

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85695; File No. SR-BOX-2019-12)

April 19, 2019

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to amend Exchange Rule 7130

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 9, 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule 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 7130. 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 Sections A, B, and C below, of the most significant aspects of such statements.

¹ 15 U.S.C. 78s(b)(1).

² 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

BOX Rule 7130(a)(4) governs the criteria for order matching and trade execution priority on BOX. BOX Rule 7130(a)(4)(iv), Options Participant Match Trade Prevention, describes an exception to the order matching and trade priority within that rule. Under this exception, a Participant may direct that its Market Maker or broker dealer orders entered on BOX not execute against Market Maker quotes or orders, or broker dealer orders that originated from such Participant and were resting on the BOX Book.

The Exchange now proposes to amend Rule 7130 to remove the Options Participant Match Trade Prevention rule discussed above and adopt three forms of Self-Trade Prevention modifiers. Specifically, the Exchange proposes the Cancel Newest, Cancel Oldest, and Cancel Both Self-Trade Prevention modifiers. Under this proposal, a BOX Participant may elect for all of its orders to be marked with a Self-Trade modifier.³ If a Participant makes such an election, any order that is submitted will be prevented from executing against a resting opposite side order or quote that is labeled as originating from the Same Participant (for purposes of this rule, orders and quotes originating from the same Participant ID). A Participant may only elect one of the following: Cancel Newest, Cancel Oldest, or Cancel Both Self-Prevention options.

The Exchange also proposes IM-7130-2(c). This provision states that Participants who elect for Self-Trade Prevention modifiers may also elect for all of their resting interest to be

³ To elect for all orders to be marked with a Self-Trade Prevention modifier, Participants must contact the Market Operations Center (“MOC”). Such election will be effective until the Participant receives MOC’s written confirmation of the Participant’s written discretion to discontinue the effectiveness of the election for such Participant.

“skipped over.”⁴ In choosing to have their resting interest “skipped over,” incoming orders may trade with another eligible order or quote originating from any origin other than the Same Participant ID (for purposes of this rule, “Another Participant ID”). If the Participant elects for resting interest to be “skipped over,” the incoming order may only trade with another eligible order or quote originating from Another Participant ID if the other (Another) Participant ID order or quote is at the price of the order or quote from the Same Participant ID that is being “skipped over.” The resting order or quote that was “skipped over” will remain on the BOX Book with the same priority. This election will apply to each of the modifiers discussed herein.

Below are examples of each Self-Trade Prevention modifier (some which include the election for resting interest to be “skipped over”):

Cancel Newest

First, the Exchange proposes the STP Cancel Newest (“STPN”) modifier.⁵ If a Participant chooses this modifier, any incoming order submitted by a Participant will not execute against opposite side interest from the Same Participant ID. The incoming order will be cancelled back to the Participant. The resting order or quote from the Same Participant will remain on the BOX Book.

STPN Example 1: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Newest Self-Trade Prevention modifier rests on the BOX Book with no resting interest behind it. An order to sell 10 contracts @ \$1.00 comes in from the Same Participant. The

⁴ Similar to the election for Self-Trade Prevention modifiers, Participants must contact the MOC if they elect for all of their resting interest to be “skipped over.” Such election will be effective until the Participant receives MOC’s written confirmation of the Participant’s written discretion to discontinue the effectiveness of the election for such Participant.

⁵ The Exchange notes that the Cancel Newest modifier is similar to the functionality of the current Options Participant Match Trade Prevention.

incoming order to sell 10 contracts @ \$1.00 is then cancelled back to the originating Participant. The resting buy order for 10 contracts \$1.00 remains on the BOX Book.

STPN Example 2: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Newest Self-Trade Prevention modifier (and has elected for its resting orders to be “skipped over”) rests on the BOX Book with another order to buy 10 contracts @ \$1.00 from Another Participant resting behind it. An order to sell 10 contracts @ \$1.00 comes in from the Same Participant. The incoming sell order for 10 contracts @ \$1.00 would not trade with the order to buy 10 contracts @ \$1.00 from the Same Participant, but would trade with the order to buy 10 contracts @ \$1.00 from the other Participant resting behind the buy order from the Same Participant because the price is at the Same Participant buy order.⁶ The resting buy order for 10 contracts @ \$1.00 from the Same Participant will remain on the BOX Book because the Participant elected for its resting orders to be “skipped over.”

STPN Example 3: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Newest Self-Trade Prevention modifier (and has not elected for its resting orders to the “skipped over”) rests on the BOX Book with another order to buy 10 contracts @ \$1.00 from Another Participant resting behind it. An order to sell 10 contracts @ \$1.00 comes in from the Same Participant. The incoming sell order for 10 contracts @ \$1.00 from the Same Participant is cancelled back to the Same Participant (because the Participant did not elect for its resting orders to be “skipped over”). The resting sell order for 10 contracts @ \$1.00 from the Same Participant will remain on the BOX Book.

STPN Example 4: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Newest Self-Trade Prevention modifier (and has elected for its resting interest to be

⁶ The Exchange notes that the incoming order would have been cancelled had the Participant not elected for its resting interest to be “skipped over.”

“skipped over”) rests on the BOX Book with another order to buy 10 contracts @ \$0.99 from Another Participant resting behind it. An order to sell 10 contracts @ \$1.00 comes in from the Same Participant. The incoming sell order for 10 contracts would not trade with the order to buy 10 contracts @ \$1.00 from the Same Participant and would also not trade with the order to buy 10 contracts @ \$0.99 from Another Participant resting behind the buy order from the Same Participant.⁷ The incoming sell order for 10 contracts is then cancelled back to the originating Participant. The resting buy order for 10 contracts @ \$1.00 from the Same Participant remains on the BOX Book.

Cancel Oldest

Next, the Exchange proposes the STP Cancel Oldest (“STPO”) modifier. If a Participant chooses this modifier, any incoming order submitted by a Participant will not execute against opposite side resting interest from the same Participant ID. When a Participant submits an incoming order that would trade against opposite side resting interest from the same Participant ID, the opposite side interest will be cancelled back to the Participant.

STPO Example 1: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Oldest Self-Trade Prevention modifier rests on the BOX Book with no resting interest behind it. An order to sell 10 contracts @ \$1.00 comes in from the Same Participant. The resting buy order for 10 contracts @ \$1.00 is then cancelled back to the originating Participant. The incoming sell order for 10 contracts @ \$1.00 is entered into the BOX Book.⁸

⁷ This is because the price of the eligible order from Another Participant ID is not at the same price level as the resting order on the BOX Book. As such, the incoming order is cancelled back to the Participant.

⁸ In this example, regardless of whether the Participant elected for its resting interest to be “skipped over,” the result would be the same because there is no resting interest behind the resting Participant order.

STPO Example 2: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Oldest Self-Trade Prevention modifier (and has elected for its resting interest to be “skipped over”) rests on the BOX Book with another order to buy 10 contracts @ \$1.00 from Another Participant resting behind it. An order to sell 10 contracts @ \$1.00 comes in from the Same Participant. The incoming sell order for 10 contracts @ \$1.00 would trade with the order to buy 10 contracts @ \$1.00 from the other (Another) Participant resting behind the buy order from the Same Participant. The resting buy order from the Same Participant will remain on the BOX Book.

STPO Example 3: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Oldest Self-Trade Prevention modifier (and has not elected for its resting interest to be “skipped over”) rests on the BOX Book with another order to buy 10 contracts @ \$1.00 from Another Participant resting behind it. An order to sell 10 contracts at \$1.00 comes in from the Same Participant. The resting buy order for 10 contracts @ \$1.00 from the Same Participant is cancelled back to the Same Participant. The incoming sell order for 10 contracts @ \$1.00 would trade with the order to buy 10 contracts @ \$1.00 from the other (Another) Participant resting behind the buy order from the Same Participant.

STPO Example 4: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Oldest Self-Trade Prevention modifier rests on the BOX Book with another order to buy 10 contracts @ \$0.99 from Another Participant resting behind it. An order to sell 10 contracts comes in from the Same Participant. The resting buy order for 10 contracts @ \$1.00 is cancelled back to the originating Participant. The incoming sell order for 10 contracts would trade with the order to buy 10 contracts @ \$0.99 from Another Participant that had been resting

behind the buy order from the Same Participant (since the resting buy order from the Same Participant was cancelled).⁹

Cancel Both

Lastly, the Exchange proposes the STP Cancel Both (“STPC”) modifier. If a Participant chooses this modifier, any incoming order submitted by a Participant will not execute against opposite side resting interest from the same Participant ID. When a Participant submits an incoming order that would trade against opposite side resting interest from the same Participant ID, the entire size of both orders (or order and resting quote) will be cancelled back to the originating Participant ID.

STPC Example 1: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Both Self-Trade Prevention modifier rests on the BOX Book with no resting interest behind it. An order to sell 10 contracts @ 1.00 comes in from the Same Participant. Both orders would be cancelled back to the Participant.¹⁰

STPC Example 2: An order to buy 10 contracts @ \$1.00 from a Participant who has elected for the Cancel Both Self-Trade Prevention modifier (and has elected for its resting interest to be “skipped over”) rests on the BOX Book with another order to buy 10 contracts @ \$1.00 from Another Participant resting behind it. An order to sell 10 contracts @ \$1.00 comes in from the Same Participant. The incoming order would trade with the order to buy 10 contracts @ \$1.00 from the other (Another) Participant resting behind the order from the Same Participant. The resting order will remain on the BOX Book.

⁹ In this example, the resting order will be cancelled back to the Participant regardless of whether the Participant has elected to allow for the resting order to be skipped because the buy order for 10 contracts @ \$0.99 is at a different price behind the resting order.

¹⁰ In this example, regardless of whether the Participant elected for its resting interest to be “skipped over,” the result would be the same.

As explained above, orders may skip over orders or quotes from the Same Participant ID and trade against eligible orders or quotes with lower priority that originate from Another Participant, provided the prices are the same. Therefore, the Exchange proposes to add IM-7130-2(d) to provide that in instances in which the Self-Trade Prevention modifiers are implicated, the Self-Trade Prevention modifier rules will supersede other allocation methods only for the purpose of preventing self-trades as described in the Self-Trade Prevention modifier rule. The Exchange notes that this rule is similar to another rule that was in place at another exchange.¹¹

Additional Discussion

The Exchange notes that the proposed modifiers discussed herein are similar to modifiers used at other options exchanges.¹² The Exchange believes that the proposed changes will allow

¹¹ See Securities Exchange Act Release No. 67152 (June 7, 2012), 77 FR 35448 (June 13, 2012)(Order Approving SR-CBOE-2012-013). While this rule previously applied to Cboe's equities market, the Exchange believes that it should be permitted on the options market as it allows for increased executions without taking liquidity from the BOX Book which benefits all market participants.

¹² See Cboe BZX Exchange, Inc. ("Cboe BZX") Rule 21.1(g). The Exchange notes a few minor differences between Cboe BZX's rule and BOX's proposed rule. First, the Exchange notes that it is not copying Cboe BZX Rule 21.1(g)(3) and (5). These rules detail two modifiers that BOX does not wish to offer on the Exchange at this time. Second, the Exchange notes that it is not copying certain language in Cboe BZX Rule 21.1(g) that states that the "modifier on the incoming order controls the interaction between two orders marked with modifiers." Under the Proposal, if a Participant elects for its orders to be marked with one of the three proposed modifiers, all orders will be marked with the elected modifier, not on an order-by-order basis. Third, the Exchange notes that proposed IM-7130-2(c) differs from the Cboe BZX rule. As proposed, Participants who elect for Self-Trade Prevention modifiers may also elect for resting interest to be "skipped over." Participants may elect for their resting interest to be "skipped over" so incoming orders may trade with another eligible order or quote originating from any origin other than the Same Participant ID (for purposes of this rule, "Another Participant ID"). If the Participant elects for resting interest to be "skipped over," the incoming order may only trade with another eligible order or quote originating from Another Participant ID if the other (Another) Participant ID order or quote is at the price of the order or quote from the Same Participant ID that is being "skipped over." The resting order or quote that was "skipped over" will remain on the BOX Book. The Exchange notes that allowing Participants to elect whether its resting interest can be

BOX Participants to better manage order flow and prevent undesirable or unexpected executions with themselves. Given enhancements in technology in today's trading environment, Participants often have multiple connections into the Exchange. Orders, for example, routed by the Same Participant via different connections may, in certain circumstances, trade against each other. The proposed STP modifiers would provide Participants the opportunity to prevent these potentially undesirable interactions occurring under the same Participant ID on both the buy and sell side of an execution.

As proposed, the STP modifiers would not be applicable to Qualified Contingent Cross ("QCC") Orders, auctions (COPIP, Facilitation and Solicitation) and Qualified Open Outcry ("QOO") Orders. Both QCC Orders and auctions are paired orders intended to serve a particular investment purpose that are contingent on the execution of the options legs, in the case of a QCC Order, and the execution of both sides of an auction order. Because the non-execution of a leg of a QCC Order or an auction order is contrary to the investment purpose of such orders, the

"skipped over" is reasonable and non-controversial as it will allow the incoming order to execute against the next resting order or quote on the BOX Book (as long as the next resting order or quote from Another Participant ID is at the price of the resting order or quote from the Same Participant that is being "skipped over") and allow the resting interest to remain on the BOX Book. The Exchange further notes that similar functionality was previously available at Cboe Exchange Inc ("Cboe") for their Cancel Newest modifier. See Securities Exchange Act Release No. 67152 (June 7, 2012), 77 FR 35448 (June 13, 2012)(Order Approving SR-CBOE-2012-013). Further, the Exchange proposes to allow similar functionality discussed above in all proposed modifiers and not just the Cancel Newest modifier. Specifically, the Exchange proposes to allow Participants the ability to elect for their resting interest to be "skipped over" at the same price for both the STPO and STPC modifiers. The Exchange believes that this is reasonable and non-controversial as it will allow incoming orders to execute against the next resting order or quote on the BOX Book (as long as the next resting order or quote from Another Participant ID is at the price of the resting order or quote from the Same Participant ID) and allow the resting order from the Same Participant ID to remain on the BOX Book. As such, the Exchange believes that this functionality, while similar to the Cancel Newest modifier previously available at Cboe, should be applied to all of the proposed modifiers. The functionality will result in increased executions without taking liquidity from the BOX Book.

Exchange has determined not to apply the STP modifiers in a manner that would prevent the execution of a QCC Order or an auction. Similarly, QOO Orders on the BOX Trading Floor are paired orders. The Exchange has determined not to apply the STP modifiers in a manner that would prevent the execution of such orders.

Implementation

The Exchange anticipates implementing the proposed change during the second quarter of 2019. The Exchange will provide notice of the exact implementation date, via Circular, prior to implementing the proposed change.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,¹³ in general, and Section 6(b)(5) of the Act,¹⁴ in particular, 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. The proposed rule change advances these objectives by making available to all Participants (not just Market Makers as the current rule provides) order modifiers that will assist them in preventing unwanted executions against themselves. Allowing all Participants to prevent unwanted executions against themselves removes impediments to and perfects the mechanism for a free and open market by allowing market participants to better manage order flow and prevent undesirable or unexpected executions with themselves. Further, the Exchange believes that expanding self-trade prevention to all Participants is reasonable and appropriate as similar

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

functionality is available at other options exchanges in the industry.¹⁵ Further, the Exchange notes that current rule 7130(a)(4)(iv) (Options Participant Match Trade Prevention) functions similar to the proposed Cancel Newest modifier. The Exchange believes that expanding self-trade prevention by adding Cancel Oldest and Cancel Both modifiers is reasonable as they exist at other options exchanges in the industry.¹⁶ Further, as discussed herein, the Exchange believes that all proposed modifiers will allow Participants to better manage their order flow and prevent undesirable or unexpected executions with themselves.

The Exchange believes that proposed IM-7130-2(c) is reasonable as a similar rule was in place at another exchange.¹⁷ As discussed above, the functionality that was previously available at Cboe was available on their equities market. The Exchange believes that the proposed functionality is appropriate and should be applied to the options market because it will allow increased executions on the Exchange without taking liquidity from the BOX Book, thus benefitting all market participants. Further, the Exchange notes that the proposed functionality was only available on Cboe's Cancel Newest STP modifier. The Exchange believes that expanding this functionality to all proposed modifiers is appropriate as it will allow increased executions, regardless of what modifier the Participant elects to use on its orders. For example, Participant A has elected for the Cancel Oldest Self-Trade Prevention modifier to be applied to

¹⁵ See supra note 12. See also Cboe EDGX Exchange, Inc. ("EDGX") On EDGX, Match Trade Prevention ("MTP") modifiers are available to all users, and not just Market Makers. The Exchange believes that expanding functionality to all Participants is appropriate as it will allow for all options market participants to better manage their order flow and prevent undesirable or unexpected executions with themselves.

¹⁶ See Cboe BZX Exchange, Inc. ("Cboe BZX") Rule 21.1(g). The Exchange again notes it is not proposing to include the modifiers codified in CboeBZX Rule 21.1(g)(3) and (5).

¹⁷ See Securities Exchange Act Release No. 67152 (June 7, 2012), 77 FR 35448 (June 13, 2012)(Order Approving SR-CBOE-2012-013).

all of their orders and has also elected for its resting interest to be “skipped over.”¹⁸ Participant A has an order to buy 10 contracts @ \$1.00 resting on the BOX Book with a Participant B buy order for 10 contracts \$1.00 resting behind it. An order to sell 10 contracts @ \$1.00 comes in from Participant A. Based on Participant A’s elections, the incoming sell order for 10 contracts @ \$1.00 would trade with Participant B’s buy order for 10 contracts @ \$1.00 and Participant A’s resting buy order would remain on the BOX Book. Because Participant A elected for the skip over functionality, their resting buy order will be permitted to stay on the BOX Book despite their election of the STPO modifier. This election will, in turn, allow Participant A’s resting interest the ability to stay on the BOX Book and potentially execute with another incoming sell order instead of being cancelled back to Participant A, thus potentially resulting in an execution that otherwise would not have occurred.

Further, the Exchange believes that adding proposed IM-7130-2(d) to provide that, in instances in which the Self-Trade Prevention modifiers are implicated, the Self-Trade Prevention modifier rules will supersede other allocation methods only for the purposes of preventing self-trades, as described in the proposed rule perfects the mechanism for a free and open national market system and protects investors and the public interest by removing any potential confusion regarding priority and allocation methods.

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

The Exchange does not believe that the proposed rule will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is designed to enhance the Exchange’s current Match Trade Prevention rule and will

¹⁸ The Exchange again notes that these voluntary functionalities (the STP modifiers and the “skip over” election) are applied to all orders by the Market Operations Center at the request of the BOX Participant.

benefit Participants that wish to protect their orders and quotes against trading with other orders that originate from the same Participant ID. This new functionality, which is similar to functionality offered on other Exchanges, is also voluntary and the Exchange therefore does not believe that providing an enhanced offering to prevent against self-trading will have any significant impact on competition. The Exchange believes the proposed rule change is evidence of the competitive environment in the options industry where exchanges must continually improve their offerings to maintain competitive standing.

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) of the Act¹⁹ and Rule 19b-4(f)(6) thereunder.²⁰

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

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and 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. The Exchange has satisfied this requirement.

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-2019-12 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-2019-12. 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-2019-12 and should be submitted on or before [date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

Eduardo A. Aleman
Deputy Secretary

²¹ 17 CFR 200.30-3(a)(12).