



BOX Penny Pilot Report:
Report Period November 2009 through March 2011

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Chapter 1 – Purpose, Scope, Summary and Recommendation

1.1 Purpose and Scope

Beginning on January 26, 2007, all six options exchanges in operation at the time, including BOX, began participating in the Penny Pilot Program to quote and trade certain option classes in penny increments. Originally, the Pilot included thirteen (13) options classes. On September 28, 2007, the Pilot was expanded to include an additional twenty-two (22) classes, and it was expanded again on March 28, 2008 to include another twenty-eight (28) classes. In 2009, the Securities and Exchange Commission (the “Commission”) approved an extension of the Pilot, and it was expanded to include the 300 most active classes. The minimum price variation for all classes included in the Penny Pilot Program, except for QQQ, IWM, and SPY, is \$0.01 for all quotations in options series that are quoted at less than \$3 per contract and \$0.05 for all quotations in options series that are quoted at \$3 per contract or greater. The QQQs, IWM, and SPY are quoted in \$0.01 increments for all options series.

The Commission has requested that each exchange continue to provide reports regarding the Pilot, including information about market quality as reflected by bid/ask spreads and size available, and market activity as reflected by quotes and trade volume in Pilot classes. BOX has previously produced reports related to other time periods since the beginning of the Pilot.

This report provides information regarding the periods from (A) November 1, 2009 through January 31, 2010; (B) February 1 through April 30, 2010; (C) May 1, 2010 through July 31, 2010; and (D) August 1, 2010 through March 2011. Information for activity in three data sets is provided for each period: (1) ten least active classes among those 63 included in the Pilot in March 2008 or before, (2) ten most active classes of

those in the Pilot during each report period, and (3) twenty least active classes of those in the Pilot during each report period.

The ten least active classes of those 63 that were in the Pilot in March 2008 or before, as measured by industry-wide average daily volume traded during the report period were: A, AMGN, DNDN, FLEX, MNX, NYX, RIO, TXN, WFMI, and WM. These comprise the data set “Least Active Classes (Original)” in the charts throughout this report.

The ten most active classes in the Pilot as measured by industry-wide average daily volume during the report period November 1, 2009 through January 31, 2010 were: AAPL, BAC, C, EEM, GE, GLD, IWM, QQQQ, SPY, and XLF.

The ten most active classes in the Pilot as measured by industry-wide average daily volume during the report period February 1 through April 30, 2010, were AAPL, BAC, C, EEM, F, GE, IWM, QQQQ, SPY, and XLF.

The ten most active classes in the Pilot as measured by industry-wide average daily volume during the report period May 1, 2010 through July 31, 2010, were: AAPL, BAC, BP, C, EEM, GLD, IWM, QQQQ, SPY, and XLF.

The ten most active classes in the Pilot as measured by industry-wide average daily volume during the report period August 1, 2010 through March 31, 2011, were: AAPL, BAC, C, EEM, GE, GLD, IWM, QQQQ, SPY, and XLF.

These data sets are identified as “Most Active Classes (Date of Report Period)” in the charts throughout this report.

The twenty least active classes in the Pilot as measured by industry-wide average daily volume during the report period November 1, 2009 through January 31, 2010, were: A, BBT, CIT, DNDN, EMC, FITB, FLEX, JNPR, MNX, NYX, RF, SBUX, SKF, SSO, STI, SVNT, UYG, WFMI, WM, and WYNN.

The twenty least active classes in the Pilot as measured by industry-wide average daily volume during the report period February 1 through April 30, 2010, were: A, AFL, BBD, BCRX, BK, CSX, FLEX, FRE, HES, HON, JWN, LEAP, LO, MNX, SVNT, URE, UTX, WM, and XTO.

The twenty least active classes in the Pilot as measured by industry-wide average daily volume during the report period May 1, 2010 through July 31, 2010, were: A, BBD, BCRX, ENER, EWT, FLEX, GFI, LO, MDVN, RTN, SEED, SII, SVNT, TM, URE, WIN, WM, and XTO.

The twenty least active classes in the Pilot as measured by industry-wide average daily volume during the report period August 1, 2010 through March 31, 2011, were: AMED, APWR, ARNA, BCRX, CAL, CTIC, ENER, FIS, FLEX, FXP, MDVN, RIO, SEED, SII, SRS, TYC, UAUA, URE, and WIN.

These data sets are identified as “Least Active Classes (Date of Report Period)” in the charts throughout this report.

Summary and Recommendation

BOX believes that quoting and trading in penny increments has improved the overall market quality and that the Pilot has benefitted retail customers. This report generally confirms the expected data results; the most active Pilot classes have more narrow spreads and greater liquidity than the least active classes. BOX believes that the PIP is significant in offering the benefit of price improvement in all options classes. Based on the information provided in this and prior Pilot reports BOX has provided to the Commission, BOX recommends:

- The Commission terminate the Pilot and permit all classes to trade in penny increments at prices up to \$3.00; and
- The Pilot reports requested by the Commission be discontinued.

Ending the Pilot would allow the exchanges to avoid the complexity of trading certain classes in penny increments at all prices, some in penny increments only up to \$3.00, and other classes in \$.05 or \$.10 increments. Additionally, BOX does not believe that the Pilot reports provide significant statistical value. The most active options classes trade in penny increments and there are no longer actively-traded classes trading in larger increments that serve as a useful data set for comparison. Overall market volume and volatility have a more significant impact on Pilot class activity than the migration of the lesser-active classes to trading in penny increments.

Chapter 2 - Quality of Markets

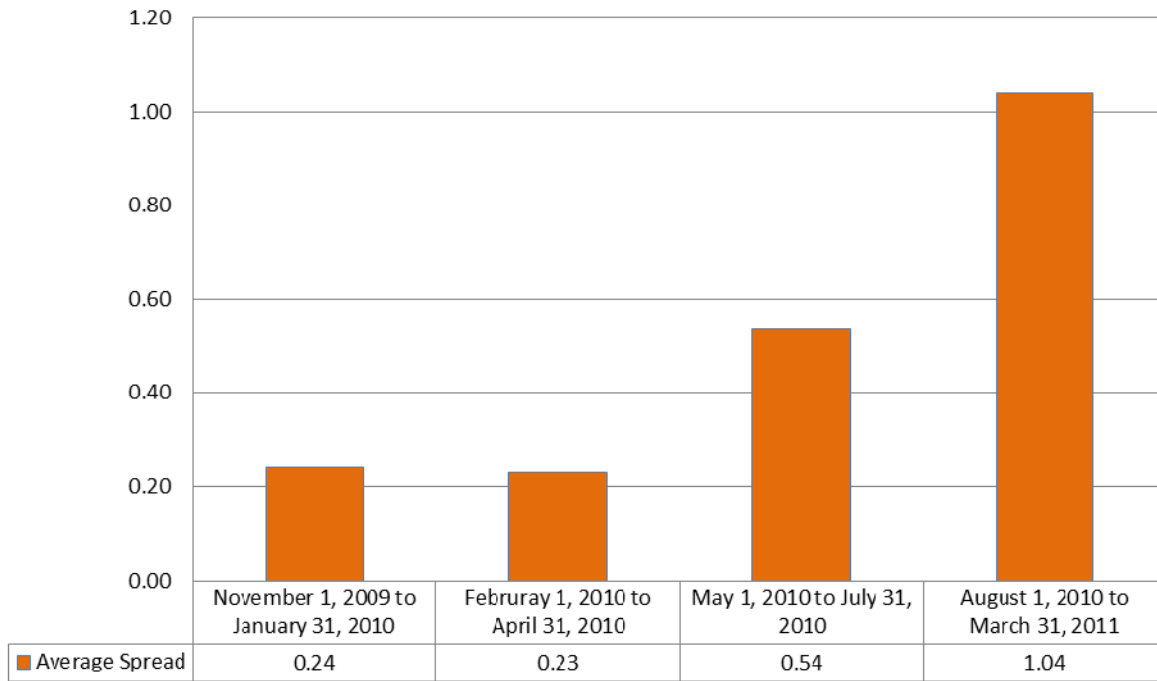
2.1 Best Bid/Ask Spread

The difference between the Best Bid and Best Ask is the “spread.” Generally, the less the average spread, the better the market quality. The chart below shows the daily average Bid/Ask Spread on BOX for each data set during each report period. Fluctuations in the Bid/Ask spread are generally in direct correlation to volatility in the overall markets. BOX believes that quoting and trading in penny increments has improved the overall quality of the markets and that the Pilot has benefitted retail customers.

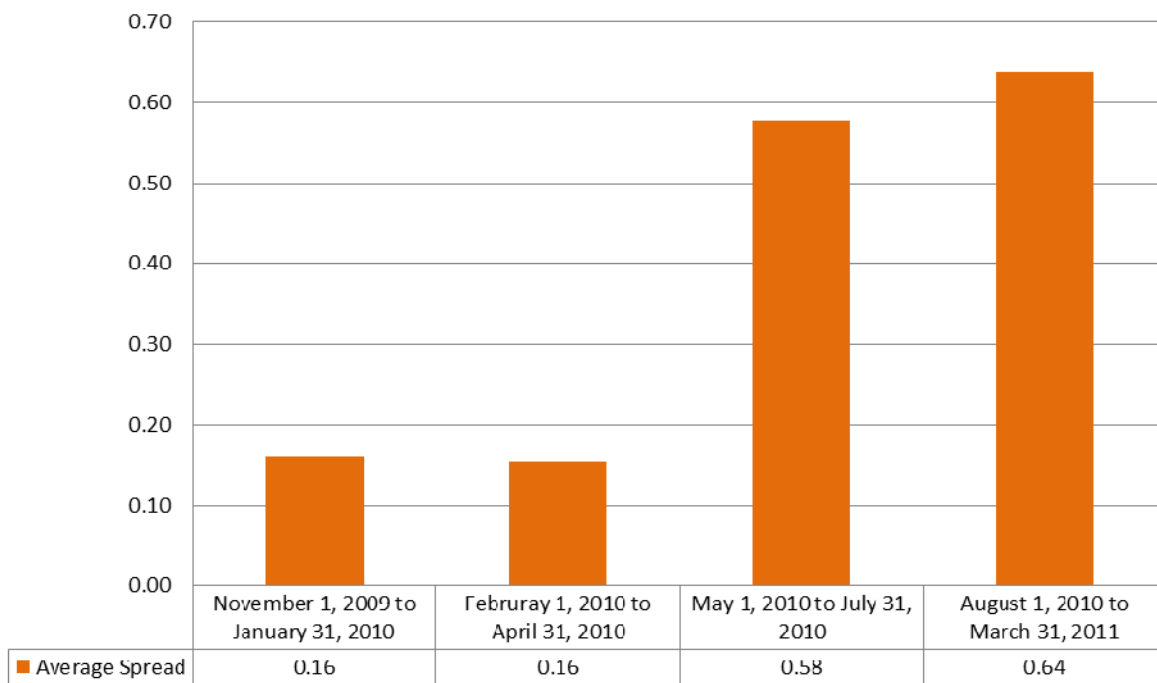
Each options class may contain numerous series within the class. Generally, trading activity in any particular class is concentrated in those series with expiration dates closer in time and strike prices closer to the price of the underlying stock or index value. Wider spreads generally arise in a particular data set because less active classes may have many inactive instruments that are quoted in very wide spreads, and only a few active instruments within the class that have more narrow spreads.

By comparison, the average spread for the more active classes is often more narrow. Such a spread is indicative of the greater volume in the class generally, and in a greater number of series within the class, in particular.

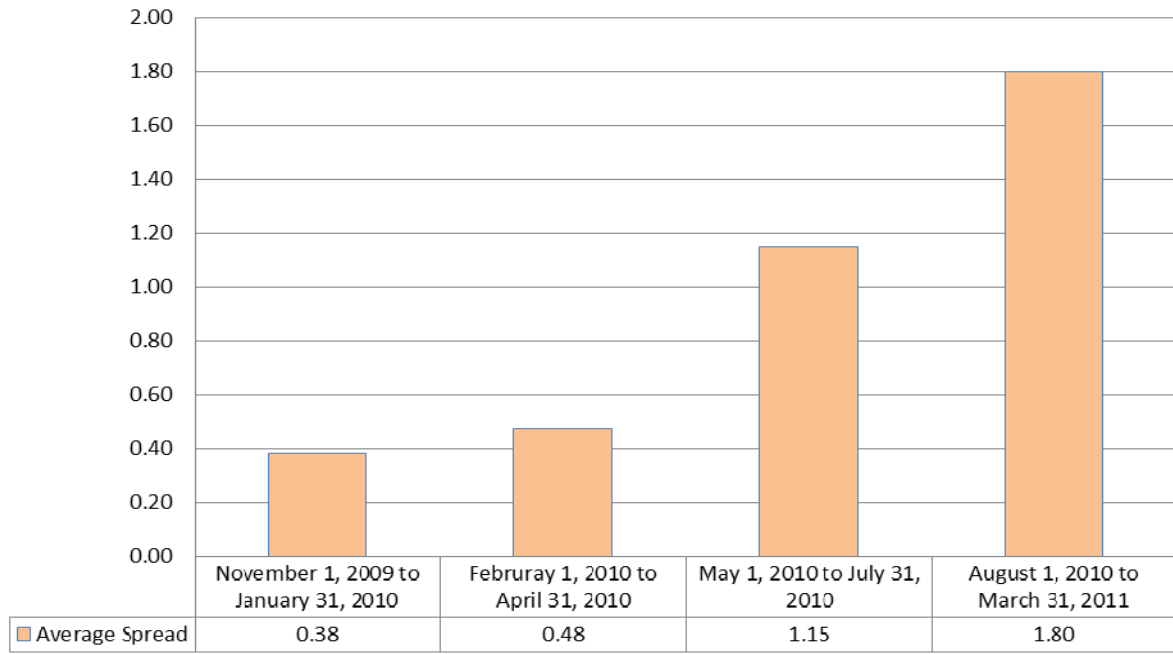
**Least Active Classes (Original)
BOX Spread (Average)**



**Most Active Classes (Period)
BOX Spread (Average)**

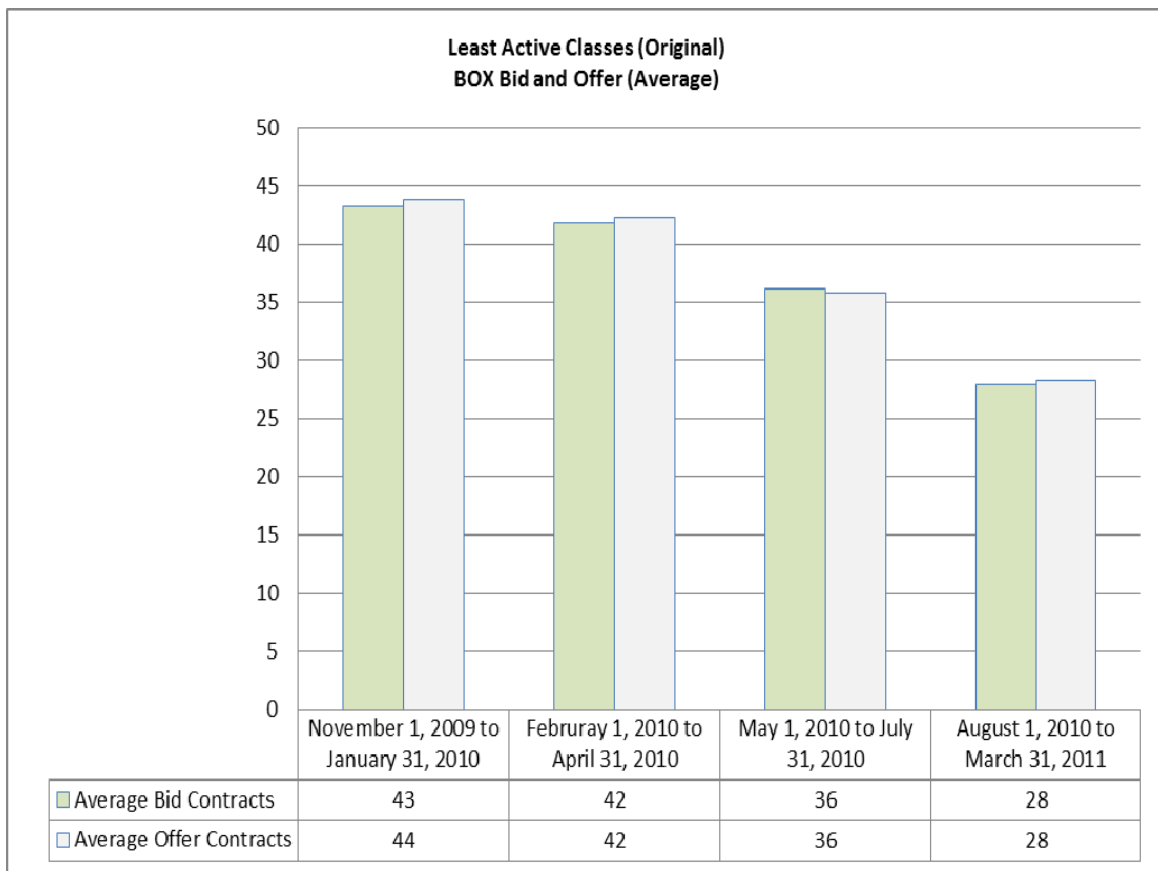


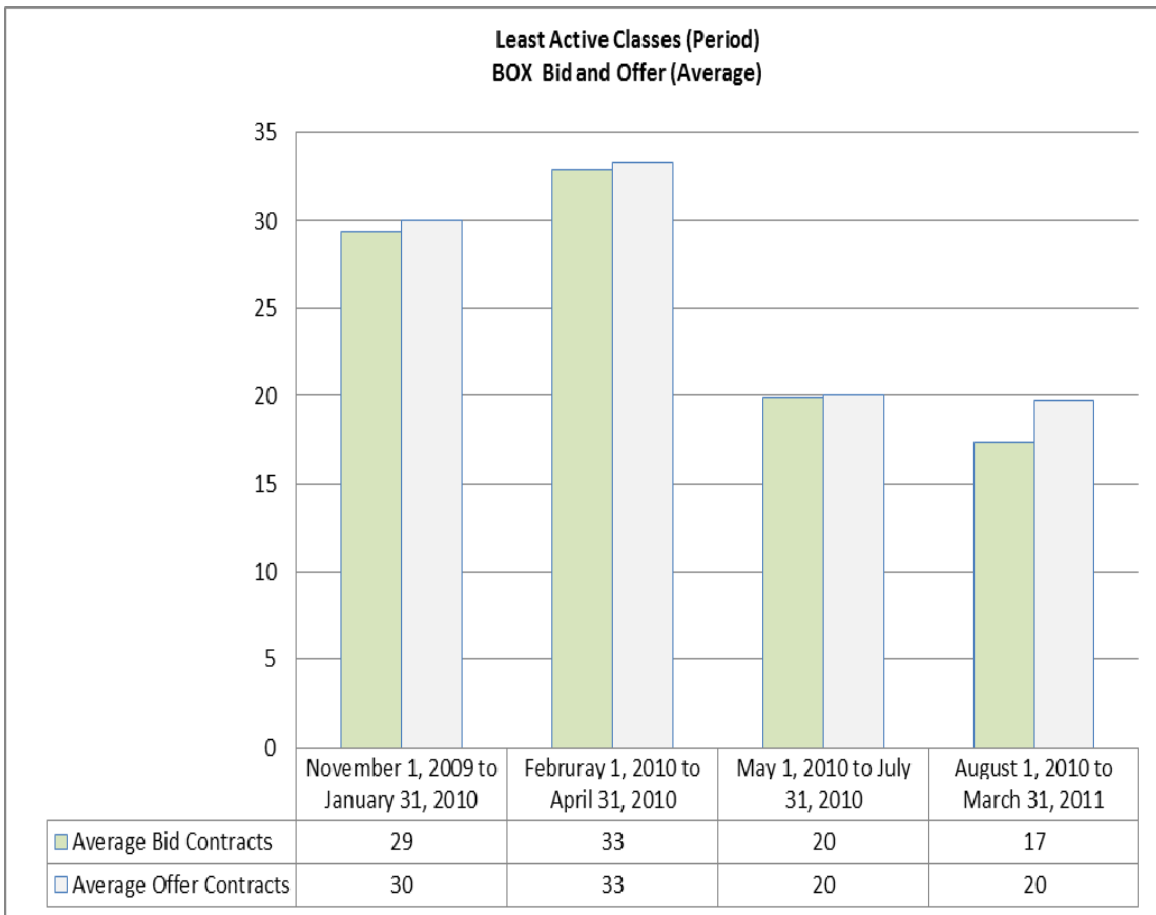
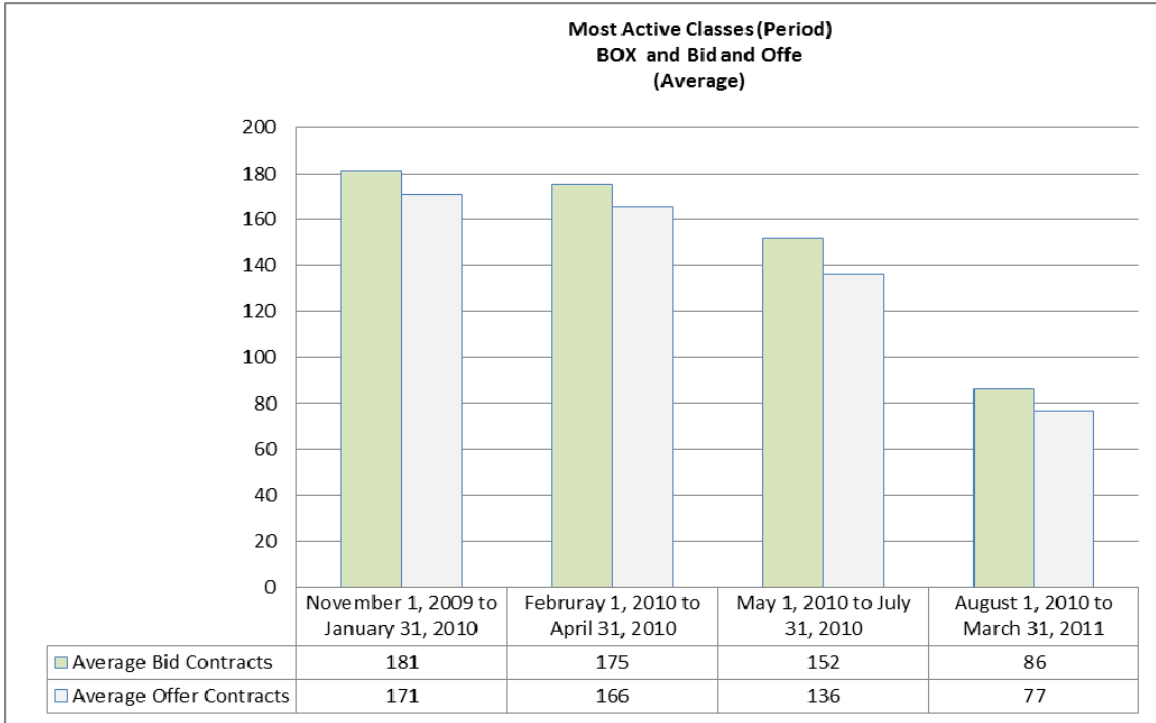
**Least Active Classes (Period)
BOX Spread (Average)**



2.2 Bid/Ask Size

The number of contracts available at the BOX Best Bid/Ask is often referred to as the “size” and is another item that may reflect market quality. The chart below shows the average daily size available at the BOX Best Bid and Ask during each report period for each of the data sets. As one would expect, the average Bid/Ask size is for the least active classes is much smaller than the size for the most active classes.

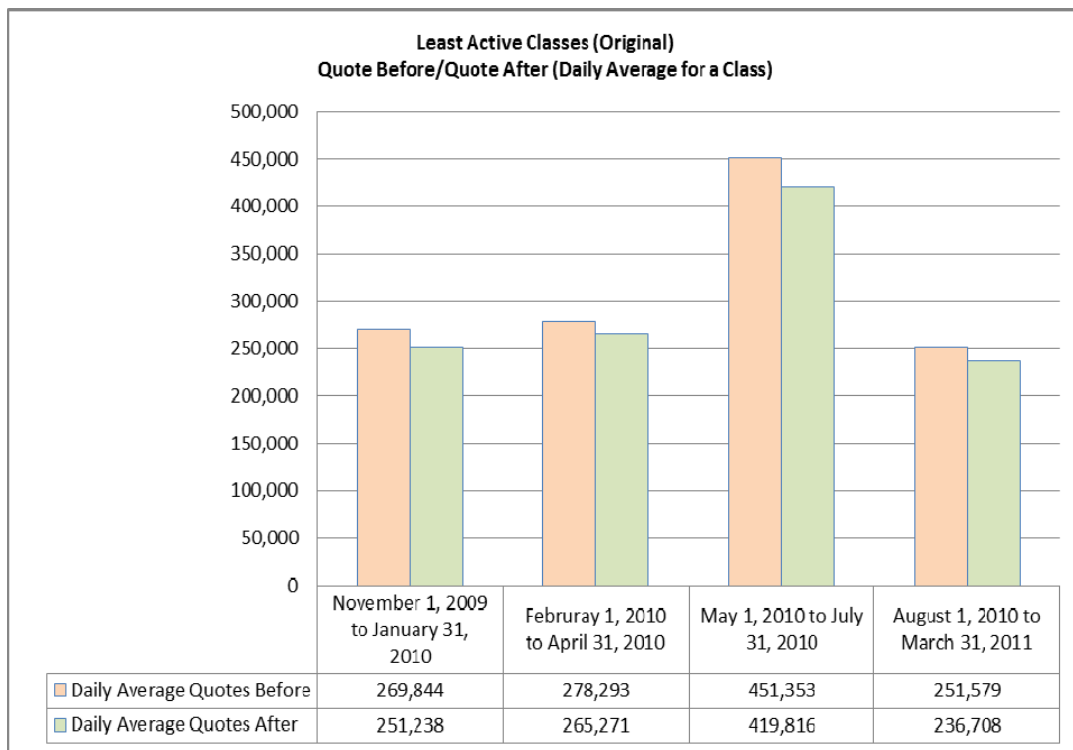


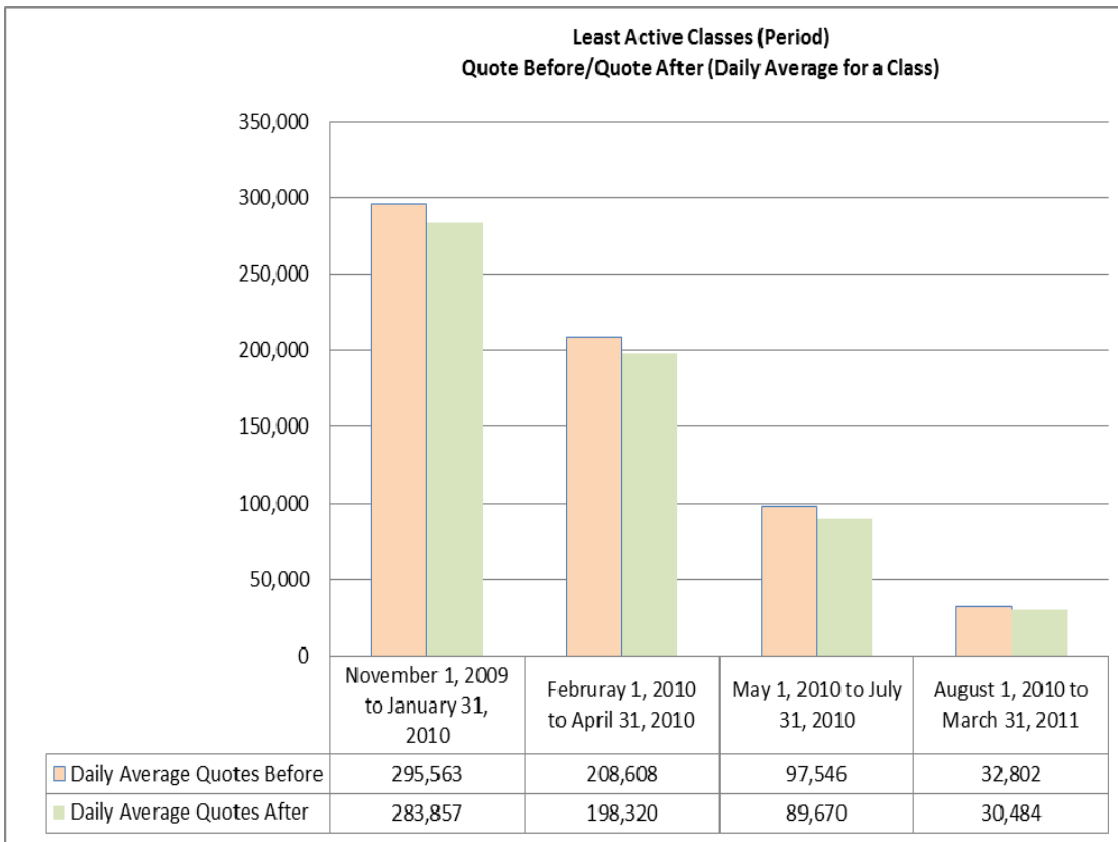
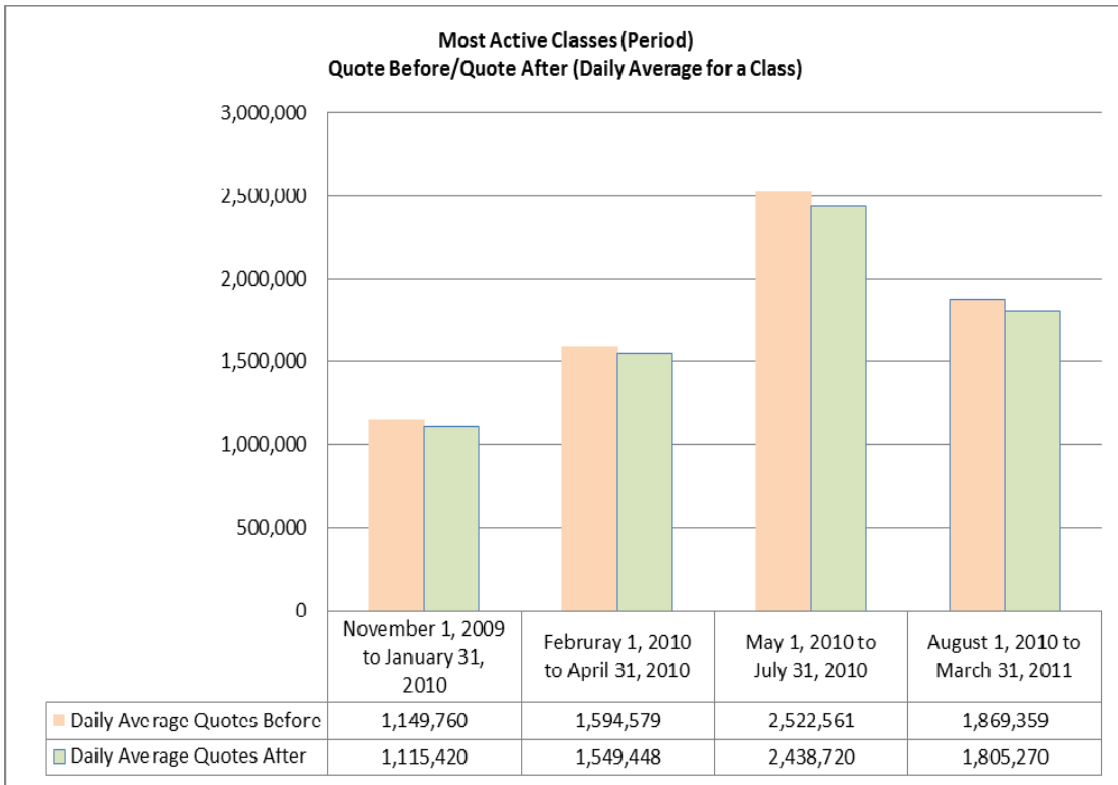


Chapter 3 – Capacity and Trading Activity

3.1 BOX Quotes to OPRA: Before and After Mitigation

BOX sends its Best Bid and Best Ask prices for each options series to the Options Price Reporting Authority (“OPRA”), which then disseminates those prices to the market along with quotes from the other options exchanges. BOX notes that on average, over 1 million quotes per day are sent to OPRA for each of the Most Active Classes, whereas BOX sends less than half as many quotes per day for the Least Active Classes. The industry continues to increase systems capacity to handle increasing quoting and trading activity in all options classes. The “quote traffic catastrophe” that was forecast by opponents of the Pilot several years ago has simply not occurred as the options industry has been able to adapt, with the help of improvements in technology, to the increase in traffic due to penny quoting.





3.2 Trading Activity

In addition to providing the BOX volume for the selected data sets of Pilot classes, the Commission has inquired about the percentage of transactions in Pilot classes that occur through the BOX PIP. Provided in the tables below for each of the data sets for each report period, is the (i) daily average PIP volume and (ii) daily average non-PIP volume on BOX. And then also the percentage of total BOX volume that is traded in the PIP.

BOX believes multiple factors have contributed to the increase in PIP volume and the percentage of BOX volume that PIP volume comprises since May 2010. First, the implementation of the Max Improvement Primary Improvement Order enhanced the PIP and resulted in significant additional PIP usage by BOX Participants. Additionally, new Participants have submitted additional order flow to the PIP since May 2010. Finally, BOX implemented a PIP transaction fee change in August 2010 that may have contributed to increased PIP volume because the PIP fee structure now offers Participants a PIP volume discount for submitting order flow to the PIP.

