

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77568; File No. SR-BOX-2016-15)

April 8, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule on the BOX Market LLC (“BOX”) Options Facility

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 31, 2016, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“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,³ and Rule 19b-4(f)(2) thereunder,⁴ 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 the 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 to revise the Complex Order pricing structure and make a clerical correction to Section III of the BOX Fee Schedule on the BOX Market LLC (“BOX”) options facility. While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on April 1, 2016. The text of the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

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 website at <http://boxexchange.com>.

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, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the Fee Schedule for trading on BOX to adopt a new pricing structure for Complex Orders.

Currently, Complex Orders executed on BOX are assessed differing fees and credits depending on where the Complex Order executes. Complex Orders that executed against orders on the BOX Book are assessed a flat fee depending on the account type of the Participant submitting the order; while Complex Orders that execute against other Complex Orders on the Complex Order Book are assessed a fee or credit depending upon (i) the account type of the Participant submitting the order; and (ii) the account type of the contra party in the transaction.

First, the Exchange proposes to revise the Complex Order pricing structure to remove the execution distinction. Specifically, Complex Orders will now be assessed the same fee or credit regardless of whether the Complex Order executes against an Order on the BOX Book or against another Complex Order. To effect this change, the Exchange proposes to remove Section III.A.

(Complex Orders Executed Against Orders on the BOX Book) and Section III.B. (Complex Orders Executed Against Other Complex Orders) and create a new Section III.A. entitled (All Complex Orders).

The Exchange then proposes to adopt a contra party pricing structure in this new section that will assess transaction fees and credits dependent upon three factors: (i) the account type of the Participant submitting the order; (ii) whether the Participant is a liquidity provider or liquidity taker; and (iii) the account type of the contra party.⁵ The Exchange notes that Complex Orders in Penny Pilot Classes and Non-Penny Pilot Classes will continue to be assessed differently, a distinction that occurs across the entirety of the BOX Fee Schedule.

The Exchange proposed fee structure for all Complex Orders will be as follows:

Account Type	Contra Party	Penny Pilot Classes		Non-Penny Pilot Classes	
		Maker Fee/Credit	Taker Fee/Credit	Maker Fee/Credit	Taker Fee/Credit
Public Customer	Public Customer	\$0.00	\$0.00	\$0.00	\$0.00
	Professional Customer/ Broker Dealer	(\$0.35)	(\$0.35)	(\$0.70)	(\$0.70)
	Market Maker	(\$0.35)	(\$0.35)	(\$0.70)	(\$0.70)
Professional Customer or Broker Dealer	Public Customer	(\$0.10)	\$0.45	(\$0.10)	\$0.80
	Professional Customer/ Broker Dealer	(\$0.10)	\$0.30	(\$0.10)	\$0.45
	Market Maker	(\$0.10)	\$0.30	(\$0.10)	\$0.45
Market Maker	Public Customer	(\$0.10)	\$0.40	(\$0.10)	\$0.75
	Professional Customer/ Broker Dealer	(\$0.10)	\$0.30	(\$0.10)	\$0.45
	Market Maker	(\$0.10)	\$0.30	(\$0.10)	\$0.45

⁵ This pricing model is similar to the Non-Auction Transactions fee structure in Section I of the BOX Fee Schedule.

For example, if a Public Customer submitted a Complex Order in a Penny Pilot Class (making liquidity), the Public Customer would be credited \$0.35 if the Complex Order interacted with a Market Maker's Complex Order and the Market Maker (taking liquidity) would be charged \$0.40. To expand on this example, if the Market Maker instead submitted a Complex Order in a Penny Pilot Class (making liquidity), the Market Maker would be credited \$0.10 if the order interacted with a Public Customer's order and the Public Customer (taking liquidity) would be credited \$0.35.

The Exchange also proposes to make a clerical correction to Section III of the BOX Fee Schedule. Specifically, the third paragraph in the introduction to this section references a Market Maker's ADV (Average Daily Volume). The Exchange no longer uses a Participant's ADV to determine volume based tiers for rebates and fees. Instead, the qualification thresholds are based on a percentage of the Participant's volume relative to the account type's overall total industry equity and ETF option volume. Therefore, the Exchange proposes to remove the reference in this sentence to ADV and replace it with "executed volume on BOX."

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act, in general, and Section 6(b)(4) and 6(b)(5) of the Act,⁶ 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 and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Exchange believes that the proposed Complex Order Fees are reasonable, equitable and not unfairly discriminatory. In particular, the proposed Complex Order Fees will allow the

⁶ 15 U.S.C. 78f(b)(4) and (5).

Exchange to be competitive with other exchanges and to apply fees and credits in a manner that is equitable among all BOX Participants. The Exchange operates within a highly competitive market in which market participants can readily direct order flow to any other competing exchange if they determine fees at a particular exchange to be excessive. The proposed Complex Order Fees are intended to attract Complex Orders to the Exchange by offering market participants incentives to submit their Complex Orders to the Exchange. The Exchange believes it is appropriate to provide incentives for market participants to submit Complex Orders, resulting in greater liquidity and ultimately benefiting all Participants trading on the Exchange.

The Exchange believes revising the Complex Order pricing structure to assess the same fee or credit regardless of whether the Complex Order executes against an Order on the BOX Book or against another Complex Order is reasonable, equitable and not unfairly discriminatory. With the adoption of the proposed Complex Order pricing structure, the Exchange believes it is no longer necessary to differentiate these transaction fees by where the Complex Order executes, and doing so will reduce investor confusion with respect to the applicable Complex Order fees and credits.

The Exchange believes the proposed Complex Order fee structure is reasonable, equitable and not unfairly discriminatory. The proposed fee structure is similar to the structure already in place for Complex Orders that execute against other Complex Orders, and simply adds a Make/Take factor. Further, a similar fee structure is already in place for Non-Auction Transactions on the Exchange and has been accepted by both the Commission and the industry.⁷ The result of this structure is that a Participant does not know the fee it will be charged when submitting the Complex Order. Therefore, the Participant must recognize that it could be charged

⁷ See supra note 5.

the highest applicable fee on the Exchange's Complex Order schedule, which may, instead, be lowered or changed to a rebate depending upon how the Complex Order interacts.

The Exchange believes that the proposed credits for Public Customers in Complex Orders are reasonable. Under the proposed fee structure, Public Customers will never pay a fee for a Complex Order, but may receive a credit of \$0.35 in Penny Pilot Classes and \$0.70 in Non-Penny Pilot Classes. The Exchange believes providing a credit or charging no fee to Public Customers for Complex Orders is equitable and not unfairly discriminatory. The securities markets generally, and BOX in particular, have historically aimed to improve markets for investors and develop various features within the market structure for Public Customer benefit. Accordingly, the Exchange believes that charging no fee or providing a credit for Public Customers is appropriate and not unfairly discriminatory. Public Customers are less sophisticated than other Participants and the credit will help to attract a high level of Public Customer order flow to the BOX Book and create liquidity, which the Exchange believes will ultimately benefit all Participants trading on BOX.

The Exchange also believes it is reasonable, equitable and not unfairly discriminatory to give Public Customers a credit when their Complex Order executes against a non-Public Customer and, accordingly, charge non-Public Customers a higher fee when their Complex Order executes against a Public Customer compared to the fee or rebate they would be assessed if their Complex Order interacts with a non-Public Customer. As stated above, the Exchange aims to improve markets by developing features for the benefit of its Public Customers. Similar to the payment for order flow and other pricing models that have been adopted by the Exchange and other exchanges to attract Public Customer order flow, the Exchange increases fees to non-Public Customers to provide incentives for Public Customers. The Exchange believes that

providing incentives for Complex Orders by Public Customers is reasonable and, ultimately, will benefit all Participants trading on the Exchange by attracting Public Customer order flow.

The Exchange believes that the proposed fees for Professional Customers and Broker Dealers in Complex Orders are reasonable. Under the proposed fee structure, a Professional Customer or Broker Dealer making liquidity and interacting with a Public Customer, Professional Customer, Broker Dealer or Market Maker will be credited \$0.10 for Complex Orders in both Penny Pilot Classes and Non-Penny Pilot Classes. If the Professional Customer or Broker Dealer is instead taking liquidity, for Complex Orders in Penny Pilot Classes it will be charged either \$0.45 if the Complex Order interacts with a Public Customer's Complex Order or \$0.30 if the Complex Order interacts with a Professional Customer or Broker Dealer or a Market Maker. For Complex Orders in Non-Penny Pilot Classes, the Professional Customer or Broker Dealer will be charged either \$0.80 if the Complex Order interacts with a Public Customer's Complex Order or \$0.45 if the Complex Order interacts with a Professional Customer or Broker Dealer or a Market Maker.

The Exchange believes that charging Professional Customers and Broker Dealers higher fees than Public Customers for Complex Orders is equitable and not unfairly discriminatory. Professional Customers, while Public Customers by virtue of not being Broker Dealers, generally engage in trading activity more similar to Broker Dealer proprietary trading accounts (submitting more than 390 standard orders per day on average). The Exchange believes that the higher level of trading activity from these Participants will draw a greater amount of BOX system resources than that of non-professional, Public Customers. Because this higher level of trading activity will result in greater ongoing operational costs, the Exchange aims to recover its costs by assessing Professional Customers and Broker Dealers higher fees for transactions.

Finally, the Exchange believes that the proposed fees for Market Makers in Complex Orders are reasonable. Under the proposed fee structure, a Market Maker making liquidity and interacting with a Public Customer, Professional Customer, Broker Dealer or Market Maker will be credited \$0.10 for Complex Orders in both Penny Pilot Classes and Non-Penny Pilot Classes. If the Market Maker is instead taking liquidity, for Complex Orders in Penny Pilot Classes it will be charged either \$0.40 if the Complex Order interacts with a Public Customer's Complex Order or \$0.30 if the Complex Order interacts with a Professional Customer or Broker Dealer or a Market Maker. For Complex Orders taking liquidity in Non-Penny Pilot Classes, the Market Maker will be charged either \$0.75 if the Complex Order interacts with a Public Customer's Complex Order or \$0.45 if the Complex Order interacts with a Professional Customer or Broker Dealer or a Market Maker.

The Exchange believes it is equitable and not unfairly discriminatory for BOX Market Makers to be assessed lower fees than Professional Customers and Broker Dealers for certain Complex Order executions because of the significant contributions to overall market quality that Market Makers provide. Specifically, Market Makers can provide higher volumes of liquidity and lowering their fees will help attract a higher level of Market Maker order flow to the BOX Book and create liquidity, which the Exchange believes will ultimately benefit all Participants trading on BOX. As such, the Exchange believes it is appropriate that Market Makers be charged lower transaction fees than Professional Customers and Broker Dealers for certain Complex Order executions.

The Exchange believes it is reasonable, equitable and not unfairly discriminatory for Professional Customers, Broker Dealers and Market Makers to be charged a higher fee for orders removing liquidity when compared to the credit they receive for orders that add liquidity. Giving

a credit to Complex Orders that add liquidity will promote liquidity on the Exchange and ultimately benefit all participants on BOX. Further, the concept of incentivizing orders that add liquidity over orders that remove liquidity is commonly accepted within the industry as part of the “Make/Take” liquidity model.⁸

Finally, the Exchange also believes it is reasonable to charge Professional Customers, Broker Dealers, and Market Makers less for certain executions in Penny Pilot issues compared to Non-Penny Pilot issues because these classes are typically more actively traded; assessing lower fees will further incentivize order flow in Penny Pilot issues on the Exchange, ultimately benefiting all Participants trading on BOX. Additionally, the Exchange believes it is reasonable to give a greater credit to Public Customers for Complex Orders in Non-Penny Pilot issues as compared to Penny Pilot issues. Since these classes have wider spreads and are less actively traded, giving a larger credit will further incentivize Public Customers to trade in these classes, ultimately benefitting all Participants trading on BOX.

The Exchange believes that the proposed Complex Order fee structure will keep the Exchange competitive with other exchanges and will be applied in an equitable manner among all BOX Participants. The Exchange believes the proposed fee structure is reasonable and competitive with fee structures in place on other exchanges. Further, the Exchange believes that the competitive marketplace impacts the fees proposed for BOX.

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. The Exchange believes that applying a fee structure that is determined according to whether the

⁸ The “Make/Take” model is currently used by the International Securities Exchange LLC (“ISE”) and NASDAQ OMX PHLX LLC (“PHLX”).

Complex Order removes or adds liquidity, the account type of the Participant submitting the Complex Order, and the contra party will result in Participants being charged appropriately for these transactions. Submitting a Complex is entirely voluntary and Participants can determine which type of order they wish to submit, if any, to the Exchange.

Further, the Exchange believes that this proposal will enhance competition between exchanges because it is designed to allow the Exchange to better compete with other exchanges for Complex Order flow.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing exchanges. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

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 Act⁹ and Rule 19b-4(f)(2) thereunder,¹⁰ because it establishes or changes a due, or fee.

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

⁹ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁰ 17 CFR 240.19b-4(f)(2).

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 e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2016-15 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2016-15. This file number should be included on the subject line if e-mail 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 website (<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 website 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-2016-15, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Robert W. Errett
Deputy Secretary

¹¹ 17 CFR 200.30-3(a)(12).