TO: BOX Participants

FROM: BOX Market Operations Center

SUBJECT: **Limit Up/Limit Down**

DATE: **April 5, 2013**

The SEC has approved a Regulation NMS Plan to Address Extraordinary Market Volatility (the "Plan") that creates a market-wide limit up-limit down mechanism for all "NMS Stocks" as defined in Rule 600(b)(47) of Regulation NMS. The third and most recent amendment to the Plan, which contains details about operation of the Plan, can be found here. This notice is intended to describe the various rule changes[1] relating to options order behavior, quoting obligations, and obvious errors that have been filed with the SEC in anticipation of the start of the Limit Up/Limit Down Plan ("LULD").

LULD Overview

The Plan is designed to prevent trades in individual NMS stocks from occurring outside of specified Price Bands. Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are calculated. When the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band, the Processors shall disseminate such National Best Bid (Offer) with an appropriate flag identifying it as unexecutable. When the National Best Bid (Offer) is equal to the Upper (Lower) Price Band, the Processors shall distribute such National Best Bid (Offer) with an appropriate flag identifying it as a Limit State Quotation. All trading centers in NMS stocks must maintain written policies and procedures that are reasonably designed to prevent the display of offers below the Lower Price Band and bids above the Upper Price Band for NMS stocks. Notwithstanding this requirement, the Processor shall display an offer below the Lower Price Band or a bid above the Upper Price Band, but with a flag that it is non-executable. Such bids or offers shall not be included in the National Best Bid or National Best Offer calculations.

Trading in an NMS stock immediately enters a Limit State if the National Best Offer (Bid) equals but does not cross the Lower (Upper) Price Band. Trading for an NMS stock exits a Limit State if, within 15 seconds of entering the Limit State, all Limit State Quotations were executed or canceled in their entirety. If the market does not exit a Limit State within 15 seconds, then the Primary Listing Exchange would declare a five minute trading pause, which would be applicable to all markets trading the security.

Options Order Handling/Processing during LULD

Under the Plan, a Limit State will be declared if the national best offer equals the lower price band and does not cross the national best bid, or the national best bid equals the upper price band and

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[1] See File Nos. SR-BOX-2013-12 and SR-BOX-2013-13, filed on March 8, 2013 by BOX.

does not cross the national best offer. A Straddle State is when the national best bid (offer) is below (above) the lower (upper) price band and the security is not in a Limit State, and trading in that security deviates from normal trading characteristics such that declaring a trading pause would support the Plan's goal to address extraordinary market volatility.

If the underlying security has entered a Limit or Straddle State, the Exchange will reject the execution of Market Orders or BOX-Top Orders, which are un-priced orders that execute at the best price available at the time the Exchange receives such orders. All resting Market Orders and BOX-Top Orders will be cancelled.

The Exchange will also reject all incoming Market Orders or BOX-Top Orders during the opening in the event that the underlying NMS stock is open, but has entered into a Limit State or Straddle State. When this occurs, any resting Market Orders will be eliminated and new Market Orders will be rejected during the preopening. The series will open as scheduled, but Market Orders and BOX-Top Orders will continue to be rejected until the underlying NMS stock moves out of the Limit or Straddle State.

Limit orders, which are orders to buy or sell at the price stated or better, contain a limit price that will protect them from being executed at inferior prices. Limit orders will not be rejected or canceled during a Limit or Straddle State.

Please note that the Exchange does not accept Stop Orders.

Market Maker Quoting Obligations during LULD

If the underlying security has entered a Limit State or Straddle State, the time in a LULD State shall not count for purposes of calculating whether a Market Maker is fulfilling his obligations for continuous quotes under BOX Rule 8050(e). When a Limit State or Straddle State occurs, the total time that the underlying security is in the one of these States shall not be considered as part of the trading day for purposes of calculating the requirement that a Market Maker must post valid quotes at least 60% of the time that the classes in which the Market Maker is registered are open for trading.

Obvious Error Review during LULD

Pending regulatory approval, the Exchange plans to adopt rule text that suspends certain provisions in BOX Rule 7170 (Obvious and Catastrophic Errors) during LULD States in securities that underlie options traded on BOX. Specifically, these transactions would not be subject to obvious or catastrophic error review during a one year pilot period ending April 8, 2014. The provisions in BOX Rule 7170(e) (Erroneous Print in Underlying) and Rule 7170(f) (Erroneous Quote in Underlying) will continue to apply.

This change would ensure that limit orders that were filled during a LULD State would have certainty of execution. As noted above with respect to the treatment of Market Orders or BOX-Top Orders when the underlying security is in a LULD State, the Exchange believes that adding certainty to the execution of orders in these situations will encourage market participants to continue to provide liquidity to the Exchange and thus promote a fair and orderly market.

Contacts
Please contact the Market Operations Center at (866) 768-8845 or by e-mail at BOXMOC@boxexchange.com should you require additional information.