SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70395; File No. SR-BOX-2013-38)

September 16, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Order Approving a Proposed Rule Change to Modify the Complex Order Filter

I.   Introduction

On July 22, 2013, BOX Options Exchange LLC (the "Exchange" or "BOX") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to modify the Exchange's rules governing the filtering of inbound Complex Orders. The proposed rule change was published for comment in the Federal Register on August 5, 2013.[3] The Commission received no comments regarding the proposal. This order approves the proposed rule change.

II.   Description of the Proposal

BOX proposes to amend BOX Rule 7240(b)(3)(iii) to modify the procedures governing the filtering of inbound Complex Orders. BOX also proposes to amend BOX Rule 7130(a) to provide that the Exchange's High Speed Vendor Feed ("HSVF") is available to market participants and that Complex Orders exposed during the Complex Order filtering process are included in the HSVF.

A.   Complex Order Filter

---

[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

[3]   See Securities Exchange Act Release No. 70063 (July 30, 2013), 78 FR 47463 ("Notice").

BOX's Complex Order Filter provides a process designed to assure that each component

leg of an inbound Complex Orders is executed at a price that is equal to or better than the

national best bid or offer ("NBBO") and BOX best bid or offer ("BBO") for that series.[4] BOX

proposes to revise its rules to specifically provide that the Complex Order Filter operates in a

series of sequential steps, set forth in BOX Rule 7240(b)(3)(iii)(A) – (D), that result in a

Complex Order being fully or partially executed, cancelled, or entered on the Complex Order

Book.[5]

Under the first step in the filtering process, a Complex Order with an execution price that

is equal to or better than both the cNBBO and the cBBO will be executed against existing

interest on the BOX Book or the Complex Order Book.[6] BOX proposes to revise the rule to

indicate that such Complex Order will be executed "to the extent possible," to clarify that the

Complex Order may receive a partial execution.[7]

Under the next step of the current filtering process, a BOX-Top Complex Order or a

Market Complex Order that is executable against the cNBBO but that is not executable on BOX

is exposed on the Complex Order Book for a period of up to one second.[8] In contrast, under

---

4   See BOX Rule 7240(b)(3)(iii).

5   See Notice, 78 FR at 47463.

6   See BOX Rule 7240(b)(3)(iii)(A). The cBBO is 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 that Strategy. The cNBBO is the best net bid and offer price for a
        Complex Order Strategy based on the NBBO for the individual options components of
        that Strategy. See BOX Rule 7240(a)(1) and (3).

7   See BOX Rule 7240(b)(3)(iii)(A).

8   See BOX Rule 7240(b)(3)(iii)(C)(II). In setting the exposure period, BOX will take into
        consideration the technological ability of Participants to respond and similar exposure
        periods implemented by BOX and other exchanges. See Notice, 78 FR at 47464. BOX
        will notify Participants of the duration of the exposure period, and any changes to its
        duration, via regulatory circular. See id.

current BOX rules, a Limit Complex Order that is executable against the cNBBO but that is not executable on BOX is not subject to exposure, but instead is entered on the Complex Order Book.[9] BOX proposes to amend its rules to make the exposure period available to Limit Complex Orders, as well as BOX-Top and Market Complex Orders, with an exposure price equal to, or better than, the same side cNBBO. If the Complex Order's exposure price is worse than the same side cNBBO, the Complex Order will not be exposed and will be cancelled, except that a Limit Complex Order with an exposure price worse than the same side cNBBO that does not lock or cross the Complex Order Book will be entered on the Complex Order Book.[10]

The revised rule provides that to the extent any inbound Limit, BOX-Top, or Market Complex Order is not executable as provided in BOX Rule 7240(b)(3)(iii)(A) (i.e., at a price that is equal to or better than both the cNBBO and the cBBO), the inbound Complex Order will be exposed to Participants for a time period established by BOX, not to exceed one second, if the Complex Order's exposure price would be equal to, or better than, the same side cNBBO. During the exposure period, (i) a Limit Complex Order will be exposed at the order's limit price, or if the limit price is equal to or better than the opposite side cNBBO, at the opposite side cNBBO; (ii) a BOX-Top Complex Order will be exposed at the opposite side cNBBO or, if a limit price has been determined by a partial execution of the order, at the order's limit price; and (iii) a Market Complex Order will be exposed at the opposite side cNBBO.[11]

BOX also proposes to allow a Participant to elect not to subject its Complex Order to the exposure period.[12] Unless a Participant specifies that its Complex Order not be exposed, the

---

[9]   See BOX Rule 7240(b)(3)(iii)(C)(I).

[10]   See BOX Rule 7240(b)(3)(iii)(B).

[11]   See BOX Rule 7240(b)(3)(iii)(B).

[12]   See BOX Rule 7240(b)(3)(iii)(B).

Complex Order will be exposed by default.[13] A Complex Order that is not subject to the

exposure period will be cancelled or submitted to the Complex Order Book, in accordance with

the Participant's instructions.[14]

Under current BOX rules, any unexecuted quantity of a Complex Order remaining at the

end of the exposure period will be cancelled. BOX proposes to amend its rules to provide more

specificity regarding when any unexecuted quantity of a Complex Order remaining at the end of

the exposure period will be cancelled. Specifically, such unexecuted quantity will be cancelled

if: (i) the Participant submitting the order provides instructions to cancel the order at that point;

(ii) the Complex Order is a Market Order; (iii) the Complex Order is a BOX-Top Order, no part

of which has been executed; or (iv) the Complex Order is a BOX-Top or Limit Order at a limit

price that could execute on BOX but only at a price that is not equal to or better than the opposite

side cNBBO.[15] Any unexecuted quantity of a Limit or BOX-Top Complex Order that is not

cancelled will be entered on the Complex Order Book at its limit price.[16]

B.   BOX Rule 7130

BOX proposes to revise BOX Rule 7130(a) to provide that (i) the HSVF is made

available to market participants, rather than displayed only to Options Participants; and (ii)

Complex Orders exposed during the Complex Order filtering process are included in the HSVF.

---

[13]   See Notice, 78 FR at 47464.

[14]   See BOX Rule 7240(b)(3)(iii)(B).

[15]   In addition, a Participant may voluntarily cancel a Complex Order at any time, including
during the exposure period. See Notice, 78 FR at 47464. See also BOX Rule
7240(b)(3)(iii)(C).

[16]   See BOX Rule 7240(b)(3)(iii)(D).

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.[17] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[18] 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.

The proposal will expand the availability of the exposure period to Limit Complex Orders that are executable against the cNBBO but are not executable on BOX.[19] Currently, such Limit Complex Orders would be sent to the BOX Book. The Commission believes that making the exposure period available to such Limit Complex Orders could benefit investors by providing additional execution opportunities for such Limit Complex Orders.[20]

The proposal also revises the Complex Order filtering process to allow a Participant to elect not to have its Complex Order subjected to the exposure period, or to have any unexecuted portion of its order cancelled at the conclusion of the exposure period.[21] The Commission

---

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

[18]   15 U.S.C. 78f(b)(5).

[19]   See BOX Rule 7240(b)(3)(iii)(B).

[20]   A Complex Order with an exposure price worse than the same side cNBBO will be cancelled, except that a Limit Complex Order with a price worse than the same side cNBBO that would not lock or cross the Complex Order Book will be entered on the Complex Order Book. See BOX Rule 7240(b)(3)(iii)(B).

[21]   See BOX Rules 7240(b)(3)(iii)(B) and 7240(b)(3)(iii)(C)(i).

believes that these changes could benefit market participants by providing them with additional

flexibility in determining how their Complex Orders are processed.

The Commission believes that the new provisions in BOX Rule 7240(b)(3)(iii)(C) setting

forth the circumstances in which any unexecuted quantity of a Complex Order will be cancelled

at the end of the exposure period (in addition to a cancellation requested by the submitting

Participant),[22] and the provisions in BOX Rule 7240(b)(3)(iii)(D) indicating that any unexecuted

quantity of a Limit or BOX-Top Order that is not cancelled will be entered on the Complex

Order Book, should benefit market participants by providing additional transparency regarding

the operation of the Complex Order filtering process.

As noted above, BOX Rule 7130(a), as amended, indicates that Complex Orders exposed

during the exposure period are included in the HSVF, and that the HSVF is available to market

participants, rather than only to Options Participants. The Commission notes that BOX Rule

7130(a)(2) currently states that BOX makes the HSVF available to all market participants at no

cost.[23] The modifications to BOX Rule 7130(a) relating to the HSVF are designed to conform

the rule to the more specific language in BOX Rule 7130(a)(2) [24] and to provide additional

information regarding the exposure of complex orders under revised BOX Rule 7240.

---

[22]   See note 15, supra, and accompanying text.

[23]   See Securities Exchange Act Release No. 68833 (February 5, 2013), 78 FR 9758
        (February 11, 2013) (notice of filing and immediate effectiveness of File No. SR-BOX-
        2013-04) (making the HSVF available to all market participants).

[24]   BOX states that the changes to BOX Rule 7130 are clarifications of the rule text and do
        not represent changes to the operation of the Exchange. See Notice, 78 FR at 47464.

IV.   Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[25] that the

proposed rule change (SR-BOX-2013-38) is approved.

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

authority.[26]

Kevin M. O'Neill
Deputy Secretary

---

[25]   15 U.S.C. 78s(b)(2).

[26]   17 CFR 200.30-3(a)(12).