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March 27, 2017

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 an Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change (“Proceeding”) filed by the BOX Options Exchange LLC (“BOX”) which adopts rules for options open-outcry trading.¹ Specifically, the Commission requested views regarding this Proceeding on specific points. Nasdaq addresses certain points below.

- *Proposed requirement that a Floor Market Maker may only quote in classes on the trading floor which the market maker is already quoting electronically.*

Nasdaq notes that this restriction would limit an options Floor Market Maker’s ability to make competitive markets on the trading floor in every option class that BOX may list, thereby restricting and potentially prohibiting competition in open-outcry trading. A competitive trading floor model offers the public protection from trading at an inferior price. Allowing a Floor Market Maker to participate in **any** option class, regardless of their ability to quote the class electronically, helps ensure that trades are executed at competitive prices.

¹ See Securities Exchange Act Release No. 80134 (March 1, 2017), 82 FR 12864 (March 7, 2017) (SR-BOX-2016-48).

Furthermore, Phlx does not require its floor market makers to maintain both an electronic and floor presence by requiring electronic quoting in order to quote on the trading floor. The cost associated with maintaining the infrastructure to support quoting in both an electronic and floor environment creates a burden on competition. This impediment to obtaining access to the BOX trading floor should be removed from the proposal, as it is an obstacle to Floor Market Makers desiring to provide liquidity on the trading floor.

- *Whether a minimum number of Floor Market Makers should be required to be present when an order is represented in a trading crowd, and if so, how many Floor Market Makers in each class should be required.*

Today, Nasdaq operates an options trading floor on Phlx. In Nasdaq's experience, an options trading floor should have a critical mass of participants with ample opportunity to interact in any trade, at any time prior to execution, whether or not the Floor Market Maker is quoting in the electronic market.

Specifically, Phlx Rule 1063(a) requires at least one Registered Options Trader to be present at the trading post prior to a Floor Broker representing an order for execution. Nasdaq believes that requiring a Floor Market Maker to be present ensures competition and potential price improvement, which, in turn, provides investors with the best possible price. The lack of such a requirement to require the presence of a Floor Market Maker in BOX's proposal, raises the possibility of establishing a model akin to a virtual trade reporting facility. Such a model lacks the transparency which attracts price improvement. Nasdaq believes Floor Market Makers should be required to be present in the trading crowd to ensure a competitive market.

In addition, the proposed combination of not requiring a Floor Market Maker to be present in a trading crowd for an open-outcry trade to occur and the requirement that a Floor Market Maker stream quotes electronically would only further limit the liquidity on BOX's trading floor, limit the competition, and thus limit potential opportunity for price improvement.

- *Proposal that would require a Floor Market Maker to be physically located in a specific Crowd Area to be deemed participating in the crowd.*

Nasdaq believes that a Floor Market Maker should be physically located in a specific Crowd Area to be deemed participating in the crowd. Further, Nasdaq strongly encourages the proposal to permit all Floor Market Makers to participate with a verbal quote, provided the quote was timely. It is unclear in the current proposal if a Floor Market Maker's verbal quote would be accounted for in the trading crowd if the Floor Market Maker verbalized a market prior to execution. The proposed language in the BOX proposal provides a less explicit reference to "at the time the order is represented in the crowd." Nasdaq would encourage the Commission to require precise language in the BOX rule, which identifies how participation is achieved in open outcry. The proposal should permit any and all Floor Market Makers to participate in open outcry at any point prior to an order's execution, provided the requirements for such participation have been met to ensure competitive forces prevail.

- *Proposal that would allow a BOX Floor Broker to execute a crossing transaction without first exposing the order to any other Floor Participant.*

Nasdaq notes that the BOX proposal does not ensure that a customer receives the best price. If exposure is not required, the proposal results in encouraging market participants to set and control the price of execution of customer orders. As noted herein, Nasdaq believes that market makers are essential to a competitive floor environment. If BOX were required to have Floor Market Makers present in a trading crowd, all orders would be exposed, creating the opportunity for price improvement.

- *Exchange's argument that requiring "an affirmative response by a Floor Market Maker will allow for a more efficient process for executing orders on the Trading Floor" and that requiring a Floor Market Maker to affirmatively be "out" on every order "will lead to unnecessary delays on the Trading Floor and has the potential to cause disruptions."*

Nasdaq believes that additional clarity is necessary to require an affirmative response. The BOX proposal states that a Floor Market Maker is considered to be "in" if the Floor Market Maker states that he is "in." The proposal is not clear as to what constitutes participation in a trade. The proposal raises the following questions: (i) how long does a Floor Market Maker have to respond "in" to participate; (ii) how quickly can a Floor Broker announce and separately execute an order; and (iii) does an announcement of "in" after the verbal execution permit a Floor Market Maker to participate in a transaction, and if so, how long after the verbal execution.

Transparent rules which indicate the manner in which a Floor Market Maker may participate in a trading crowd is important to ensure fair and uniform access and encourage robust competition. When the rules are fair and transparent, negotiation can occur in a trading crowd because participants are encouraged to join in a trade. Rules which do not permit equal or fair access for participants discourage participation and result in little or no participation by Floor Market Makers.

- *Whether the Exchange adequately describes how it will validate a trade for purposes of compliance with trade-through, priority and other Exchange rules.*

The BOX proposal does not fully describe how a trade will be validated for compliance with trade-through provisions when processed by the Trading Host. Prevention of trade violations should be the standard for the options industry. The proposal should describe how BOX will prevent violations of trade-through, trade-ahead and order priority violations. It is unclear from BOX's proposal the manner in which BOX enforces compliance for floor transactions.

The BOX proposal asserts that "the functionality of the trading floor is specifically designed to prevent transactions from violating priority and trade-through requirements when the trade is received and processed by the Trading Host." BOX does not explain in detail what happens in the interim between when a trade is consummated in the trading crowd, and then subsequently submitted to the Trading Host. 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, 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.

The potential for the NBBO and the local BOX market to update in the interim between a Verbal Agreement and a Reported Trade raises various questions that are not addressed on this topic in BOX’s proposal, such as: (i) after a Verbal Agreement, if a trade-through violation occurs prior to the Reported Trade, is the Verbal Agreement null and void; (ii) is a Verbal Agreement permitted to be reported regardless of the market present at the time of a Reported Trade; (iii) when is a trade really consummated; and (iv) is there an electronic audit trail of the market at the time of a Verbal Agreement. Nasdaq believes that these questions should be addressed in the BOX proposal. The Commission should consider a latency which allows for a floor transaction to be negotiated and then executed.

- *Whether the Exchange adequately describes the mechanics of how orders will be received and executed on the proposed BOX trading floor.*

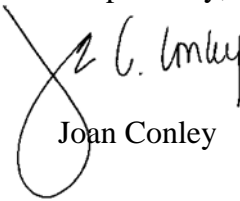
The BOX proposal does not fully describe the mechanics and functionality of the Floor Broker’s order entry mechanism. The trading rules should be clear and transparent to allow public investors to understand the manner in which a transaction will be handled by the exchange, consistent with the Exchange’s comments above.

Summary

Nasdaq neither supports nor opposes the BOX proposal. Nasdaq posits that when a trading floor is designed to be competitive, this model affords opportunities for price improvement. Similar standards of fairness, transparency and competitiveness should be applied to competing options floor venues. In considering BOX’s proposal, Nasdaq respectfully submits that a systemic prevention of priority and trade-through requirements is essential, competition through participation is necessary and floor trading rules must be clear and transparent.

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,

A handwritten signature in black ink, appearing to read "J. Conley". The signature is written in a cursive style with a large loop at the end. It is positioned above the printed name "Joan Conley".

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