

BOX market share	MAC applicable rate
0% to 4.99%	33.3%
5% to 9.99%	66.7%
10% and more	full MAC

The BSE has determined that a fixed dollar amount for the MAC, rather than a percentage of OCC volume for each class, is preferable for determining the MAC. With a fixed dollar amount, Market Makers would be better able to know in advance their costs and be able to adjust their operations, minimize other costs and react to ensure they meet their monthly fee objectives. A percentage calculation would not allow Market Makers to achieve this objective as the fee would be variable monthly and Market Makers would not be able to plan their activities accordingly. The Exchange believes that a fixed dollar amount is easier to manage and thus is more in line with the spirit of the MAC.

iv. Adjustment of MAC Categories

The BSE would review the MAC categories at least twice per year in January and July. Although the MAC applicable to each category would remain constant, the category applicable to each class would be reviewed to reflect new OCC volume data for each class. The January review would be based on actual OCC volume for the last 6 months of the previous year, and the June review would be based on the first 6 months of current year. If exceptional events or news occur in a given class, the Exchange may review the MAC level for that class at anytime. The BSE would file with the Commission any changes to its fees pursuant to section 19 of the Act.¹⁴

v. Volume Discounts

The Exchange would also provide a volume discount if a Market Maker's average daily volume in a given month exceeds certain thresholds, including the minimum level of activity necessary to avoid paying a MAC for assigned classes. A Market Maker's activity will first be applied to meeting his MAC requirement. The volume discount will apply to any additional activity. The BSE believes that the volume levels are realistic and achievable, and that the discount levels are substantial so as to incent Market Makers to participate in the BOX market and provide customers with the beneficial effects of both low cost trading, as well as enhanced price improvement opportunities through BOX's unique Price Improvement

Period. The Volume Discounts would be as follows:

Average daily volume as appointed Market Maker (applicable only if MAC thresholds are achieved)	Per contract
For all contracts up to a volume of 25,000 contracts	0
For the contracts traded between 25,000 and 50,000 (First Discount Threshold)	\$0.03
For the contracts traded above a total of 50,000 (Second Discount Threshold)	0.05

As an example of how the Volume Discount would apply, suppose that, in a given month which had twenty (20) trading days, a Market Maker executed 1.2 million contracts. Of this total, 1.1 million executions were in the 100 classes for which he holds a market maker appointment; the total trading fees due to BOX before discount would be \$220,000 (\$0.20 multiplied by 1.1 million executions).

The total volume across his appointments would be an average daily volume ("ADV") of 55,000 contracts per day. 25,000 of these contracts (the excess over the first "threshold" of 25,000 ADV up to the second threshold of 50,000 ADV) would be subject to a discount of \$0.03; an additional 5,000 of these contracts would be subject to the second tier discount of \$0.05. The following discounts would apply:

- First threshold discount: $25,000 \times \$0.03 \times 20 \text{ days} = \$15,000$
- Second threshold discount: $5,000 \times \$0.05 \times 20 \text{ days} = \$5,000$
- Total discount: \$20,000
- Net trading fees due to BOX for month: \$200,000 (\$220,000 – \$20,000)
- "Implied" trading fee per contract for Market Maker in assigned classes: $\$200,000/1,100,000 = \0.1818

The Exchange believes that the total actual trading costs for Market Makers on the proposed BOX market, when compared to the actual total costs of trading on all of the existing options exchanges, pose very low barriers to access and entry into the U.S. options trading arena. The BSE strongly believes that lower total costs for Market Makers in combination with unfettered access (*i.e.*, no purchase or lease requirements and open class appointments) and automated price time priority trading would create a competitive market on BOX in which Market Makers would have the proper incentives to pass on their cost savings in the form of better quotes, tighter spreads and price improvement to all market participants.

d. Other Fees

i. InterMarket Linkage

The Exchange is also proposing various other fees, including fees for trades executed via the InterMarket Linkage ("Linkage"). These Linkage fees include charges to Options Participants, such as those for a trade in the BOX market which is triggered by an away market's satisfaction request,¹⁵ as well as a charge levied on away markets for inbound Principal ("P") and Principal as Agent ("PA") orders. This charge to an away market would not be in addition to any other per contract charges on BOX and is equivalent to the regular trading fee for Market Maker and broker-dealer accounts on BOX. The side of a BOX trade opposite an inbound P or PA order would be billed normally as any other BOX trade.¹⁶

As with all of the existing exchanges, the BSE is proposing that its fees related to the Linkage be approved on a pilot basis, until January 31, 2004. If, in concert with the other options exchanges, the BSE seeks to extend the pilot period for the effectiveness of these fees, such an extension would be the basis of a subsequent rule filing.

ii. Compliance Assessment if BSE is DOEA

Also included in the proposed fee schedule for the BOX market is a monthly compliance assessment for firms for which the BSE assumes examination responsibilities under the inter exchange allocation process pursuant to Rule 17d-2 of the Act.¹⁷

iii. Technology and Other Fees

The proposed fee schedule also includes certain technology fees. These include fees for services such as installation and hosting fees for Point of Presence Connection. BOX's Points of Presence ("PoP") are the sites where BOX Participants connect to the BOX network for communication with the BOX Trading Host. Each of these PoPs is operated by a third party supplier under contract to BOX. Through connection fees, BOX would recuperate the fees charged by each PoP contractor for the use of the facility by a BOX Participant. The amount to be paid by each BOX Participant is variable based

¹⁵ Consistent with the plan governing the operation of the Linkage, no fees will be charged to the parties sending the Satisfaction request to BOX. Rather, the fee will be charged to the BOX Options Participant that was responsible for the trade-through that caused the Satisfaction request to be sent.

¹⁶ See section 4 of the proposed BOX Fee Schedule.

¹⁷ See section 6 of the proposed BOX Fee Schedule.

¹⁴ 15 U.S.C. 78s.