

April 21, 2017

Via Electronic Mail

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F. Street, N.E.
Washington, D.C. 20549-0609
rule-comments@sec.gov

Re: File No. SR-BOX-2016-48

Dear Mr. Fields:

The Chicago Board Options Exchange, Inc. (“CBOE”) appreciates the opportunity to comment in response to the Securities and Exchange Commission’s (“SEC” or “Commission”) order instituting proceedings to determine whether to approve or disapprove a proposed rule change by the BOX Options Exchange LLC (“BOX”) to adopt rules for an open outcry trading floor (the “Proposal”).¹ As discussed below, CBOE believes the Proposal, as amended, remains inconsistent with Section 6 of the Securities Exchange Act of 1934 (the “Act”) and should be disapproved.

CBOE is not alone in expressing concern with the Proposal. As CTC Trading Group, LLC noted, the proposed BOX trading floor would be the first options trading floor launched *de novo* in decades, and features of the Proposal raise serious policy considerations.² Unlike the options trading floors that preceded it, BOX cannot reasonably assume a bona fide auction process – with robust liquidity and price competition – will be available on its trading floor. Thus, the rules and construct of BOX’s new trading floor must be designed in a manner that promotes *meaningful competition and the opportunity for price improvement*. Unfortunately, the BOX Proposal, as amended, remains a poorly veiled effort to limit market maker participation on the proposed trading floor. Some of the objectionable components of the proposal are discussed below.

BOX proposes to allow Floor Brokers to cross orders without any Floor Market Maker present or even appointed in a class trading on the trading floor. Allowing Floor Brokers to cross orders on a trading floor without Floor Market Makers present will undeniably lead to Floor Brokers crossing orders on the trading floor without the possibility of price competition. While BOX identifies National Best Bid Offer (“NBBO”) Trade-Through prohibitions and BOX book

¹ See Securities Exchange Act Release 80134 (March 1, 2017), 82 FR 12864 (March 7, 2017) (Order Instituting Proceedings) and Release 79421 (November 29, 2016), 81 FR 87607 (December 5, 2016) (SR-BOX-2016-48).

² See Letter from Steve Crutchfield, Head of Market Structure, CTC Trading Group, LLC (December 31, 2016) (“CTC letter”).

priority requirements as a “protection” in place when a Floor Market Maker isn’t present while a Floor Broker crosses an order, CBOE notes that those protections have no bearing on the availability of an actual price discovery process for a particular order being represented in the trading crowd. An order represented on a new trading floor should be subject to meaningful competition and the potential for price improvement beyond a protected price.

BOX also proposes to require all open outcry orders to be entered as Qualified Open Outcry (“QOO”) Orders, which, as proposed, must be entered as two-sided orders – an initiating side order and a contra-side order. The initiating side of the QOO Order must be filled in its entirety and the contra-side must guarantee the full size of the initiating side. BOX also proposes to implement a “book sweep size” feature, which would allow – but not require – Floor Brokers to enter the maximum number of contracts of the contra-side order the Floor Broker is willing to relinquish to priority interest on the BOX order book. In the event that the book sweep size is less than the number of contracts on the BOX order book that have priority over the contra-side order, the QOO Order will be rejected. Combined with a lack of meaningful competition from Floor Market Makers, the book sweep size functionality allows Floor Brokers to effectively guarantee the internalization of orders by not establishing a book sweep size. QOO Orders without a book sweep size will be rejected when there is priority interest in the BOX order book, and Floor Brokers will be able to resubmit QOO Orders (repriced or not) until the contra-side order receives a full execution. Preempting customer priority to facilitate frictionless crossing is harmful, and BOX has not demonstrated how this construct is beneficial to investors and the markets.

Another questionable aspect of the proposal is that BOX proposes to require Floor Market Makers to quote electronically in all classes that they quote on the trading floor. CBOE is unaware of any exchange that requires market-makers to quote electronically as a prerequisite to quoting in open outcry. BOX, however, claims that requiring all Floor Market Makers to quote electronically will ensure that market-making activity on the trading floor will not diminish electronic quoting on the exchange, but there is no evidence to support the notion that floor trading diminishes electronic quoting. There is, however, logical support that the quoting requirement represents a barrier to entry that will limit market-making participation on BOX’s trading floor. Constrained participation by Floor Market Makers is detrimental to the price discovery process, as well as to customers that expect that process to result in quality executions.

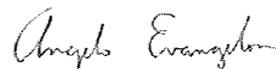
BOX also proposes to divide its new trading floor into separate crowds. Although dividing trading floors into separate crowds is not unprecedented, CBOE is concerned that doing so on a new trading floor unnecessarily discourages Floor Market Makers from providing liquidity on an unproven trading floor. The approach that would encourage Floor Market Maker participation on a young trading floor is to have one trading crowd in which all classes are available to trade. As the CTC letter noted, if the popularity of BOX’s trading floor makes one trading crowd unmanageable, BOX would be free to submit a subsequent proposal to divide the trading floor into separate trading crowds in the interest of fair and orderly markets. However, until BOX has a proven, seasoned, and liquid trading floor, BOX’s claim that it needs to divide the trading floor into separate crowds in the interest of fair and orderly markets is unfounded.

The Proposal, as a whole, is inconsistent with the Act. The Proposal unnecessarily restricts market-maker access to the trading floor and limits the ability of Floor Market Makers to provide liquidity on the trading floor in favor of the unimpeded crossing of orders by Floor Brokers, which is unduly burdensome on market-makers and detrimental to price competition, investor protection, and the public interest. Indeed, much of the BOX Proposal—allowing Floor Brokers to cross orders without a Floor Market Maker present; allowing the floor trading of an options class without a Floor Market Maker appointed in the class; rejecting QOO Orders if the Floor Broker does not establish a “book sweep size” equal to or greater than priority interest on the BOX order book; requiring Floor Market Makers to quote electronically in all classes that they quote on the trading floor; and dividing the trading floor into separate trading crowds—appears to be specifically designed to discourage Floor Market Marker participation and price discovery.

As noted in our previous comment letter on the Proposal, CBOE is a champion of trading floors and all that they can offer the marketplace. However, BOX’s Proposal lacks innovation and fails to support the interaction of order flow. As proposed, BOX’s trading floor will, however, contribute to fragmentation and deny the opportunity for orders to receive meaningful price improvement. BOX’s amendment does not ameliorate the Proposal’s deficiencies. As such, in order to protect customers and ensure BOX’s trading floor adds value to the options market, CBOE again urges the Securities and Exchange Commission to disapprove the BOX Proposal as inconsistent with Section 6 of the Act.

We appreciate the opportunity to comment on the Proposal. If you have any questions please contact the undersigned at [REDACTED].

Sincerely,



cc: David S. Shillman, SEC Division of Trading and Markets
John Roeser, SEC Division of Trading and Markets
Tyler Raimo, SEC Division of Trading and Markets