



BOXSM
O P T I O N S

May 25, 2017

Via Electronic Mail

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

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

Dear Mr. Fields:

BOX Options Exchange LLC (“BOX” or “Exchange”) is proposing to adopt rules for an open-outcry trading floor. The proposed rule change was filed on November 16, 2016, which was published in the Federal Register (the “Original Filing”). The Exchange received three comment letters¹ in response to the Original Filing and submitted a response letter.² The Exchange filed an amendment to the Original Filing on February 21, 2017 (“Amendment 1”), which was published in the Federal Register along with the Order Instituting Proceedings.³ In response to the Order Instituting Proceedings, the Securities and Exchange Commission (“SEC” or “Commission”) received five comment letters.⁴

This letter is in response to the five comment letters received by the Commission. In addition to this response letter, the Exchange has recently filed Amendment 2 that amends and replaces the Original Filing and Amendment 1 in their entirety.⁵ As explained in the Original Filing, BOX Letter, Amendment 1, Amendment 2, and below,

¹ Letter from Joan C. Conley, SVP and Corporate Secretary, Nasdaq (December 22, 2016)(“Nasdaq Letter 1”). Nasdaq submitted the letter on behalf of Nasdaq Stock Market LLC, Nasdaq PHLX LLC, Nasdaq BX, Inc., International Securities Exchange, LLC, ISE Gemini, LLC, and ISE Mercury, LLC. Letter from Steve Crutchfield, Head of Market Structure, CTC Trading Group, LLC (December 31, 2016)(“CTC Letter 1”), and Letter from Angelo Evangelou, Deputy General Counsel, CBOE (January 10, 2017)(“CBOE Letter 1”).

² Letter from Lisa J. Fall, President, BOX (February 21, 2017)(“BOX Letter”).

³ See Securities Exchange Act Release No. 80134 (March 1, 2017), 82 FR 12864 (March 7, 2017)(SR-BOX-2016-48).

⁴ Letter from Joan C. Conley, SVP and Corporate Secretary, Nasdaq (March 27, 2017)(“Nasdaq Second Letter”). Nasdaq submitted the letter on behalf of Nasdaq Stock Market LLC, Nasdaq PHLX LLC, Nasdaq BX, Inc., International Securities Exchange, LLC, ISE Gemini LLC, and ISE Mercury, LLC. Letter from Elizabeth King, General Counsel and Corporate Secretary, New York Stock Exchange (March 28, 2017)(“NYSE Letter”); Letter from John Kinahan, CEO, Group One Trading, LP (April 11, 2017)(“Group One Letter”); Letter from Steve Crutchfield, Head of Market Structure, CTC Trading Group, LLC (April 13, 2017)(“CTC Second Letter”); and Letter from Angelo Evangelou, Deputy General Counsel, Chicago Board Options Exchange, Inc. (April 21, 2017)(“CBOE Second Letter”)(collectively “Commenter” or “Commenters”).

⁵ See Securities Exchange Act Release No. 80720 (May 18, 2017), 82 FR 23657 (May 23, 2017)(Amendment 2 to SR-BOX-2016-48)(“Amendment 2”).

BOX believes that approval is entirely consistent with the Securities Exchange Act of 1934, as amended (the “Act”).

Floor Market Makers

Commenters believe that the electronic quoting requirement for Floor Market Makers would impose an unnecessary burden on competition and prevent price discovery.⁶ Additionally, a Commenter believes the electronic quoting requirement for Floor Market Makers represents a barrier to entry that will limit market-making participation.⁷ The Exchange is no longer requiring continuous electronic quoting requirements for Floor Market Makers.⁸ As provided in Amendment 2, Floor Market Makers on the Trading Floor will not be required to quote electronically in the classes that the Floor Market Maker quotes on the Trading Floor.

Order Exposure and Participation

Commenters raise concerns with respect to the design of the Trading Floor and the ability of the Exchange to divide the Trading Floor into multiple Crowd Areas.⁹ In order to provide clarity, the Exchange is amending the rule text to provide that the Trading Floor will consist of a single Crowd Area.¹⁰ Specifically, all option classes will be located in a single Crowd Area on the Trading Floor and a Floor Broker must open outcry all orders in the Crowd Area.

A Commenter claims the Exchange’s proposal contains conflicting language regarding Floor Market Makers and crowd participation.¹¹ Commenters request clarity on a Floor Market Maker’s ability to participate in a trade on the Trading Floor and the public outcry process in general.¹² The Exchange is proposing to amend the rule text to clarify crowd participation and the public outcry process. Specifically, the Exchange is amending the rule text to provide that a Floor Broker must give Floor Participants a reasonable amount of time to respond once a Floor Broker announces an order to the trading crowd.¹³ The Exchange is further clarifying that a Floor Participant must verbalize that he is “in” after a Floor Broker announces an order, even if a valid quote has been provided by the Floor Participant prior to the announcement of the order by a Floor Broker.

Commenters believe that a Floor Broker should not be allowed to execute a crossing transaction without first exposing the order to other Floor Participants.¹⁴ A

⁶ See Nasdaq Second Letter at 1-2, Group One Letter at 1-2, NYSE Letter at 3, and CTC Second Letter at 2.

⁷ See CBOE Second Letter at 2.

⁸ See changes in the Exhibit 4 of Amendment 2 to proposed Rule 8510(c)(1).

⁹ NYSE Letter at 2, CBOE Second Letter at 3, CTC Second Letter at 7-8, and Group One Letter at 2.

¹⁰ See changes in the Exhibit 4 of Amendment 2 to proposed Rule 100(a)(67).

¹¹ See NYSE Letter at 2-3.

¹² See Nasdaq Second Letter at page 2, Nasdaq Second Letter at 3, CTC Second Letter at 6, and Group One Letter at 3.

¹³ See changes in the Exhibit 4 of Amendment 2 to proposed Rule 100(b)(5).

¹⁴ See NYSE Letter at 2, and Group One Letter at 2.

Commenter believes that allowing a Floor Broker to execute an order without first exposing it to the Floor Participants will cause customer orders to not be executed at the best price.¹⁵ Commenters claim that BOX's permitting of Floor Brokers to execute crosses when no appointed Market Makers are present is to the detriment of investor protection, price competition, and the public interest.¹⁶ Commenters also suggest that BOX require the presence of Floor Market Makers when an order is exposed by a Floor Broker.¹⁷ To be clear, all orders from the Trading Floor must be exposed to the trading crowd prior to execution.¹⁸ Additionally, pursuant to Amendment 2, the Exchange is requiring the presence of a Floor Market Maker when an order is represented in the trading crowd.¹⁹ The Exchange notes that the requirement that an order must be exposed to the trading crowd prior to execution has always been required; the only change in Amendment 2 is the requirement that a Floor Market Maker be present when the order is announced to the trading crowd.

Procedure, Mechanics, and Functionality

With regard to compliance with trade-through, priority, and other rules, a Commenter claims it is not clear what happens between verbal agreement and reporting a trade.²⁰ As proposed by BOX, an order from the Trading Floor is not deemed executed until it is processed by the Trading Host;²¹ the execution does not occur when there is verbal agreement in the trading crowd as the Commenter suggests. The executing Floor Broker sends the order from the Trading Floor to the Trading Host for execution. By providing that the execution does not occur until the order is processed by the Trading Host, the system will enforce compliance with trade-through, priority, and other rules.

A Commenter believes BOX should clarify the circumstances under which disclosure is required as it relates to Public Customer orders.²² As provided in the rule text, a Floor Broker must disclose all securities that are components of the Public Customer order which is subject to crossing.²³ The Exchange notes that this is not a novel proposal and is based on the rules of another exchange with a trading floor.²⁴

Commenters ask for additional clarity and explanation with respect to the book sweep size.²⁵ A Commenter also asks for clarity on how a Floor Broker's responsibilities are affected by the book sweep size.²⁶ The book sweep size is a tool that will benefit Floor Brokers in fulfilling their duties and responsibilities to their customers, including best execution. The Exchange notes that the book sweep size is not a novel approach as

¹⁵ See Nasdaq Second Letter at 3.

¹⁶ See CTC Second Letter at 4-6, and CBOE Second Letter at 2.

¹⁷ See CTC Second Letter at 4-6, Nasdaq Second Letter at 2, and Group One Letter at 2.

¹⁸ See proposed Rules 7580(e)(2) and 7600(b).

¹⁹ See changes in the Exhibit 4 of Amendment 2 to proposed Rule 7580(a).

²⁰ See Nasdaq Second Letter at 3-4.

²¹ See proposed Rules 7580(e)(3) and 7600.

²² See NYSE Letter at page 4.

²³ See proposed IM-7600-1.

²⁴ See PHLX Rule 1064.02.

²⁵ See CTC Second Letter at 3-4, and CBOE Second Letter at 2.

²⁶ See NYSE Letter at 5.

similar functionality is available on at least one other options exchange with a trading floor.²⁷ Specifically, on PHLX, if there is interest on the electronic book at a price that would prevent the Floor Broker's order from executing, the Floor Broker Management System ("FBMS") will provide a Floor Broker with the option of having a portion of the floor based order trade against this priority interest on the electronic book, thereby clearing the interest and permitting the remainder of the Floor Broker's order to trade at the desired price. Both PHLX's FBMS and the Exchange's book sweep size provide a means for a Floor Broker to execute orders when there is priority interest on the electronic book without violating the priority interest. The book sweep size improves upon PHLX's FBMS functionality by either immediately executing or rejecting the order depending on the book sweep size provided and the level of priority interest on the BOX Book.²⁸ The immediate execution or rejection will allow for more execution certainty and incentivize Floor Brokers on BOX to provide an adequate book sweep size if the Floor Broker wants the order to be eligible for execution. Additionally, pursuant to the proposed rules, it shall be considered conduct inconsistent with just and equitable principles of trade for any Floor Broker to use the book sweep size for the purpose of violating the Floor Broker's duties and obligations.²⁹

A Commenter believes that BOX has not adequately explained how BOX Options Participants would comply with Section 11(a)(1) of the Act when effecting transactions through the BOG.³⁰ The Exchange is amending the rule text to ensure compliance with Section 11(a)(1) of the Act. Specifically, Participants are prohibited from utilizing the Trading Floor to effect any transaction for covered accounts.³¹ Participants may only rely upon other exceptions to Section 11(a)(1) of the Act when interacting with the Trading Floor or the BOX Book utilizing the Trading Floor.³² The Exchange is providing guidance for Participants pursuant to Rule 11a2-2(T) under Section 11(a)(1), the so called "effect vs execute" rule.³³ Specifically, a Participant (not acting in a market-making capacity) could submit an order for a covered account from off the Trading Floor to an unaffiliated Floor Broker for representation on the Trading Floor and use the effect versus execute exemption (assuming the other conditions of the rule are satisfied). A Participant, relying on the "effect versus execute" exemption, could not submit an order for a covered account to its "house" Floor Broker on the Trading Floor for execution.

Conclusion

BOX appreciates the opportunity to respond to the comments received. As described in this response letter and Amendment 2, although the Exchange does not believe that the Original Filing, as amended by Amendment 1, is controversial, the

²⁷ See PHLX's Floor Broker Management System ("FBMS").

²⁸ The PHLX FBMS functionality is optional, and a Floor Broker can decide not to trade against the electronic book and therefore not execute his two-sided order at the particular price.

²⁹ See proposed IM-7600-3.

³⁰ See NYSE Letter at page 5.

³¹ See changes in the Exhibit 4 of Amendment 2 to proposed IM-7600-5.

³² For example, other §11(a)(1) exemptions include, the "effect vs. execute" exemption, the market maker exemption, and the error account exemption.

³³ See Amendment 2 at 23681.

proposed changes contained in Amendment 2 more closely align the proposed rules with those of the other exchanges with trading floors. As such, BOX continues to believe that approval of the proposed Trading Floor is proper and consistent with the Act.

Sincerely,

A handwritten signature in black ink that reads "L. J. Fall". The signature is written in a cursive style with a large initial "L" and "F".

Lisa J. Fall
President
BOX Options