Definitions section of Chapter I, a Directed Order would be defined as an order directed to a Market Maker by an OFF. An OFF would send a Directed Order to BOX with a designation of the Market Maker to whom the order is to be directed. BOX would route the Directed Order to the appropriate Market Maker.

Proposed Sections 5(b) and (c) concern the requirements for a Market Maker who would handle a Directed Order. To address any concerns regarding informational barriers and the transfer of information, intended or not, which may accompany a Directed

Order, under proposed Section 5(c)(i) the BSE would prohibit a Market Maker from rejecting a Directed Order. Under proposed Section 5(c)(ii), a Market Maker has only two choices when he receives a Directed Order: (1) submit the order to the PIP process; or (2) send the order back to BOX for placement onto the BOX Book. If a Market Maker chooses to submit the Directed Order to the PIP process and he is currently quoting at a price equal to the NBBO, he must not adjust his quote prior to submitting such Directed Order to the PIP process.

Proposed Section 5(c)(iii) addresses the requirements when a Market Maker chooses not to enter the Directed Order into the PIP process, and therefore, must send the Directed Order to BOX for placement on the BOX Book. The following steps describe the Directed Order process from this point:

Step 1: Does the Market Maker who is sending the Directed Order to BOX have a quote on the opposite side of the Directed Order equal to the NBBO?

- If YES, then proceed to Step 4.
- If NO, then proceed to Step 2.

Step 2: The Market Maker would submit the Directed Order to BOX. The BOX trading engine would determine if the Directed Order were executable against the NBBO (the answer is "yes" in the case of a Directed Order that is also a BOX-Top Order).

• If NO, then BOX would place the Directed Order on the BOX Book to be treated as any other order.

• If YES, then BOX would proceed to Step 3.

Step 3: BOX would determine whether there are any quotes/orders on the BOX Book, which are equal to the NBBO.

• If NO, then BOX would submit the Directed Order to the trade-through filter process pursuant to proposed Chapter V, Section 16(b), described above.

• If YES, then BOX would execute the Directed Order against the quotes/orders on the BOX Book. If there is still any quantity remaining of the Directed Order, it would be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

Step 4: If a Market Maker's quote on the opposite side of the market from the Directed Order is equal to the NBBO, then the Market Maker would determine if the Directed Order is executable against the NBBO.

• If NO, then the Market Maker must send the Directed Order to BOX for placement on the BOX Book to be treated as any other order.