



Joan C. Conley
Senior Vice President and Corporate
Secretary
805 King Farm Blvd, Suite 100
Rockville, MD 20850 / USA
(301) 978-8735
Joan.Conley@nasdaq.com
Nasdaq.com

December 22, 2016

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: SR-BOX-2016-48

Dear Mr. Fields:

The Nasdaq Stock Market LLC (“NOM”), Nasdaq PHLX LLC (“Phlx”), Nasdaq BX, Inc., International Securities Exchange, LLC (“ISE”), ISE Gemini, LLC (“ISE Gemini”), and ISE Mercury, LLC (“ISE Mercury”) options markets (collectively “Nasdaq”) respectfully submit this comment in response to a recent rule change by the BOX Options Exchange LLC (“BOX”) which adopts rules for open-outcry trading.¹ While Nasdaq neither supports nor opposes the BOX proposal, it respectfully submits that, today, options floor environments are operating without uniformity with respect to the application of priority and Trade-Through requirements. Nasdaq respectfully requests that the Securities and Exchange Commission articulate a clear principle governing the proper application of priority and Trade-Through requirements to floor trading in standardized options, and then apply that principle uniformly to all trading floors.

Priority, Allocation and Trade-Throughs On Floor

When considering the application of rules governing open outcry priority and allocation requirements and Trade-Through prohibitions, the market against which the trade is validated must first be established. While in the electronic environment the time of execution is established within the match engine, such time of execution in an open outcry environment differs among options venues offering floor trading. Floor trading necessarily requires the exposure of an order within a trading crowd for purposes of price discovery and negotiation. Once a trade is negotiated in the trading crowd and there is a verbal agreement (“Verbal Agreement”) in that trading crowd, orders are memorialized for execution and dissemination to the tape (“Reported Trade”). Because of the human element present on the trading floor,

¹ See Securities Exchange Act Release No. 79421 (November 29, 2016), 81 FR 87607 (December 5, 2016) (SR-BOX-2016-48).

particularly when dealing with complex orders, the Verbal Agreement and Reported Trade, do not occur in tandem as with electronic trading. Each options market has rules which impact the market against which the trade is validated.

Regulation of Floor Trading

In considering the regulation of floor trading, Nasdaq believes

- Floor Brokers should be systematically prevented from violating priority and Trade-Through requirements.
- Exchange rules governing floor trading must be clear and transparent.
- Compliance with priority and Trade-Through requirements must consider a latency which allows for a floor transaction to be negotiated and then executed.
- The Commission should establish a standard for the interval of a tolerable latency and the requirement to memorialize the consummation in the crowd prior to the execution in the matching engine.

BOX's Proposal

BOX's proposal provides that all transactions occurring on the Trading Floor must be processed through The BOX Order Gateway ("BOG").² Once an order is received by BOG it is immediately sent to the Trading Host for execution. The proposal also provides that Floor Brokers are responsible for handling all orders in accordance with Exchange priority and Trade-Through rules.³ The proposal provides that options transactions shall be executed in one of two ways, either automatically by the trading system or by and among Floor Participants in the options trading crowd provided the order is processed through the BOG pursuant to proposed Rule 100(B)(3). It is unclear from BOX's proposal whether the BOG trading system systematically prevents violations of priority and Trade-Through requirements. It is also unclear, because there appears to be two ways to execute a transaction, whether exposure in the trading crowd is required and whether the market against which trades are validated differs depending on the method of execution.

It is unclear from BOX's proposal the manner in which BOG operates and specifically which time BOX utilizes to validate a trade for purposes of regulating priority and Trade-Through rules. Specifically, the BOX rule proposal does not describe the process for validation of trades and whether validation occurs at the time of the Verbal Agreement or Reported Trade.

² Id. at 87626.

³ Id. at 87611

Brent J. Fields
December 22, 2016
Page 3 of 3

Also, BOX does not discuss the specific manner in which surveillance reviews transactions for violations of BOX's rules. Enforcement of priority and Trade-Through rules ensures the protection of investors. Nasdaq believes that these issues should be addressed in the rule change because these factors are pertinent to establishing the standards by which BOX floor members are held to in relation to Trade-Through and priority rules. In addition, these details are pertinent in providing its members clarity to the manner in which the Exchange surveils for and enforces priority and Trade-Through rules. It is unclear from BOX's rules the manner in which BOG or BOX enforces compliance for on-floor transactions.

Today, Phlx's FBMS does not allow any Floor Broker to execute a transaction that would violate priority and Trade Through rules. Whereas, BOX's proposal as written appears to provide information to members to avoid Trade-Throughs and book priority violations, it does not appear to systematically prevent them. Nasdaq believes BOX's proposal has both competitive and regulatory impact to other markets, specifically other venues that offer floor trading. Nasdaq's request for a clear principle governing the proper application of priority and Trade-Through requirements to floor trading in standardized options would address this inter-market disparity. Finally, Nasdaq requests the Commission clarify the appropriate amount of time allowable once there is a Verbal Agreement to have a Reported Trade to ensure that all options floor markets are standardized.

Nasdaq thanks the Commission for the opportunity to comment on this proposed rule filing. If you have any additional questions, or if we can be of further assistance in this matter, please do not hesitate to contact us.

Respectfully,



Joan Conley

cc: David Shillman, Associate Director, SEC Division of Trading and Markets
John Roeser, Associate Director, SEC Division of Trading and Markets
Tyler Raimo, SEC Division of Trading and Markets