

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-79891; File No. SR-BOX-2017-03)

January 27, 2017

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 8040 (Obligations of Market Makers)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 17, 2017, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 8040 (Obligations of Market Makers). The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at <http://boxexchange.com>.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend BOX Rule 8040(a)(9) (Obligations of Market Makers) to amend the provision pertaining to trades that are more than \$0.25 below parity. Additionally, the Exchange proposes to eliminate Rule 8040(a)(10), the provision providing for bids (offers) to be no more than \$1 lower (higher) than the last preceding transaction plus or minus the aggregate change in the last sale price of the underlying (“the one point rule”).

First, the Exchange proposes to eliminate the one point rule as various market changes have rendered the rule obsolete and unnecessary. For example, Market Makers are subject to various quotation requirements, including bid/ask quote width requirements contained in Rule 8050. The Exchange also has an obvious error rule that contains provisions on erroneous pricing errors (e.g., 7170) and has in place certain price check parameters that will not permit the automatic execution of certain orders if the execution would take place at prices inferior to the national best bid/offer (e.g., Rule 7290).

Second, the Exchange is proposing to retain Rule 8040(a)(9) as a guideline but to modify it to provide that an amount larger than \$0.25 may be appropriate considering the particular market conditions (not just unusual conditions as the rule currently states). Currently, Market Makers are expected ordinarily, except in unusual market conditions, to refrain from purchasing a call option or a put option at a price more than \$0.25 below parity. In the case of call options, parity is measured by the bid in the underlying security, and in the case of put options, parity is measured by the offer in the underlying security (“the parity rule”). The Exchange proposes to revise the rule to provide that the \$0.25 guideline may be increased, or the rule waived, by the

Exchange on a series-by-series basis.<sup>3</sup> The Exchange believes that revising the \$0.25 parity rule in this manner modernizes the guideline to reflect market changes and will provide more flexibility to take into consideration the particular trading in a security, including but not limited to the underlying market price, market conditions, and applicable minimum bid/ask width requirements for a given options series. Additionally, the Exchange believes that the proposed change to Rule 8040(a)(9) harmonizes the Exchange's parity rule with other options exchanges' parity rules in the industry.<sup>4</sup>

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>5</sup> in general, and Section 6(b)(5) of the Act,<sup>6</sup> in particular in that the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>7</sup> requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest, because it will eliminate the outdated one point rule and update the parity rule to incorporate more flexibility and recognize changing market conditions. As discussed above, the Exchange believes the proposed change to Rule 8040(a)(9) is reasonable and appropriate, as

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<sup>3</sup> The Exchange will provide Participants with notice, via Regulatory Circular, if the rule will be waived.

<sup>4</sup> See Chicago Board Options Exchange ("CBOE") Rule 8.7(.02); International Securities Exchange ("ISE") Rule 803(a)(1); Miami International Securities Exchange LLC ("MIAX") Rule 603(a).

<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> Id.

other options exchanges have similar rules currently in place at their respective exchanges.<sup>8</sup> Further, the Exchange believes the proposed elimination of Rule 8040(a)(10) is reasonable and appropriate as another exchange in the industry filed to remove the language as the rule was obsolete and unnecessary.<sup>9</sup>

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as discussed above, the Exchange notes that the proposed rule change is substantially similar to rules at other options exchanges in the industry. As discussed above, the Exchange believes that the proposed change to revise the parity rule and eliminate the one point rule is consistent with the market maker obligations at other options exchanges.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)<sup>10</sup> of

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<sup>8</sup> See supra note 4.

<sup>9</sup> See Securities Exchange Release No. 60897 (October 28, 2009), 74 FR 57217 (November 4, 2009) (Notice of Filing and Immediate Effectiveness SR-ISE-2009-85).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

the Act and Rule 19b-4(f)(6) thereunder.<sup>11</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>12</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>13</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest because it will allow the changes to be implemented immediately to update certain Market Maker guidelines to better reflect current market conditions. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.<sup>14</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

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<sup>11</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

<sup>13</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>14</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2017-03 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2017-03. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2017-03, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).