



**Boston Options Exchange Regulation LLC
Regulatory Circular 2009-12**

TO: BOX Participants and Participant Organizations

FROM: BOX Regulation LLC

DATE: August 28, 2009

SUBJECT: Decentralized Linkage

The new Decentralized Options Linkage Plan will be implemented on Monday, August 31, 2009. In coordination with all option exchanges, BOX will accept and trade inbound Intermarket Sweep Orders (ISO). At this time BOX will not send outbound ISOs. An Options Participant can elect to generate ISOs to all marketable priced exchanges through their own arrangements. With this alternate routing method, all ISOs must be marked appropriately. The Decentralized Option Linkage Plan is modeled after and applies many of Regulation NMS price protection provisions. Option exchanges will utilize standard routing mechanisms for sending and receiving linkage orders.

- ISO last sales will be disseminated only at the exchange where the ISO was executed.
- The OCC Hub technology will eventually be eliminated, along with the old plan origin types of P and P/A. BOX rule provisions permit the Exchange to continue to send P and P/A Orders to away markets for a temporary period of up to eight weeks after the implementation of the Decentralized Linkage Plan. During the interim, BOX will continue to use the OCC Hub to send P and P/A Orders. Implementation of outbound order routing will be announced under a separate circular.

Definition of ISO Order

An Intermarket Sweep Order (ISO) is a limit order priced to trade against a Protected Quote. The participant submitting the ISO must simultaneously send ISOs to sweep all better priced markets. BOX will accept ISOs to sweep BOX's displayed price and will execute ISOs irrespective of the NBBO. After trading, any remaining volume on the ISO will be canceled. It is assumed all better prices at away exchanges have been simultaneously swept by the firm submitting the ISOs. The last sale for an ISO trade will be marked on the OPRA tape as "S" for sweep.

Trade-Through Protection

In accordance with the new Plan, Options Participants should not cause trade-throughs and should not create locked or crossed markets. An exchange's Protected Bid or Protected Offer cannot be traded-through except in specific circumstances. Some exemptions to trade-through liability include:

- Intermarket Sweep Orders – An order marked as an ISO will be executed up to its limit price regardless of any better prices at away markets. Entering an ISO signifies that the Options Participant simultaneously routed ISO orders for the full size of all better-priced Protected Quotes.
- Flickering Quotes – If an exchange's quote changed within one second prior to the trade-through and the previous quote would not have resulted in a trade-through, the Options Participant is exempt from trade-through liability.
- Stopped Orders and Price Improvement – Orders that are effectively “stopped” on BOX (i.e. PIP) at a price that would not constitute a trade-through and are then later executed at a price that trades-through an away market are exempt from trade-through liability.
- Crossed Markets – If a Protected Bid is higher than a Protected Offer, trade-through protection does not apply.
- Trading Rotations – There is no trade-through liability for trades that are executed as part of the opening rotation.
- Self-Help – if an exchange repeatedly fails to respond to incoming orders within one second, an exchange can declare self-help against the other exchange and ignore that exchange's Protected Quotations. The exchange must make certain that the problem is not within its own systems and must notify the non-responding exchange that it is declaring self-help. The exchange should keep a record of any time self-help is declared against an exchange and must begin considering the offending market's Protected Quotations as soon as the issue has been resolved. Exchanges need to maintain reasonable policies and procedures in order to apply the self-help exception.

Locked and Crossed Markets

Options Participant shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations or orders that lock or cross a Protected Quotation. Options Participant must avoid locking or crossing Protected Quotations or must access the full size of all better-priced Protected Quotations using ISOs before locking or crossing a market. Locks may occur when a BOX Options Participant locks a market when the displayed quotation does not display a customer but the customer designation is routinely displayed within the quoting market.

Common exceptions to locked and crossed markets include:

- The locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment.

- The locking or crossing quotation was displayed at a time when there was a crossed market.
- The Options Participant simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.
- With respect to a locking quotation, is not a Public Customer order and the Eligible Exchange can determine that it is not a Public Customer Order (pursuant to OPRA) or the Eligible Exchange can determine that it is a Public Customer Order, and that the Public Customer has specifically authorized the Options Participant to lock such Protected Bid or Offer.

Recordkeeping

Regulatory requirements for maintaining data by firms submitting their own ISOs should include but not be limited to reports which show the order routing history of the ISOs. These reports should contain but not be limited to order identifier numbers, price, quantity, order entry time, time of execution, and place of execution. Reports containing this information is to be maintained in a manner and form prescribed by SEC Rules 17a-3 and 17a-4.

BOX will follow the recordkeeping standards set forth by the SEC in responses to FAQ Concerning Rules 610 and 611 to Regulation NMS.

Contacts

Systems questions, please contact John Goode at 312-444-6334 or john.goode@bostonoptions.com

Business questions, please contact Alan Grigoletto 312-444-6336 or grigoletto@bostonoptions.com

Market Operations Center (MOC) questions, please contact Carl Miedaner at 617-235-2288 or cmiedaner@bostonoptions.com

Regulatory questions, please contact

Bruce Goodhue at 617-235-2022 or bruce.goodhue@nasdaqomx.com

Joe Dalton at 617-235-2317 or joe.dalton@nasdaqomx.com

Information Links

The website for new option linkage – SEC plan approval:

<http://www.sec.gov/rules/sro/nms/2009/34-60405.pdf>

The website for new option linkage – BOX rule:

<http://www.sec.gov/rules/sro/bx/2009/34-60530.pdf>

Regulation NMS Rules 610 and 611 FAQs

<http://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm>