

shall be implemented beginning April 8, 2013.<sup>15</sup>

### III. Description of the Proposal

In light of and in connection with the Limit Up-Limit Down Plan, the Exchange is amending IM-7080-1 (Trading Conditions During Limit State or Straddle State) to provide that if the underlying security has entered a Limit State or Straddle State, the time in these States shall not count for purposes of calculating whether a Market Maker is fulfilling its obligations for continuous quotes under BOX Rule 8050(e).

Currently, under BOX Rule 8050(e), the Exchange requires Market Makers to enter continuous bids and offers for the options series to which it is registered for at least 60% of the time that the classes in which the Market Maker is registered are open for trading. The Exchange's proposal would suspend a Market Maker's continuous quoting obligation for the duration that an underlying NMS stock is in a Limit State or a Straddle State. As a result, when calculating the duration of time necessary for a Market Maker to meet its quoting obligations, such time will not include the duration that the underlying is in a Limit State or Straddle State.

### IV. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to a national securities exchange.<sup>16</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>17</sup> which, among other things, requires a national securities exchange to be so organized and have the capacity to be able to carry out the purposes of the Act and to enforce compliance by its members and persons associated with its members with the provisions of the Act, the rules and regulations thereunder, and the rules of the exchange, and is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable

principles of trade, to foster cooperation and coordination with persons engaged in regulation, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission finds that the proposal to suspend a Market Maker's obligations when the underlying security is in a limit up-limit down state is consistent with the Act. During a limit up-limit down state, there may not be a reliable price for the underlying security to serve as a benchmark for market makers to price options. In addition, the absence of an executable bid or offer for the underlying security will make it more difficult for market makers to hedge the purchase or sale of an option. Given these significant changes to the normal operating conditions of market makers, the Commission finds that the Exchange's decision to suspend a Market Maker's obligations in these limited circumstances is consistent with the Act.

The Commission notes, however, that the Plan was approved on a pilot basis and its Participants will monitor how it is functioning in the equity markets during the pilot period. To this end, the Commission expects that, upon implementation of the Plan, the Exchange will continue monitoring the quoting requirements that are being amended in this proposed rule change and determine if any necessary adjustments are required to ensure that they remain consistent with the Act.

In addition, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act<sup>18</sup> for approving the proposed rule change on an accelerated basis. The proposal is related to the Plan, which will become operative on April 8, 2013.<sup>19</sup> Without accelerated approval, the proposed rule change, and any attendant benefits, would take effect after the Plan's implementation date. Accordingly, the Commission finds that good cause exists for approving the proposed rule change on an accelerated basis.

### V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act<sup>20</sup> that the proposed rule change (SR-BOX-2013-13) is approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2013-08555 Filed 4-11-13; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-69336; File No. SR-BOX-2013-19]

### Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend the Fee Schedule for Trading on BOX

April 8, 2013.

Pursuant to Section 19(b)(1) under the Securities Exchange Act of 1934 (the "Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 29, 2013, BOX Options Exchange LLC (the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend the Fee Schedule for trading on the BOX Market LLC ("BOX") options facility. While the change to the fee schedule pursuant to this proposal will be effective upon filing, the change will become operative on April 1, 2013. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission's Public Reference Room and also on the Exchange's Internet Web site at <http://boxexchange.com>.

<sup>21</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>4</sup> 17 CFR 240.19b-4(f)(2).

26, 2013) (Second Amendment to Limit Up-Limit Down Plan by BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Board Options Exchange, Inc., *et al.*) and Securities Exchange Act Release No. 69062 (March 7, 2013), 78 FR 15757 (March 12, 2013) (Third Amendment to Limit Up-Limit Down Plan by BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Board Options Exchange, Inc., *et al.*)

<sup>15</sup> See "Second Amendment to Limit Up-Limit Down Plan," *supra* note 14.

<sup>16</sup> In approving the proposed rule changes, the Commission has considered their impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78s(b)(2).

<sup>19</sup> See *supra* note 15.

<sup>20</sup> 15 U.S.C. 78f(b)(2).

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

#### 1. Purpose

The Exchange proposes to amend the BOX Fee Schedule to specify in Section II (Liquidity Fees and Credits) that when a non-immediately marketable order executes against a PIP Order, therefore becoming an Unrelated Order, it shall be charged as an Improvement Order.

Currently transactions in the BOX PIP are either assessed a fee for adding liquidity or provided a credit for removing liquidity regardless of account type.<sup>5</sup> PIP Orders (*i.e.*, the agency orders opposite the Primary Improvement Order<sup>6</sup>) receive the "removal" credit and Improvement Orders<sup>7</sup> are charged the "add" fee. PIP transactions in classes with a minimum price variation of \$0.01 (*i.e.*, Penny Pilot classes where the trade price is less than \$3.00 and all series in QQQ, SPY, and IWM) are assessed a fee for adding liquidity of \$0.30, regardless of account type. For PIP transactions where the minimum price variation is greater than \$0.01 (*i.e.*,

all non-Penny Pilot Classes, and Penny Pilot Classes where the trade price is equal to or greater than \$3.00, excluding QQQ, SPY, and IWM) the fee for adding liquidity is \$0.75, regardless of account type. These liquidity fees and credits are part of an Exchange Pilot Program ("Program") that has been in effect on BOX since February 2012 and was recently extended through August 31, 2013.<sup>8</sup>

An Unrelated Order is defined as any non-Improvement Order entered on the BOX market during a PIP.<sup>9</sup> Currently all Unrelated Orders are charged as Non-Auction Transactions under Section II.C. of the Exchange's Fee Schedule and are subject to a per contract fee of \$0.30 for adding liquidity in Penny Pilot Classes, and \$0.75 for adding liquidity in non-Penny Pilot Classes.

The purpose of this proposed rule change is to specify that, when an Unrelated Order that is not immediately marketable executes against a PIP Order, it shall be treated as an Improvement Order and charged the applicable "add" fee under Section II.A of the Exchange's Fee Schedule.<sup>10</sup> In the current Fee Schedule the classes to which the liquidity fees and credits are applied are described differently in PIP Transactions compared to Non-Auction Transactions, therefore creating a discrepancy in how similar orders are charged. For example, in Section II.A (PIP Transactions) the liquidity fees and credits assessed differ depending on the Minimum Price Variation of the order. If the transaction is in a Penny Pilot Class where the trade price is less than \$3.00 or in all series in QQQ, SPY & IWM it is assessed an "add" fee or "removal" credit of \$0.30. If the transaction is in a Non-Penny Pilot Class or in a Penny Pilot class where the trade price is equal to or greater than

\$3.00, excluding QQQ, SPY & IWM, then it is assessed an "add" fee or "removal" credit of \$0.75. In Section II.C. (Non-Auction Transactions) the liquidity fees and credits assessed differ depending if the transaction is in a Penny Pilot Class (\$0.30 "add" fee or "removal" credit) or Non-Penny Pilot Class (\$0.75 "add" fee or "removal" credit).

The proposed change will have no impact on the liquidity fees charged to a Participant for a majority of non-immediately marketable Unrelated Orders that execute against a PIP Order. For example, in a Non-Auction Non-Penny Pilot transaction, an order that adds liquidity is currently charged an "add" fee of \$0.75. If this order interacts with the PIP under the current fee schedule, thereby becoming an Unrelated Order, the "add" fee remains the same regardless of the minimum price variation of the class involved.

However, this proposed change will result in a greater "add" fee for orders in Penny Pilot Classes where the trade price is equal to or greater than \$3.00, excluding QQQ, SPY, and IWM. For example, a Non-Auction Penny Pilot transaction that adds liquidity is currently charged an "add" fee of \$0.30. Under the proposed change, if this order interacts with the PIP, thereby becoming an Unrelated Order, the "add" fee will remain at \$0.30 if the order is in a Penny Pilot class where the trade price is less than \$3.00 or in QQQ, SPY, and IWM. The fee will only be raised to \$0.75 if the order is in a Penny Pilot Class where the trade price is equal to or greater than \$3.00, excluding QQQ, SPY, and IWM.

The tables below illustrate how the proposed change will affect the total charged for each type of transaction.

#### TRANSACTIONS IN NON-PENNY PILOT CLASSES

	Exchange fee <sup>11</sup>	Add fee	Total charged	Effect
Treated as a Non-Auction Transaction under the current Fee Schedule .....	\$0.40	\$0.75	\$1.15	None.
Treated as an Improvement Order under the proposed change .....	0.40	0.75	1.15	None.

<sup>5</sup> See Section II of the BOX Fee Schedule.

<sup>6</sup> An Improvement Order is a response to a PIP auction.

<sup>7</sup> A Primary Improvement Order is the matching contra order submitted to the PIP on the opposite side of an agency order.

<sup>8</sup> See Securities Exchange Act Release Nos. 66278 (January 30, 2012), 77 FR 5590 (February 3, 2012) (SR-BX-2011-046), (Commission Order Granting Accelerated Approval of the BOX Credits and Fees for PIP Transactions on a pilot basis); 66979 (May 14, 2012), 77 FR 29740 (May 18, 2012) (SR-BOX-2012-002) (Notice of Filing and Immediate

Effectiveness to adopt the Fee Schedule for trading on BOX which included the Program); and 69054 (March 7, 2013), 78 FR 16025 (March 13, 2013) (SR-BOX-2013-09) (Notice of Filing and Immediate Effectiveness to extend the PIP Fee Pilot Program).

<sup>9</sup> BOX Rule 7150(a).

<sup>10</sup> Because the Unrelated Order is not immediately marketable, it will rest on the BOX Book and be charged the appropriate add fee unless it interacts with a PIP Order. In contrast, when an immediately marketable Unrelated Order is received it will execute against the PIP Order under BOX Rule 7150(j). This proposed rule change does not affect orders that are immediately marketable

upon entry to BOX because under the Locked/Crossed Market plan, an immediately marketable Unrelated Order may have been [sic] routed from [sic] away exchange and submitted to BOX. The Exchange does not believe it should be subject to the PIP Transaction "add" fee since the Locked/Crossed Market plan may have required that the order be sent to BOX and a customer has no control over where this order is routed.

<sup>11</sup> The order will continue to be charged as a Non-Auction transaction for purposes of assessing Exchange Fees under Section I of the BOX Fee Schedule.

## TRANSACTIONS IN PENNY PILOT CLASSES

	Exchange fee	Add fee	Total charged	Effect
Treated as a Non-Auction Transaction under the current Fee Schedule .....	\$0.40	\$0.30	\$0.70	None.
Treated as an Improvement Order under the proposed change (Minimum Price Variation of 1 Cent).	0.40	0.30	0.70	None.
Treated as an Improvement Order where the under the proposed change (Minimum Price Variation of > 1 Cent).	0.40	0.75	1.15	Increased by \$0.40.

Therefore, as demonstrate above, the only difference in “add” fees is in the last row of possible orders, here there is a potential \$0.40 fee increase. The Exchange notes that this proposed change will only apply to non-immediately marketable Unrelated Orders that are entered on the BOX market.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>12</sup> in general, and Section 6(b)(4) of the Act,<sup>13</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among BOX Participants and other persons using its facilities.

The Exchange believes it is reasonable and equitable to treat a non-immediately marketable Unrelated Order that executes against a PIP Order as an Improvement Order for purposes of the Exchange’s liquidity fees. The PIP liquidity fees and credits are intended to attract order flow to the Exchange by offering incentives to all market participants to participate in the PIP. Currently a Participant that submits an Unrelated Order which then executes against a PIP Order receives the same trading benefit as a Participant who submits an Improvement Order, but is sometimes assessed a lesser “add” fee. While non-immediately marketable Unrelated Orders are not typically submitted on the opposite side of a PIP Order, they should be charged the fair and appropriate “add” fee once they execute against a PIP Order. Furthermore, as demonstrated above this change will have no impact on the liquidity fees charged to a Participant for a majority of non-immediately marketable Unrelated Orders that execute against a PIP Order.

The Exchange believes the proposed change to be reasonable. As noted above, the fees and credits for PIP transactions are intended to attract order flow to the Exchange by offering incentives to all market participants to

submit their orders to the PIP for potential price improvement. As a result, the Exchange credits Participants who submit a PIP order and collects a fee from Participants who respond to a PIP through an Improvement Order. A non-immediately marketable Unrelated Order that executes against a PIP Order as an Improvement Order will not necessarily result in additional revenue to the Exchange, but will simply allow BOX to continue to provide the credit incentives to Participants to attract additional order flow to the PIP. In order to continue to offer these incentives for price improvement the Exchange needs to ensure that its liquidity fees and credits remain revenue neutral by charging orders that are executing in the same way the same fee.

The Exchange believes it is appropriate to provide incentives to market participants to use PIP, resulting in potential benefit to customers through potential price improvement and to all market participants to provide greater liquidity on BOX. The Exchange believes that treating non-immediately marketable Unrelated Orders as Improvement Orders for the purpose of liquidity fees and credits will not deter Participants from seeking to add liquidity to BOX so that they may interact with other Participants seeking to remove liquidity.

Furthermore, this change will only affect the liquidity fees charged for a small percentage of non-immediately marketable Unrelated Order transactions that execute against a PIP Order, those in Penny Pilot Classes where the trade price is equal to or greater than \$3.00, excluding QQQ, SPY, and IWM under the PIP Fee Pilot Program.<sup>14</sup> The Exchange currently offers additional incentives to market participants for PIP transactions in these specified classes because such options have wider spreads and provide greater opportunity for market participants to offer price improvement. The Exchange believes it is reasonable and equitable to treat a non-immediately marketable Unrelated Order that executes against this type of

PIP transaction the same liquidity fee that an Improvement Order would be charged.

The Exchange believes that treating non-immediately marketable Unrelated Orders as Improvement Orders is equitable and not unfairly discriminatory because the applicable liquidity fees will apply uniformly to all categories of participants, across all account types. The Exchange operates within a highly competitive market in which market participants can readily direct order flow to other competing venues if they deem fees at a particular venue to be excessive. BOX and the other options exchanges are engaged in an intense competition on price (and other dimensions of competition) to attract order flow from order flow providers. Accordingly, the fees assessed by the Exchange must remain competitive with fees charged by other venues and therefore must continue to be reasonable and equitably allocated to those Participants that opt to send orders to the Exchange rather than to a competing venue. Further, the Exchange believes that the current PIP transaction liquidity fees and credits it assesses are fair and reasonable and must be competitive with fees and credits in place on other exchanges.

## B. Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. With this proposed rule change, non-immediately marketable Unrelated Orders executing against PIP Orders will be subject to fees that are already in place on the Exchange. These types of orders are currently subject to similar “add” fees and the proposed change will better align the applicable liquidity fees. The Exchange does not believe that this change would disincentives [sic] a market participant from sending in an Unrelated Order, in a majority of situations there would be [sic] change to the “add” fee assessed and the Participant submitting the order is receiving the benefit of executing

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(4).

<sup>14</sup> See *supra*, note 8.

against the PIP Order and the allocation that follows after the conclusion of the PIP. The Exchange believes that the proposed change promotes competition, as it is designed to allow the Exchange to continue compete for order flow and offer greater opportunities for price improvement. As mentioned above, liquidity fees and credits do not necessarily result in additional revenue to the Exchange, but will simply allow BOX to continue to provide the credit incentives to Participants to attract additional order flow to the PIP. In order to continue to offer these incentives for price improvement the Exchange needs to ensure that its liquidity fees and credits remain revenue neutral by charging orders that are executing in the same way the same fee.

*C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others*

No written comments were either solicited or received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Exchange Act<sup>15</sup> and Rule 19b-4(f)(2) thereunder,<sup>16</sup> because it establishes or changes a due, fee, or other charge applicable only to a member.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend the rule change if it appears to the Commission that the action is necessary or appropriate in the public interest, for the protection of investors, or would otherwise further the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2013-19 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549.

All submissions should refer to File Number SR-BOX-2013-19. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2013-19 and should be submitted on or before May 3, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2013-08650 Filed 4-11-13; 8:45 am]

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-69341; File No. SR-NASDAQ-2013-048]

**Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Order Granting Accelerated Approval of a Proposed Rule Change To Adopt Chapter V, Section 3 Subparagraph (d)(iv) Regarding Obvious Error or Catastrophic Error Review**

April 8, 2013.

**I. Introduction**

On March 14, 2013, The NASDAQ Stock Market LLC ("Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to provide for how the Exchange proposes to treat obvious and catastrophic options errors in response to the Regulation NMS Plan to Address Extraordinary Market Volatility (the "Plan"). The proposed rule change was published for comment in the **Federal Register** on March 20, 2013.<sup>3</sup> The Commission received one comment letter on the proposal.<sup>4</sup> This order approves the proposed rule change on an accelerated basis.

**II. Description of the Proposed Rule Change**

Since May 6, 2010, when the financial markets experienced a severe disruption, the equities exchanges and the Financial Industry Regulatory Authority have developed market-wide measures to help prevent a recurrence. In particular, on May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.<sup>5</sup> The Plan is designed to prevent trades in individual NMS stocks from occurring outside of specified Price Bands, creating a market-wide limit up-limit down mechanism that is intended to address extraordinary market volatility in NMS Stocks.<sup>6</sup>

In connection with the implementation of the Plan, the

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 69142 (March 15, 2013), 78 FR 17251 ("Notice").

<sup>4</sup> See Letter to Heather Seidel, Associate Director, Division of Trading and Markets, Commission, from Thomas A. Wittman, Senior Vice President, The NASDAQ Stock Market LLC, dated April 5, 2013 ("Nasdaq Letter").

<sup>5</sup> Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498.

<sup>6</sup> Unless otherwise specified, capitalized terms used in this rule filing are based on the defined terms of the Plan.

<sup>15</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>16</sup> 17 CFR 240.19b-4(f)(2).

<sup>17</sup> 17 CFR 200.30-3(a)(12).