

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85681; File No. SR-BOX-2019-10)

April 17, 2019

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt Rules Governing the Trading of Complex Customer Cross Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 4, 2019, BOX 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 adopt rules governing the trading of Complex Customer Cross Orders. 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://boxoptions.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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange is proposing rules that will make existing functionality available to additional order types on BOX. Specifically, the Exchange is proposing rules to codify Complex Customer Cross Orders on the Exchange.³ The Exchange notes that the proposed changes are similar to the rules of another exchange.⁴ In addition, the Exchange is proposing to expand certain Complex Order protections to the newly codified Complex Customer Cross Orders.

Complex Customer Cross Orders

First, the Exchange is proposing to add text related to Complex Customer Cross Orders. Proposed Rule 7240(b)(4)(iii) defines a Complex Customer Cross Order as a type of Complex Order which is comprised of one Public Customer Complex Order to buy and one Public Customer Complex Order to sell (the same strategy) at the same price and for the same quantity.⁵

The Exchange uses the same crossing mechanism for the processing and execution of Complex Customer Cross Orders that is used for Customer Cross Orders in the regular market.⁶ Proposed Rule 7110(c)(7) shall govern the trading of Complex Customer Cross Orders, as defined in Rule 7240(b)(4)(iii), on BOX. Proposed Rule 7110(c)(7) describes the execution price requirements that are specific to Complex Customer Cross Orders.⁷ Specifically, Complex

³ See https://boxoptions.com/assets/RC-2017-11-CC_QCC_cNBBO-July-10-Implementation-1.pdf.

⁴ See MIAX Rules 518(b)(5) and 515(h)(3).

⁵ Proposed Rule 7240(b)(4)(iii) is based on MIAX Rule 518(b)(5).

⁶ See BOX Rule 7110(c)(5).

⁷ Proposed Rule 7110(c)(7) is based on MIAX Rule 515(h)(3).

Customer Cross Orders are automatically executed upon entry provided that the execution (i) is at least \$0.01 better than any Public Customer Complex Order on the Complex Order Book;⁸ (ii) is at least \$0.01 better than the cBBO⁹ (iii) is at or better than any non-Public Customer Complex Order on the Complex Order Book; and (iv) is at or between the cNBBO.¹⁰ The purpose of the requirement that the execution must be at least \$0.01 better than any Public Customer Complex Order on the Complex Order Book is to ensure that the Complex Customer Cross Order does not trade in front of any resting Public Customer Complex Orders. The purpose of the requirement that the Complex Customer Cross Order be executed at or between the cNBBO is to ensure that net execution price is within the best net price available in the market and is in line with the requirement that simple Customer Cross Orders must execute at or within the NBBO.

The system will reject a Complex Customer Cross Order if, at the time of receipt of the Complex Customer Cross Order, the strategy is subject to an ongoing auction (including COPIP, Facilitation, and Solicitation auctions) or there is an exposed order on the strategy pursuant to Rule 7240(b)(3)(B). The purpose of this provision is to maintain an orderly market by avoiding the execution of Complex Customer Cross Orders with components that are involved in other system functions that could affect the execution price of the Complex Customer Cross Order, and by avoiding concurrent processing on the Exchange involving the same strategy.

Proposed Rule 7110(c)(7)(A) states that Complex Customer Cross Orders will be

⁸ The term “Complex Order Book” means the electronic book of Complex Orders maintained by the BOX Trading Host. See Rule 7240(a)(8).

⁹ The term “cBBO” means 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 such Strategy. See Rule 7240(a)(1).

¹⁰ The term “cNBBO” means the best net bid and offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy. See Rule 7240(a)(3).

automatically cancelled if they cannot be executed. Proposed Rule 7110(c)(7)(B) provides that Complex Customer Cross Orders may only be entered in the minimum trading increments applicable to Complex Orders under Rule 7240(b)(1).

As a regulatory matter, proposed Rule 7110(c)(7)(C) states that IM-7140-1 applies to the entry and execution of Complex Customer Cross Orders.¹¹

The following example illustrates the execution of a Complex Customer Cross Order:

Example 1 – Execution of a Complex Customer Cross Order

BOX Leg A Book: 6.00 – 6.50

BOX Leg B Book: 3.00 – 3.30

Strategy: Buy A Call, Sell B Call

The cNBBO is 2.70 – 3.20

The cBBO¹² is 2.70 – 3.50

The Complex Order Book contains a Public Customer order to sell the strategy at 3.20 and has no non-Public Customer Orders for the strategy.

The Exchange receives a Complex Customer Cross Order representing Public Customers on both sides for the simultaneous purchase and sale of the strategy at a price of 3.19.

The order price is at least \$0.01 better than the Public Customer Complex Order on the Complex Order Book and at least \$0.01 better than the implied market price (the cBBO). Additionally, the order price is at or between the cNBBO and is at or better than any non-Public Customer Orders on the Complex Order Book. Therefore, the Complex Customer

¹¹ Rule 7140(b) prevents an Options Participant executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on BOX an opportunity to trade with the agency order pursuant to Rule 7150 (Price Improvement Period), Rule 7245 (Complex Order Price Improvement Period) or Rule 7270 (Block Trades). However, the Exchange recognizes that it may be possible for an Options Participant to establish a relationship with a Customer or other person (including affiliates) to deny agency orders the opportunity to interact on BOX and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of this Rule for an Options Participant to circumvent this Rule by providing an opportunity for a Customer or other person (including affiliates) to execute against agency orders handled by the Options Participant immediately upon their entry into the Trading Host. See IM-7140-1.

¹² See supra note 9.

Cross Order is automatically executed upon entry.

The Exchange notes that the proposed rules for Complex Customer Cross Orders are based on the rules of another exchange with certain minor differences.¹³ First, the MIAX Rule requires the execution price to be better than the best net price of a complex order. The proposal requires the execution price to be better than any Public Customer Complex Orders on the Complex Order Book and no worse than the price of any non-Public Customer Complex Orders. The Exchange believes this difference is minor because the execution price must respect the orders on the Complex Order Book and not trade ahead of Public Customer Orders on the Complex Order Book, which is in line with regular Customer Cross Orders. In addition, the Exchange notes that ISE allows Complex Customer Cross Orders to trade at the same price as non-Priority Complex Customer Cross Orders on the same strategy.¹⁴ Pursuant to Rule 7110(c)(5), a Customer Cross Order must execute at a price that is at or between the best bid and offer on BOX and is not at the same price as a Public Customer Order on the BOX Book. Additionally, the Exchange is proposing to have the execution price be within the cNBBO, which MIAX does not provide. The Exchange believes this difference is minor because the Exchange is simply ensuring that the execution price respect the best net prices available in the market. Additionally, similar to the above, regular Customer Cross Orders may not trade through the NBBO.

Next, MIAX's Rule requires the execution to be at least \$0.01 better than best price order on the strategy book or the derived market price, whichever is more aggressive. The Exchange also notes that MIAX includes non-displayed trading interest when determining the best price based on the regular books, which the Exchange is not proposing because the Exchange does not

¹³ See MIAX Rules 515(h)(3) and 518(b)(5).

¹⁴ See Nasdaq ISE, LLC ("Nasdaq ISE") Rule 722 Supplementary Material .08(d) [sic].

have non-displayed interest.

Further, MIAX rejects a Complex Customer Cross Order if, at the time of receipt, any component of the strategy is subject to a PRIME Auction, a Route Timer, or liquidity refresh pause. The Exchange is not proposing the same conditions.¹⁵ With respect to not rejecting when a component is subject to an auction, the Exchange notes that this approach is in line with the treatment of a COPIP when there is an ongoing PIP on a component of the Complex Order. Specifically, the Exchange will accept Complex Orders designated for the COPIP where there is a PIP on an individual component.¹⁶ Further, in order to ensure orderly markets involving multiple Complex Orders with common components, the Exchange is proposing additional circumstances in which a Complex Customer Cross Order will be rejected, specifically, when there is an exposed order on the strategy pursuant to rule 7240(b)(4)(iii), or there is an ongoing COPIP, Facilitation or Solicitation auction on the strategy.

Lastly, the Exchange proposes to delete the reference to COPIP in BOX Rule 7110(c)(5) to make clear that single-leg Customer Cross transactions may be executed when the series is involved in a COPIP. The Exchange notes that this is similar to functionality that exists on another exchange.¹⁷

Complex Order Protections for Complex Customer Cross Orders

Lastly, the Exchange proposes to expand certain Complex Order protections to Complex

¹⁵ BOX notes that it does not have either the Route Timer or liquidity refresh pause features on the Exchange. As such, BOX is not proposing to include these features under the Proposal.

¹⁶ See IM-7245-2.

¹⁷ See MIAX Rule 515(h). Under MIAX rule 515(h), single-leg Customer Cross Orders are rejected when the trading interest is subject to a PRIME Auction or PRIME Solicitation Auction. MIAX Rule 515(h) does not indicate that a single-leg Customer Cross Order will be rejected, if the series is subject to a cPRIME Auction.

Customer Cross Orders. Specifically, the Exchange proposes to amend Rule IM-7240-1(a)(5) and IM-7240(b)(5) to apply these price protection checks to Complex Customer Cross Orders. The Exchange notes that another options exchange has similar price checks for Complex Customer Cross Orders.¹⁸ The Exchange believes that these protections should be extended to Complex Customer Cross Orders as it will mitigate potential risks associated with market participants entering orders at unintended prices and orders trading at prices that are extreme and potentially erroneous, which may likely have resulted from human or operational error.

The Exchange will provide notice of the exact implementation date of the proposed protections, via Circular, at least two weeks prior to implementing the proposed change.¹⁹

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),²⁰ in general, and Section 6(b)(5) of the Act,²¹ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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 to amend Rules 7110 and 7240 to codify rules covering Complex Customer

¹⁸ See Chicago Board Options Exchange, Incorporated (“Cboe”) Interpretations and Polices .08(c) and (g) to Rule 6.53C.

¹⁹ Due to technological delays, Complex Order price protections detailed in SR-BOX-2018-13 have not yet been implemented. The Exchange will provide notice of the exact implementation date of these protections, including the proposed protections discussed herein, at least two weeks prior to implementing the proposed change.

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(5).

Cross is consistent with Section 6(b)(5) of the Act because this proposal promotes just and equitable principles of trade and protects investors and the public interest by providing increased opportunities for the execution of Complex Orders. The Exchange believes that the proposed Complex Customer Cross rules will benefit Participants and the marketplace as a whole by adopting rules that allow for the trading of these types of orders on the Exchange. The Exchange believes the proposed rules for Complex Customer Cross Orders remove impediments to and perfects the mechanism of a free and open market and a national market system and will result in more efficient trading and enhance the likelihood of the Complex Orders executing at the best prices by providing additional order types resulting in potentially greater liquidity available for trading on the Exchange.

The proposed rule change will provide rules that make existing functionality available to additional order types. Providing rules that make Customer Cross available for Complex Orders removes impediments to and perfects the mechanisms of a free and open market and a national market system because Participants will be given additional ways in which they can execute Complex Orders.

The proposed rule change will protect investors and the public interest by assuring the existing priority and allocation rules applicable to the processing and execution of Customer Cross Orders and Complex Orders remains consistent with the processing and execution of these order types, unless otherwise specifically set forth in the rules.

The Exchange believes that the proposal to reject a Complex Customer Cross Order at the time of receipt of the order when the strategy is subject to an ongoing auction (including COPIP, Facilitation and Solicitation auctions), or there is an exposed order on the strategy, removes impediments to and perfects the mechanism of a free and open market by ensuring orderly

markets involving multiple complex orders with common components.

The proposed rule change to implement a debit/credit check for Customer Cross Orders is consistent with the Act. With the use of debit/credit checks, the Exchange can further assist with the maintenance of a fair and orderly market by mitigating the potential risks associated with Complex Customer Cross Orders trading at prices that are inconsistent with their strategies (which may result in executions at prices that are extreme and potentially erroneous), which ultimately protects investors. This proposed implementation of the debit/credit check promotes just and equitable principles of trade, as it is based on the same general option and volatility pricing principles which the Exchange understands are used by market participants in their option pricing models.

Additionally, the Exchange also believes that calculating a maximum price for true butterfly spreads, vertical spreads, and box spreads will assist with the maintenance of fair and orderly markets by helping to mitigate the potential risks associated with Complex Customer Cross Orders trading at extreme and potentially erroneous prices that are inconsistent with particular Complex Order strategies. Further, the Exchange notes that the maximum price is designed to mitigate the potential risks of executions at prices that are not within an acceptable price range, as a means to help mitigate the potential risks associated with Complex Orders trading at prices that are inconsistent with their strategies, in addition to the debit/credit check. As such, the proposed rule change is designed to protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change to provide rules governing the trading of Complex Customer Cross Orders will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as indicated

above, the Exchange notes that the rule is being proposed as a competitive response to the rules of another exchange.²² Additionally, the proposed rule change is intended to promote competition by adding rules for new order types that enable Participants to execute Complex Orders on the Exchange. The Exchange believes that this enhances inter-market competition by enabling the Exchange to compete for this type of order flow with other exchanges that have similar rules and functionalities in place.

Further, the Exchange does not believe that the proposed Complex Order protections will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as indicated above, the Exchange notes that the rule change is being proposed as a competitive response to the rules of another exchange.²³ Additionally, the Exchange believes the proposed rule change is beneficial to Participants as it will provide increased protections that will prevent the execution of certain Complex Orders that were entered in error. The Exchange believes the proposal is pro-competitive and should serve to attract additional Complex Orders to the Exchange. Further, the Exchange does not believe the proposed change will not impose a burden on intramarket competition because it is available to all Participants.

For the reasons stated, the Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and the Exchange believes the proposed change will, in fact, enhance competition.

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.

²² See MIAX Rules 515(h)(3) and 518(b)(5).

²³ See supra, note 18.

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

Because the 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) of the Act²⁴ and Rule 19b-4(f)(6) thereunder.²⁵

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 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. Please include File Number SR-BOX-2019-10 on the subject line.

²⁴ 15 U.S.C. 78s(b)(3)(A).

²⁵ 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.

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-2019-10. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-BOX-2019-10, 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.²⁶

Jill M. Peterson
Assistant Secretary

²⁶ 17 CFR 200.30-3(a)(12).