



**Boston Options Exchange Regulation LLC
Regulatory Circular 2008-07**

TO: BOX Participants

FROM: BOX Regulation LLC

DATE: April 17, 2008

SUBJECT: Amendment to Chapter V, Section 20 (d) - Obvious Errors

The Securities and Exchange Commission recently approved changes to BOX Rules Chapter I, Section (1) and Chapter V, Section 20 (d). BOX Rules Chapter I, Section (1) now defines the Market Operations Center or “MOC” which provides market support for Options Participants during the trading day. This circular highlights the changes to Chapter V, Section 20 (d) and is not intended to be a comprehensive description of all of the rules regarding Obvious Errors. For more details regarding the rules, refer to Chapter V, Section 20 (d), which is provided below.

The changes to subsection 20 (d)(i) amended, for **purposes of Section 20 (d) only**, the definition of market maker transactions, to include transactions sent by Market Makers on BOX and those transactions sent by market makers on another exchange which have sent a transaction designated with a market maker account type. A market maker must notify the MOC within 5 minutes of the execution if it believes an Obvious Error occurred. A non-market maker Participant must notify the MOC within 20 minutes of the execution if it believes an Obvious Error occurred.

Subsection (d)(ii)(2) now provides if the Market Regulation Center (“MRC”) determined an Obvious Error occurred, where one party is not a market maker and the other party is a market maker, that the non-market maker party may elect to have the transaction adjusted using the guidelines found at Subsection (d)(ii)(1) or busted. (See rule text which is attached below.) **Please note that a non-market maker Participant must make this decision within ten minutes of notification of the MRC’s determination that an Obvious Error occurred, otherwise the trade will be busted.**

Finally pursuant to subsection (d)(ii)(3), where neither party to the Obvious Error is a market maker, the trade will be busted by the MRC unless both parties agree to an adjustment price for the transaction within 30 minutes of being notified by MRC of the Obvious Error.

Please review this information with your compliance department. If you have any questions regarding this information contact Joe Dalton at (617) 235-2317 or Bruce Goodhue at (617) 235-2022.

Chapter V, Section 20 (d)

Obvious Error Procedure. Designated personnel in the MRC shall administer the application of this Rule as follows.

- i. Notification. If a market maker¹ believes that it participated in a transaction that was the result of an Obvious Error, it must notify MOC within five (5) minutes of the execution. If a non Market Maker Options Participant believes an order it executed on BOX was the result of an Obvious Error, it must notify MOC within twenty (20) minutes of the execution. Except as provided below, no relief under this Section will be provided unless notification is made within the prescribed time periods.
- ii. Adjust or Bust. MRC will determine whether there was an Obvious Error as defined above. If it is determined that an Obvious Error has occurred, MRC shall take one of the actions listed below. Upon taking final action, the MRC shall promptly notify both parties to the trade.
 - 1). Where each party to the transaction is a market maker, the execution price of the transaction will be adjusted by the MRC to the prices provided in subparagraphs (a) and (b) below unless both parties agree to adjust the transaction to a different price or agree to bust the trade within ten (10) minutes of being notified by MRC of the Obvious Error.
 - a. Erroneous buy transactions will be adjusted to their Theoretical Price (1) plus \$.15 if the Theoretical Price is under \$3, and (2) plus \$.30 if the Theoretical Price is at or above \$3.
 - b. Erroneous sell transactions will be adjusted to their Theoretical Price (1) minus \$.15 if the Theoretical Price is under \$3, and (2) minus \$.30 if the Theoretical Price is at or above \$3.
 - 2). Where one party to the transaction is not a market maker and the other party to the transaction is a market maker, the non-market maker party may either elect to have the transaction adjusted according to the guidelines set forth in Paragraph 1 subparagraphs (a) and (b) above, or busted by the MRC.
 - 3). Where neither party to the Obvious Error is a market maker, the trade will be busted by the MRC unless both parties agree to an adjustment price for the transaction within thirty (30) minutes of being notified by MRC of the Obvious Error.

¹ For purposes of this Section 20(d), a reference to a market maker includes a Market Maker on BOX and also includes transactions which are sent by a market maker on another exchange where the order is designated with a market maker account type in the BOX Trading Host.