

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69419; File No. SR-BOX-2013-01)

April 19, 2013

Self-Regulatory Organizations; BOX Options Exchange, LLC; Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, Relating to Complex Orders

I. Introduction

On February 20, 2013, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend the rules governing the trading of Complex Orders on BOX Market LLC (“BOX”), the options trading facility of the Exchange. On February 27, 2013, the Exchange filed Amendment No. 1 to the proposal. The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on March 8, 2013.³ The Commission received no comment letters regarding the proposed rule change, as amended. This order approves the proposed rule change, as amended.

II. Description

BOX proposes to amend its rules governing the trading of Complex Orders to: (i) adopt definitions applicable to Complex Orders; (ii) specify additional order types for Complex Orders; (iii) revise the priority rules for Complex Orders; (iv) revise the rules governing the execution of Complex Orders and establish a filtering process for Complex Orders to assure that each leg of a Complex Order is executed at a price that is equal to or better than the National Best Bid or Offer

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 69027 (March 4, 2013), 78 FR 15093 (March 8, 2013) (“Notice”).

(“NBBO”) and the BOX best bid or offer (“BBO”) for that series; (v) provide for the generation of Legging Orders (as defined below); (vi) describe the treatment of Legging Orders in the Price Improvement Period (“PIP”) auction; (vii) provide for the generation of Implied Orders (as defined below); (viii) delete or update miscellaneous provisions and rules; and (ix) provide for the display of Legging Orders, Complex Orders, and Implied Orders in BOX’s proprietary High Speed Vendor Feed (“HSVF”).

A. Definitions

BOX proposes to amend BOX Rule 7240(a) to define a Complex Order as any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.⁴ BOX notes that its proposed definition of Complex Order is consistent with the definition of Complex Order in the rules of another options exchange, and with the definition of Complex Trade for purposes of the trade-through exception under Options Order Protection and Locked/Crossed National Market System Plan.⁵ BOX also proposes to delete references to Stock-Option Orders and Single Stock Future-Option Orders (“SFF-Option Order”) in the definition of Complex Order because BOX does not have these order types.⁶

⁴ BOX Rule 7240(a) currently defines a Complex Order as a Spread Order, Straddle Order, Strangle Order, Combination Order, Stock-Option Order, Single Stock Future-Option Order, Ratio Order, Butterfly Spread Order, BOX Spread Order, and Collar Order.

⁵ See ISE Rule 722(a)(1) (definition of Complex Order); and ISE Rule 1900(d) and BOX Rule 1500(e) (definition of Complex Trade).

⁶ See Notice, 78 FR at 15103. Similarly, BOX proposes to delete IM-7240-1, which addresses Stock-Option Orders and SFF-Option Orders. BOX noted that it will file a proposed rule change pursuant to Section 19(b)(1) of the Act if it plans to provide for the trading of Stock-Option Orders or SFF-Option Orders on BOX in the future. See id.

In addition, BOX proposes to add the following defined terms to BOX Rule 7240(a): Complex Order Strategy; cBBO; cNBB; cNBBO; cNBO; and Complex Order Book.⁷ Complex Order Strategy or Strategy is proposed to be defined as a particular combination of components of a Complex Order and their ratios to one another.⁸ cBBO is proposed to be defined as the best net bid and offer price for a Complex Order Strategy based on the BBO on the BOX Book for the individual options components of the Strategy. cNBBO is proposed to be defined as the best net bid and offer price for a Complex Order Strategy based on the NBBO for the individual options components of the Strategy.⁹ cNBB and cNBO are proposed to be defined, respectively, as the best net bid price for a Complex Order Strategy and the best net offer price for a Complex Order Strategy, in each case based on the NBBO for the individual options components of the Strategy. Complex Order Book is proposed to be defined as the electronic book of Complex Orders maintained by the BOX Trading Host. Finally, “Central Order Book” or “BOX Book” in BOX Rule 100(a)(10), would be amended to clarify that these terms refer to the electronic book of orders on each single option series maintained by the BOX Trading Host.

B. Order Types for Complex Orders

BOX proposes to amend BOX Rule 7240(b)(4) to allow Complex Orders to be entered not only as Fill-and-Kill orders, as currently permitted, but also as Limit Orders, BOX-Top Orders, Market Orders, or Session Orders, as defined in BOX Rule 7110.¹⁰ BOX notes that it

⁷ See BOX Rule 7240(a).

⁸ BOX will assign a strategy identifier to each Strategy.

⁹ BOX also proposes to add references to the “NBB” and the “NBO” to the existing definition of “NBBO” in BOX Rule 100(a)(33). NBB and NBO are proposed to be defined as the national best bid and the national best offer, respectively. See BOX Rule 100(a)(33). BOX believes that these definitions are necessary to support the definitions of cNBB and cNBO in BOX Rule 7240(a). See Notice, 78 FR at 15103.

¹⁰ See BOX Rule 7420(b)(4)(i) and (ii).

currently permits each of these order types for single option series.¹¹ BOX proposes to delete a provision allowing Complex Orders to be entered as all-or-none orders because BOX does not have all-or-none orders.¹²

As proposed, a BOX-Top Complex Orders will be executed at the best price available in the market for the total quantity available from any contra bid (offer).¹³ Any residual volume left after the partial execution of a BOX-Top Complex Order will be converted automatically into a limit order on the Complex Order Book at the net Strategy price at which the original BOX-Top Complex Order was executed.¹⁴

BOX believes that Fill-and-Kill orders, Limit Orders, BOX-Top Orders, and Session Orders provide valuable limitations on execution price and time that may protect Participants and investors.¹⁵ In addition, BOX notes that Session Orders reduce the risk of erroneous or stale orders on the Complex Order Book if a Participant encounters unforeseen systems issues with its connectivity to BOX.¹⁶ BOX believes that allowing Complex Orders to be entered with these varying order types will give Participants greater control and flexibility over the manner and circumstances in which their orders may be executed, modified, or cancelled, thereby protecting investors and contributing to market efficiency.¹⁷

¹¹ See Notice, 78 FR at 15098.

¹² See id.

¹³ See BOX Rule 7240(b)(4)(ii).

¹⁴ See id.

¹⁵ See Notice, 78 FR at 15106.

¹⁶ See id.

¹⁷ See id.

C. Priority Rules for Complex Orders

1. Complex Orders with a One-to-One Ratio

Currently, BOX Rule 7240(b)(2) provides that a Complex Order may be executed at a total net debit or credit price with another Participant's Complex Order without giving priority to bids or offers in the marketplace that are no better than the bids or offers comprising the total net debit or credit price, provided that, if one of the bids or offers in the marketplace is a Customer Limit Order, the price of at least one leg of the Complex Order must trade at a price that is better than the corresponding bid or offer in the marketplace.

BOX proposes to amend BOX Rule 7240(b)(2) to provide that, except in the case of a Complex Order with a leg ratio other than one-to-one (a "Non-Standard Strategy"), a Complex Order may be executed at a net credit or debit price with another Participant's Complex Order, provided that at least one leg of the Complex Order trades at a price that is better than the corresponding bid or offer in the marketplace by a least one minimum trading increment, as set forth in BOX Rule 7240(b)(1) (i.e., one cent).¹⁸ BOX believes that giving priority at the same price to all established interest on the BOX Book—Customer and non-Customer—for the individual legs of a Complex Order represents an improvement over the existing practice in the options markets, where leg market interest has priority over a Complex Order at the same price only if at least one of the bids and offers in the marketplace is a Customer Limit Order.¹⁹ Because BOX will give priority to interest on the BOX Book, no resting Complex Order with a

¹⁸ See BOX Rule 7240(b)(2)(i). For a discussion of Non-Standard Strategies, see infra Section II.C.2.

¹⁹ See Notice, 78 FR at 15104.

one-to-one ratio will trade before orders at the same price on the BOX Book for the component legs of the Complex Order.²⁰

2. Complex Order with a Non-Standard Strategy

BOX proposes to amend Rule 7240(b)(3) to provide that a Complex Order with a Non-Standard Strategy will execute against the bids and offers on the BOX Book for the individual legs of the Strategy for all of the quantity available at the best price in a permissible ratio until the quantities remaining on the BOX Book are insufficient to execute against the Complex Order.²¹ Following this execution against the interest on the BOX Book, the Complex Order may execute against another Complex Order, and the component legs of these Complex Orders may trade at prices that are equal to the corresponding prices on the BOX Book.²²

Thus, a Complex Order with a Non-Standard Strategy would be able to execute against another Complex Order at the same price as interest on the BOX Book only after the Complex Order has executed against interest on the BOX Book to the extent possible, i.e., until the remaining quantities on the BOX Book are insufficient to execute against the Complex Order. BOX notes that this process assures that interest on the BOX Book will have priority over Complex Order interest at the same price to the extent that there is sufficient quantity on the BOX Book to execute against each leg of the Complex Order with a Non-Standard Strategy.²³ BOX believes that this process could prevent a locked market on the Complex Order Book or the rejection of an incoming Complex Order that is executable against a resting Complex Order.²⁴

²⁰ See Notice, 78 FR at 15105.

²¹ See BOX Rule 7240(b)(2)(ii).

²² See id. See Notice, 78 FR at 15097 - 15098, Example 5, for an example of the execution of a Complex Order with a Non-Standard Strategy.

²³ See Notice, 78 FR at 15105.

²⁴ See id.

Without this process, BOX believes that otherwise executable Complex Orders would lose execution opportunities without any compensating benefit to interest on the BOX Book that is unable to interact with the incoming Complex Order.²⁵ BOX states, further, that the requirement to execute one leg of a Complex Order at a price better than the corresponding leg market price assumes not only that the leg market provides a price at which the Complex Order could be executed, but also that the leg market provides sufficient quantity to respect the ratio of the Complex Order.²⁶

3. Required Amount of Price Improvement

BOX notes that on some options exchanges that provide auctions for Complex Orders, a Complex Order may execute against another Complex Order if one leg of the Complex Order trades at a price that is at least one cent better than customer orders in the same series. On one options exchange that has no auction for Complex Orders, a Complex Order may execute against another Complex Order if one leg of the Complex Order trades at a price that is better than Priority Customer interest in that series by at least one minimum trading increment.

Although BOX is not proposing to establish an auction for Complex Orders at this time, BOX believes that it is consistent with the protection of investors and the public interest to permit Complex Orders (other than Complex Orders on Non-Standard Strategies²⁷) to execute against each other if one leg of the Complex Order trades at a price that is better than the corresponding bid or offer on the BOX Book by one cent, rather than the minimum trading

²⁵ See id.

²⁶ See id.

²⁷ See supra Section II.C.1. for a discussion of the execution of Complex Orders on Non-Standard Strategies (noting that the Complex Order will first execute against interest on the BOX Book to the extent possible, i.e., until the remaining quantities on the BOX Book are insufficient to execute against the Complex Order, before executing against another Complex Order).

increment, for several reasons. First, BOX notes that it will always execute Complex Orders first against interest on the BOX Book to the extent the Complex Order can be executed in full or in a permissible ratio by that interest. Second, BOX believes that one cent is a significant and material improvement to customers. In this regard, BOX states that various options mechanisms, such as BOX's PIP auction and the Nasdaq Options Market's ("NOM") price improving order, have been implemented because of the recognition that one cent is a significant and material improvement to customers. Third, BOX notes that there is price competition for Complex Orders on BOX driven by other features of the proposal. In this regard, BOX believes that the generation of Legging Orders (as discussed below) will provide enhanced price competition and greater integration of the BOX Book and BOX Complex Order Book. In addition, BOX notes that each leg of a Complex Order must be executed at a price that is equal to or better than the NBBO for that series. Fourth, BOX believes that permitting price improvement by one cent rather than by the minimum trading increment could permit more active Complex Order trading by allowing executions where participants may not otherwise be willing to offer better prices in larger increments. Finally, BOX notes that since the implementation of the Penny Pilot Program, many of the options instruments involved in Complex Order trading now have a minimum trading increment of one cent. As a result, BOX believes that the effect of its proposal has already been implemented in a significant number of options instruments involved in Complex Order trading.

D. Execution of Complex Orders

BOX Rule 7240(b)(3) currently states that Complex Orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts. BOX proposes to amend BOX Rule 7240(b)(3) to refer to prices on the same Strategy.

Specifically, BOX Rule 7240(b)(3), as amended, states that Complex Orders will be executed without consideration of any prices on the same Strategy that might be available on other exchanges. In addition, BOX proposes to add several provisions to BOX Rule 7240(b)(3) to describe the execution of Complex Orders on BOX. BOX Rule 7240(b)(3)(i) states that Complex Orders will be executed automatically against bids and offers on the Complex Order Book in price/time priority, provided that Complex Orders will execute against each other only after bids and offers at the same net price on the BOX Book for the individual legs of the Complex Order have been executed.²⁸ Complex Orders will be executed automatically against bids and offers on the BOX Book for the individual legs of the Complex Order to the extent that the Complex Order can be executed in full or in a permissible ratio by such bids and offers.²⁹

BOX proposes to amend BOX Rule 7240(b)(3)(iii) to filter all inbound Complex Orders to ensure that each leg of a Complex Order is executed at a price that is equal to or better than the NBBO and the BOX BBO for each component leg of the Complex Order.³⁰ Under the filtering process, if an inbound Complex Order is executable on BOX, BOX will determine whether the potential execution price is equal to or better than both the cNBBO and the cBBO

²⁸ However, as described above, a Complex Order with a Non-Standard Strategy could execute against another Complex Order at the same price as the corresponding leg market prices after the Complex Order has executed against leg market interest until the quantities remaining in the leg market are insufficient to execute against the Complex Order. See also BOX Rule 7240(b)(2)(ii).

²⁹ See BOX Rule 7240(b)(3)(ii). See Notice, 78 FR at 15095, Examples 1 and 2, for examples of the execution of Complex Orders interest on the BOX Book and on the Complex Order Book.

³⁰ See BOX Rule 7240(b)(3)(iii). See Notice, 78 FR 15096, Example 3, for an example of the Complex Order NBBO filtering process.

and, if so, BOX will execute the inbound Complex Order according to the priority described in the preceding paragraph.³¹

Under BOX Rule 7240(b)(3)(iii)(B), an inbound Complex Order that would be executable on BOX at a price that is not equal to or better than both the cNBBO and the cBBO will be exposed on the Complex Order Book for a period of up to one second at a price that is equal to the cNBB (in the case of a sell order) or the cNBO (in the case of a buy order).³² Any executable opposite side orders received during the exposure period, including interest on the BOX Book, will execute immediately against the exposed Complex Order.³³ Any unexecuted quantity of the Complex Order remaining at the end of the exposure period will be cancelled.³⁴

Under BOX Rule 7240(b)(3)(iii), an inbound Complex Limit Order that is not executable on BOX but is executable against the cNBBO will be entered on the Complex Order Book.³⁵ A BOX-Top Complex Order or a market Complex Order that is not executable on BOX but is executable against the cNBBO will be exposed on the Complex Order Book for a period of up to one second at a price that is equal to the cNBB (in the case of a sell order) or the cNBO (in the case of a buy order).³⁶ Any executable opposite side orders received during the exposure period, including interest on the BOX Book, will execute immediately against the exposed Complex Order.³⁷ Any unexecuted quantity of the Complex Order remaining at the end of the exposure

³¹ See BOX Rule 7240(b)(3)(iii)(A). See also BOX Rule 7240(a)(3)(defining “cNBBO”) and (1)(defining “cBBO).

³² See BOX Rule 7240(b)(3)(iii)(B).

³³ See *id.*

³⁴ See *id.*

³⁵ See BOX Rule 7240(b)(3)(iii)(C)(I).

³⁶ See BOX Rule 7240(b)(3)(iii)(C)(II).

³⁷ See *id.*

period will be cancelled.³⁸ An inbound Complex Order that is not executable on BOX and is not executable against the cNBBO will be entered on the Complex Order Book.³⁹

BOX believes that the requirement that each leg of a Complex Order execute at a price that is equal to or better than the BOX BBO and the NBBO for that series represents a step forward in the execution of Complex Orders and improves upon the rules of other options exchanges.⁴⁰

E. Legging Orders

1. Generation and Removal of Legging Orders; Ranking and Display

BOX proposes to adopt BOX Rule 7240(c) relating to Legging Orders. A Legging Order, which is a Limit Order on the BOX Book that represents one side of a Complex Order, is a firm order that will be included in the BOX BBO if it is equal to, or better than, the existing BOX BBO.⁴¹ A Legging Order will be generated only for a Complex Order with two legs and a one-to-one ratio, and only if the other leg of the Complex Order can be executed on BOX at the NBBO for the series.⁴² The price of a Legging Order is the price at which the net price of the Complex Order can be achieved when the other leg of the Complex Order is executed against the best displayed bid or offer on the BOX Book at a price that is equal to or better than the NBBO.⁴³ Although a Legging Order may be generated at a price that is not equal to or better than the NBBO, it will be eligible for execution only after being filtered against the NBBO.⁴⁴

³⁸ See id.

³⁹ See BOX Rule 7240(b)(3)(iii)(D).

⁴⁰ See Notice, 78 FR at 15104.

⁴¹ See BOX Rule 7240(c)(1).

⁴² See id.

⁴³ See BOX Rule 7240(c)(2)(i).

⁴⁴ See BOX Rule 7240(c)(3).

Except in cases in which a Legging Order locks or crosses the opposite side NBBO, a Legging Order will be priced and ranked on the BOX Book at its generated price to buy (sell) and displayed at the minimum trading increment permitted for the series below (above) the price of the Legging Order.⁴⁵ Under BOX Rule 7240(c)(2)(i), a Legging Order that would lock or cross the opposite side NBBO will be ranked on the BOX Book at the locking price and displayed at one minimum trading increment below the current NBO (for bids) or one minimum trading increment above the current NBB (for offers) for the applicable series (“display price sliding”).⁴⁶ If the NBO increases or the NBB decreases, as applicable, the ranking and display prices of the Legging Order will be adjusted to conform with BOX Rule 7240(c)(2)(i) and will be displayed at the most aggressive permissible price.⁴⁷ The recalculation of the display and ranking prices for a Legging Order will be performed to the extent it achieves a more aggressive price, and the ranked and displayed prices of the Legging Order may be adjusted one or more times as required by changes to the prevailing NBBO.⁴⁸ A Legging Order subject to display price-sliding will retain its original generated price irrespective of the price(s) at which the Legging Order is ranked and displayed.⁴⁹ In addition, all Legging Orders that are re-ranked and re-displayed pursuant to the display-price sliding process will retain their priority, as compared to other Legging Orders subject to display-price sliding, based upon the time the Exchange received the Complex Orders from which the Legging Orders were generated.⁵⁰

⁴⁵ See BOX Rule 7240(c)(1).

⁴⁶ See Notice, 78 FR at 15099, Example 6, for an example of the operation of the display-price sliding process.

⁴⁷ See BOX Rule 7240(c)(2)(ii).

⁴⁸ See BOX Rule 7240(c)(2)(ii) and (iii).

⁴⁹ See BOX Rule 7240(c)(2)(ii).

⁵⁰ See id.

BOX proposes that, under BOX Rule 7240(b)(4) a Legging Order will be removed automatically from the BOX Book if: (i) the execution of the Legging Order would no longer achieve the net price of the Complex Order when the other leg is executed against the best displayed bid or offer on the BOX Book; (ii) the other component leg of the Complex Order cannot be executed at a price equal to the NBBO; (iii) the Complex Order is executed in full or in part; or (iv) the Complex Order is cancelled or modified.⁵¹

2. Execution of Legging Orders

BOX proposes that, under BOX Rule 7240(c), a Legging Order will be executed at its generated price and only after all other executable orders and quotes at the same price are executed in full.⁵² When a Legging Order is executed, the other component leg of the Complex Order will be executed automatically against the displayed BOX BBO.⁵³ Executions of a Legging Order generated by multiple Complex Orders at the same price will be allocated among the Complex Orders in time priority based on the respective timestamps of the Complex Orders.⁵⁴ An incoming order that is executable against the Legging Order will be executed at the Legging Order's generated price.⁵⁵

BOX believes that Legging Orders will provide additional execution opportunities for Complex Orders without negatively impacting investors in the regular market.⁵⁶ BOX also believes that the generation of Legging Orders may enhance execution quality for investors in

⁵¹ See BOX Rule 7240(c)(4).

⁵² See BOX Rule 7240(c)(1) and (3). See Notice, 78 FR at 15100, Examples 8 and 9, for examples of the execution and priority of Legging Orders.

⁵³ See BOX Rule 7240(c)(3).

⁵⁴ See id. See Notice, 78 FR at 15100, Example 10, for an example of the allocation of orders when a Legging Order is generated from multiple Complex Orders.

⁵⁵ See BOX Rule 7240(c)(1).

the regular market by improving the price and/or size of the BOX BBO and by providing additional execution opportunities for resting orders on the BOX Book.⁵⁷

3. Execution of a BOX-Top Order in a Non-Penny Series Against a Legging Order

BOX proposes to amend BOX Rule 7110(c)(2) to address a result that occurs when a BOX-Top Order that is not a Complex Order executes against a Legging Order in a one cent increment in a series traded in a larger increment. Under current BOX Rule 7110(c)(2), BOX-Top Orders that are entered into the BOX Book are executed at the best price available in the market for the total quantity available from any contra bid (offer), and any residual volume is automatically converted to a limit order at the price at which the BOX-Top Order was executed.⁵⁸ BOX proposes that, under BOX Rule 7110(c)(2), as amended, when a BOX-Top Order that is not a Complex Order executes against a Legging Order in a one-cent increment in a series that trades in a larger increment, the remaining BOX-Top Order quantity will be priced, ranked, and displayed on the BOX Book at the nearest increment tick permitted for the series, rounded up (down) in the case of a sell (buy) order.⁵⁹

F. Legging Orders in the PIP

BOX proposes to amend BOX Rule 7150 to describe the treatment of Legging Orders in the PIP. Legging Orders generated during a PIP will be treated in the same manner as Unrelated Orders received during a PIP and will interact with orders in the PIP in the same manner as

⁵⁶ See Notice, 78 FR at 15098.

⁵⁷ See id.

⁵⁸ See Notice, 78 FR at 15101.

⁵⁹ See id. and BOX Rule 7110(c)(2). Example 11, 78 FR at 15101, describes the partial execution of a BOX-Top Complex Order in a non-penny series against a Legging Order.

Unrelated Orders.⁶⁰ However, at the conclusion of a PIP, a Legging Order may execute against the PIP Order only after all other quotes and orders at the same price, including the Primary Improvement Order and any other Improvement Orders, have been executed in full, except in the case of a Primary Improvement Order with a “surrender quantity,” as provided in BOX Rule 7150(g)(5).⁶¹

Like an Unrelated Order, a Legging Order must be executable to prematurely terminate the PIP or execute with the PIP Order.⁶² The generation of a Legging Order on the same side as the PIP Order with a price that is executable against the opposite side BBO, an Improvement Order, a Legging Order, or the Primary Improvement Order, will cause the PIP to terminate early.⁶³ The generation of a Legging Order on the opposite side of the PIP Order that could execute against the opposite side NBBO, BBO, or a Legging Order will trade against the PIP Order at one cent better than the NBBO if the BOX BBO is equal to the NBBO, or at the NBBO if the BOX BBO is worse than the NBBO.⁶⁴

G. Implied Orders

BOX proposes to adopt BOX Rule 7240(d) to provide for the generation of Implied Orders. An Implied Order is a Complex Order at the cNBBO that is derived from orders at the

⁶⁰ See Notice, 78 FR at 15107. An Unrelated Order is a non-Improvement Order entered into the BOX market during a PIP. See BOX Rule 7150(a).

⁶¹ See BOX Rule 7150(f)(3) and Notice, 78 FR at 15101. Example 12, 78 FR at 15101 - 15102, provides an example of the execution of a Legging Order and a Primary Improvement Order with a surrender quantity.

⁶² See Notice, 78 FR at 15102.

⁶³ See *id.* and BOX Rule 7150(i). Examples 13 and 14, 78 FR at 15102, demonstrate the execution of orders when an executable Legging Order is on the same side as a PIP Order.

⁶⁴ See Notice, 78 FR at 15102, and BOX Rule 7150(j). Example 15, 78 FR at 15102, demonstrates the execution of orders when an executable Legging Order is on the opposite side of a PIP Order.

BBO on the BOX Book for each component leg of a Strategy, provided that each component leg is at a price that is equal to the NBBO for that series.⁶⁵ BOX will generate Implied Orders only for Strategies with two legs and a one-to-one ratio.⁶⁶ An Implied Order will be removed when it is no longer at the cNBBO, and a new Implied Order will be generated, provided there is interest on the BOX Book to generate an Implied Order at the new cNBBO and each component leg is at a price that is equal to the NBBO for that series.⁶⁷ An Implied Order will be removed if either component leg of the order is executed, in full or in part, or cancelled.⁶⁸

An Implied Order on the Complex Order Book will execute when a Complex Order matches the Implied Order.⁶⁹ An Implied Order has priority over a resting Complex Order at the same price, and Implied Orders at the same price will execute in time priority according to the order entry time of each component leg of the order on the BOX Book.⁷⁰

BOX believes that the generation of Implied Orders should facilitate additional transactions and interaction between orders on the Complex Order Book and orders on the BOX Book, and will benefit market makers, traders, and retail customers by enhancing the likelihood and efficiency of trade execution.⁷¹ BOX also believes that Implied Orders will provide additional execution opportunities for Complex Orders and interest on the BOX Book.⁷² BOX

⁶⁵ See BOX Rule 7240(d)(1).

⁶⁶ See BOX Rule 7240(d)(3). BOX will not generate an Implied Order for a series going through NBBO exposure pursuant to BOX Rule 7130(b), or using orders in the PIP, the Facilitation Auction, or the Solicitation Auction. See BOX Rule 7240(d)(4).

⁶⁷ See BOX Rule 7240(d)(2).

⁶⁸ See BOX Rule 7240(d)(5).

⁶⁹ See BOX Rule 7240(d)(6)(i).

⁷⁰ See BOX Rule 7240(d)(6)(ii) and (iii). See Notice, 78 FR 15096, Example 4, for an example of the generation and execution of an Implied Order.

⁷¹ See Notice, 78 FR at 15105 – 15106.

⁷² See Notice, 78 FR at 15106.

believes, further, that generating Implied Orders only for Strategies with two legs and a one-for-one ratio will produce a manageable and useful set of possible Implied Orders.⁷³ BOX represents that it will closely monitor the generation of Implied Orders to ensure that they do not negatively impact system capacity and performance.⁷⁴

H. Additional Changes

BOX Rule 7240(b)(1) currently provides that bids and offers on Complex Orders may be expressed in any decimal price pursuant to BOX Rule 7050 (Minimum Trading Increments), and the options leg(s) of a stock-option order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual option legs of the order. Current BOX Rule 7240(b)(1) also provides that Complex Orders expressed in net price increments that are not multiples of the minimum increment are not entitled to the same priority as Complex Orders expressed in increments that are multiples of the minimum increment.

BOX proposes to retain the provision that provides that bids and offers on Complex Orders may be expressed in any decimal price, and the leg(s) of a Complex Order maybe executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual legs of the order. In addition, BOX proposes to amend BOX Rule 7240(b)(1) in two ways. First, as discussed above, BOX proposes to delete the reference to stock-option order as BOX does not have stock-option orders. Second, BOX proposes to delete the reference to Complex Orders priced in increments that are not multiples of the minimum increment because BOX believes that this provision is unnecessary if Complex Orders may be expressed in any decimal price.

⁷³ See id.

⁷⁴ See id.

Currently BOX Rule 7240(b)(5) prohibits a Complex Order from being submitted to the PIP or submitted to BOX as a Directed Order. BOX proposes to renumber BOX Rule 7240(b)(5) as BOX Rule 7240(b)(4)(iii) but not change the prohibition under the current Rule. BOX also proposes to delete BOX Rule 7240(c), which describes a manual process for establishing a Strategy on BOX.⁷⁵

I. Display of Legging Orders, Complex Orders, and Implied Orders in the HSVF

BOX proposes to amend BOX Rule 7130(a)(2)(iv) to provide that BOX's proprietary HSVF vendor feed will include the best-ranked Legging Order and the five best-priced Complex Orders and the best-ranked Implied Order (if any) for each Complex Order Strategy. BOX makes the HSVF available to all market participants at no charge.⁷⁶ BOX believes that adding information about Legging Orders, Complex Orders, and Implied Orders to the HSVF could improve market quality, attract order flow, and increase transparency.⁷⁷

J. BOX Trading System Capacity

BOX represents that it has analyzed the potential for additional message traffic that could result from the proposal and has concluded that it has sufficient system capacity to handle the implementation of the proposed changes without degrading system performance.⁷⁸ BOX represents that it will closely monitor the generation of both Implied Orders and Legging Orders to ensure that they do not negatively impact system capacity and performance.⁷⁹ BOX notes that

⁷⁵ According to the Exchange, BOX Rule 7240(c) will be unnecessary following the implementation of the new BOX functionality for Complex Orders that will allow Participants to create a Strategy by submitting a Complex Order for that Strategy to BOX.

⁷⁶ See Notice, 78 FR at 15107. See also BOX Rule 7130(a)(2).

⁷⁷ See id.

⁷⁸ See Notice, 78 FR at 15103.

⁷⁹ See id.

although the generation of Implied Orders and Legging Orders will require additional systems processes, BOX believes that the impact of these activities will be negligible under all but the most severe market conditions.⁸⁰ Accordingly, BOX believes that it possesses sufficient capacity to meet investor demand.⁸¹

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁸² In particular, for the reasons discussed below, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁸³ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

A. Definitions

The proposal revises or adopts several defined terms used in BOX's rules. The Commission notes that BOX's new definition of Complex Order⁸⁴ is consistent with the definition of Complex Order adopted by other options exchanges.⁸⁵ The Commission also believes that eliminating references to Stock-Option Orders and Stock-SSF Orders in the

⁸⁰ See Notice, 78 FR at 15103 – 15104.

⁸¹ See Notice, 78 FR at 15104.

⁸² In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁸³ 15 U.S.C. 78f(b)(5).

⁸⁴ See BOX Rule 7240(a)(5).

⁸⁵ See, e.g., ISE Rule 721(a)(1) and CBOE Rule 6.53C(a)(1).

definition of Complex Order could eliminate potential confusion and help to assure the accuracy of BOX's rules because BOX does not have these order types.⁸⁶ Similarly, the Commission believes that the revised definition of Central Order Book or BOX Book and the new definition of Complex Order Book are designed to clearly identify and distinguish between, respectively, the electronic book of orders on single option series and the electronic book of Complex Orders.⁸⁷ The Commission believes that the definitions of NBB and NBO would identify these terms and specify BOX's method for calculating them, i.e., through information that BOX receives from OPRA.⁸⁸ In addition, BOX states that the definitions of NBB and NBO are necessary to support its definitions of cNBB and cNBO.⁸⁹ The Commission notes that BOX's definitions of cBBO, cNBBO, and Complex Order Strategy are comparable to definitions adopted by another options exchange.⁹⁰

B. Order Types for Complex Orders

The Commission believes that amending BOX Rule 7240(b)(4) to allow Complex Orders to be entered as Limit Orders, BOX-Top Orders, Market Orders, and Session Orders could provide market participants with flexibility in trading Complex Orders on BOX and provide a means to limit execution price or time.⁹¹ The Commission notes, in addition, that BOX currently permits each of these orders types for orders on single option series.⁹² The Commission believes

⁸⁶ See Notice, 78 FR at 15103. BOX acknowledged that it must file a proposed rule change with the Commission pursuant to Section 19(b)(1) of the Act if it plans to provide for the trading of Stock-Option Order or SSF-Option Orders on BOX in the future. See id.

⁸⁷ See BOX Rules 100(a)(10) and 7240(a)(6).

⁸⁸ See BOX Rule 100(a)(33).

⁸⁹ See Notice, 78 FR at 15103.

⁹⁰ See Phlx Rule 1080, Commentary .08(a)(ii), (iv), and (vi).

⁹¹ See Notice, 78 FR at 15106.

⁹² See Notice, 78 FR at 15106, and BOX Rule 7110.

that deleting the reference in BOX Rule 7240(b)(4) to all-or-none orders, an order type that BOX does not have, could eliminate potential confusion and help to assure the accuracy of BOX's rules.

C. Priority Rules for Complex Orders

As described more fully above, BOX Rule 7240(b)(2) addresses the priority of Complex Orders. The Commission believes that BOX Rule 7240(b)(2)(i), which addresses the priority of Complex Orders with a one-to-one ratio, is designed to protect the priority of customer and non-customer established interest in the leg market by providing that a Complex Order with a one-to-one ratio that trades with another Complex Order must execute at a price that is better than established interest in the leg market by one penny.

The Commission also believes that BOX Rule 7240(b)(2)(ii), which applies to Complex Orders with a Non-Standard Strategy, is designed to protect the priority of orders on the BOX Book by requiring a Complex Order to execute first against interest on the BOX Book at the best price to the extent possible, and only then permitting Complex Orders to execute against each other at that price. Thus, following the executions against the best-priced interest on the BOX Book, a Complex Order would no longer be executable against interest on the BOX Book at the best price because the BOX Book would lack sufficient quantity to fill the Complex Order at a permissible ratio at that price.⁹³

D. Execution of Complex Orders

The Commission notes that BOX Rule 7240(b)(3), as amended, which will allow a Complex Order to be executed without consideration of the prices on a Strategy that might be

⁹³ As BOX notes, orders are executable against each other only when both the price and the quantity of the orders match. See Notice, 78 FR at 15097.

available on other exchanges, is consistent with the rules of another options exchange.⁹⁴

BOX Rules 7240(b)(3)(i) and (ii) provide that Complex Orders will be executed in price/time priority and that, at the same net price, a Complex Order will execute first against interest on the BOX Book to the extent that the Complex Order can be executed in full or in a permissible ratio by interest on the BOX Book. The Commission notes that these provisions are designed to protect the priority of interest on the BOX Book by requiring a Complex Order to execute first against interest on the BOX Book to the extent possible before executing against another Complex Order at the same price.

Under BOX Rule 7240(b)(3)(iii), all inbound Complex Orders will be filtered to ensure that each leg of a Complex Order will be executed at a price that is equal to or better than the NBBO and the BOX BBO for each component series of the Complex Order. The Commission previously approved BOX's NBBO filtering process for orders for individual options series.⁹⁵ The Commission believes that BOX's filtering process for Complex Orders could benefit investors by ensuring that no leg of a Complex Order trades at a price that is worse than the BOX BBO and the NBBO for that series.

E. Legging Orders

1. Generation, Display, and Execution of Legging Orders

As described more fully above, BOX proposes to provide for the generation of Legging Orders on behalf of certain Complex Orders. The Commission believes that Legging Orders could facilitate the execution of Complex Orders on BOX by increasing the opportunities for

⁹⁴ See CBOE Rules 6.53C(c)(ii) and (d)(v) (allowing complex orders submitted to the Complex Order Book and the Complex Order Auction to be executed without consideration to the prices of the same complex orders that might be available on other exchanges).

⁹⁵ See BOX Rule 7310(b)(3) and Securities Exchange Act Release No. 49068 (January 13,

Complex Orders to execute against interest in the leg market, thereby benefitting investors seeking to execute Complex Orders. In addition, the Commission believes that Legging Orders could benefit participants in the leg market by providing additional liquidity, and potentially more favorable executions, for leg market interest. The Commission notes that it previously approved a similar proposal by another options exchange to implement Legging Orders.⁹⁶

The Commission notes that, on BOX, a Legging Order may be generated in a \$0.01 increment in an options series that trades in larger increments. A Legging Order in a non-penny series will be priced and ranked on the BOX Book at its generated price to buy (sell) but will be displayed at the minimum trading increment permitted for the series below (above) the price of the Legging Order (except as may be described in Section II.E.1 above).⁹⁷ The Commission believes that Legging Orders in non-penny classes would allow orders to be executed at a better price than would otherwise be available—inside the disseminated best bid and offer for the security—potentially resulting in better executions for investors.

2. Display Price-Sliding Process

As described more fully above, a Legging Order that would lock or cross the opposite side NBBO will be ranked on the BOX Book at the locking price and displayed at one minimum trading increment below the current NBO (for bids) or one minimum trading increment above

2004), 69 FR 2775 (January 20, 2004) (order approving File No. SR-BSE-2002-15).

⁹⁶ See Securities Exchange Act Release No. 66234 (January 25, 2012), 77 FR 4852 (January 31, 2012) (order approving File No. SR-ISE-2011-82).

⁹⁷ See BOX Rule 7240(c)(1). The Commission notes that Price Improving Orders on NOM also may be entered at a price that is smaller than the minimum price variation for the series and are rounded to the nearest minimum price variation for display. See NOM Rules, Chapter VI, Section 1(e)(6). See also Securities Exchange Act Release No. 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (order approving File Nos. SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080).

the current NBB (for offers) for the applicable series.⁹⁸ The ranked and displayed prices of a Legging Order subject to display-price sliding may be adjusted one or more times as required by changes to the prevailing NBBO.⁹⁹ The Commission notes that BOX's display price-sliding process for Legging Orders is consistent with the display-price sliding process of another options market, which the Commission has approved.¹⁰⁰ The Commission notes, further, that Rule 608(c) of Regulation NMS¹⁰¹ requires BOX to comply with and enforce compliance by its members with the Options Order Protection and Locked/Crossed Markets Plan, including the requirement to avoid displaying locked and crossed markets.¹⁰² The Commission believes that BOX's display-price sliding process for Legging Orders is designed to help assure compliance with this requirement.

3. Execution of a Legging Order Against a BOX-Top Order

Under BOX Rule 7110(c)(2), as amended, when a BOX-Top Order in a non-penny series executes in part against a Legging Order in a one-cent increment, the remaining quantity of the BOX-Top Order will be priced, ranked, and displayed on the BOX Book at the nearest increment tick permitted for the series, rounded up (down) in the case of a sell (buy) order. The Commission believes that this provision could help to preserve the intent of the sender of the BOX-Top Order to limit the price at which its order can be executed while assuring that the

⁹⁸ See BOX Rule 7240(c)(2)(i).

⁹⁹ See BOX Rule 7240(c)(2)(ii).

¹⁰⁰ See BATS Rule 21.1(h) and Securities Exchange Act Release No. 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (File No. SR-BATS-2009-31) (order approving rules governing options trading on BATS Options Exchange).

¹⁰¹ 17 CFR 242.608(c).

¹⁰² See Options Order Protection and Locked/Crossed National Market System Plan, Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (August 6, 2009).

remaining quantity of the BOX-Top Order is priced, ranked, and displayed on the BOX Book in a permissible trading increment.

F. Legging Orders in the PIP

Although Complex Orders may not be submitted to the PIP,¹⁰³ Legging Orders may participate in the PIP. At the conclusion of a PIP, a Legging Order will cede priority to all other executable orders and quotes at the same price, including the Primary Improvement Order and any other Improvement Orders, except that a Legging Order on the same side and at the same price as the Primary Improvement Order could receive an allocation if the Primary Improvement Order includes a surrender quantity.¹⁰⁴ The Commission notes that the priority treatment of Legging Orders in the PIP is consistent with the priority treatment of Legging Orders outside of the PIP, which are executed only after all other executable orders and quotes at the same price are executed in full.¹⁰⁵

BOX Rules 7150(i) and (j), as amended, identify circumstances in which a Legging Order, like an Unrelated Order, could cause a PIP to terminate early. BOX represents that Legging Orders generated during a PIP will be treated in the same manner as Unrelated Orders received during a PIP are treated currently and will interact with orders in the PIP in the same manner as Unrelated Orders.¹⁰⁶ The Commission previously has found the treatment of Unrelated Orders received during the PIP to be consistent with the Act.¹⁰⁷

¹⁰³ See BOX Rule 7240(b)(4)(iii).

¹⁰⁴ See BOX Rule 7240(c)(2)(ii).

¹⁰⁵ See BOX Rule 7240(c)(3).

¹⁰⁶ See Notice, 78 FR at 15107.

¹⁰⁷ See Notice, 78 FR at 15107 and Securities Exchange Act Release No. 55415 (March 7, 2007), 72 FR 11411 (March 13, 2007) (order approving File No. SR-BSE-2006-03).

G. Implied Orders

As described more fully above, BOX proposes to provide for Implied Orders. The Commission believes that Implied Orders could benefit investors by providing additional execution opportunities for both Complex Orders and interest on the BOX Book. In addition, the Commission believes that Implied Orders could facilitate interaction between the Complex Order Book and the BOX Book, potentially resulting in a more competitive and efficient market, and better executions for investors.

H. Additional Changes

The proposal deletes BOX Rule 7240(c), which refers to a manual process for establishing a Strategy that will no longer be necessary following the implementation of BOX's new Complex Order functionality, and IM-7240-1, which addresses Stock-Option Orders and SSF-Option Orders that, according to BOX, do not currently trade on the Exchange. The Commission believes that deleting these provisions could help to assure the accuracy of BOX's rules and eliminate potential confusion. In addition, the Commission notes that BOX Rule 7240(b)(1), as amended, regarding the minimum trading increment for Complex Orders, is consistent with rules adopted by other options exchanges.¹⁰⁸

I. Display of Legging Orders, Complex Orders, and Implied Orders in the HSVF

BOX proposes to include information regarding Legging Orders, Complex Orders, and Implied Orders in its proprietary HSVF vendor feed, which BOX makes available to all market participants at no charge.¹⁰⁹ The Commission believes that including this additional information in the HSVF could protect investors and the public interest by increasing the transparency of BOX's market and facilitating price discovery.

¹⁰⁸ See, e.g., ISE Rule 722(b)(1) and NYSE MKT Rule 980NY, Commentary .01.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹¹⁰ that the proposed rule change (SR-BOX-2013-01), as amended, is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹¹

Elizabeth M. Murphy
Secretary

¹⁰⁹ See BOX Rule 7130(a)(2) and (a)(2)(iv) and Notice, 78 FR at 15107.

¹¹⁰ 15 U.S.C. 78s(b)(2).

¹¹¹ 17 CFR 200.30-3(a)(12).