SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-86030; File No. SR-BOX-2019-17)

June 4, 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 Qualified Contingent Cross Orders and Make a Modification to the Execution Requirements for 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 May 23, 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 Qualified Contingent Cross Orders and make a modification to the execution requirements for 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

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

2 17 CFR 240.19b-4.

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.

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 Qualified Contingent Cross ("QCC") Orders on the Exchange.[3] The Exchange notes that the proposed changes are similar to the rules of other exchanges.[4] The Exchange also proposes to modify the requirements for Complex Customer Cross Orders on the Exchange. Lastly, the Exchange is proposing to expand certain Complex Order protections to Complex QCC Orders.

Complex Customer Cross Orders

First, the Exchange is proposing to modify requirements related to Complex Customer Cross Orders.[5] The Exchange notes that the only modification being made is that each leg of a Complex Customer Cross Order must execute at least $0.01 better than any Public Customer Order on the BOX Book. All other requirements remain the same as the current functionality in place.

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.

---

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

4 See Nasdaq ISE, LLC ("ISE") Rule 721(d). See also MIAX Rules 515(h)(4) and 518(b)(6).

5 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.

Accordingly under Proposed Rule 7110(c)(7), Complex 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; (ii) is at least $0.01 better than the cBBO; (iii) is at or better than any non-Public Customer Complex Order on the Complex Order Book; (iv) is at or between the cNBBO as defined in Rule 7240(a)(3) and further provided that each leg is at least $0.01 better than any Public Customer Order on the BOX Book.

<u>Complex QCC Orders</u>

Next, the Exchange is proposing to add text related to Complex QCC Orders. Pursuant to proposed Rule 7240(b)(4)(iv), a Complex QCC Order is comprised of an originating Complex Order to buy or sell where each component is at least 1,000 contracts that is identified as being part of a qualified contingent trade as defined in IM-7110-2[6] coupled with a contra-side Complex Order or orders totaling an equal number of contracts.[7]

The Exchange uses the same crossing mechanism for the processing and execution of Complex QCC Orders that is used for QCC Orders in the regular market.[8] Accordingly, proposed

---

6 A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where: (1) at least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act; (2) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (3) the execution of one component is contingent upon the execution of all other components at or near the same time; (4) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (5) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (6) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. <u>See</u> IM-7110-2.

7 Proposed Rule 7240(b)(4)(iv) is based on MIAX Rule 518(b)(6) and ISE Rule 715(j).

8 <u>See</u> Securities Exchange Act Release No. 80661 (May 11, 2017), 82 FR 22682 (May 17, 2017)(SR-BOX-2017-14). The Exchange notes that regular QCC Orders on BOX are

Rule 7110(c)(8) shall govern trading of Complex QCC Orders, as defined in Rule 7240(b)(4)(iv), on BOX. Proposed Rule 7110(c)(8) describes the execution price requirements that are specific for Complex QCC Orders.[9] Specifically, Complex QCC 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; (ii) is at least $0.01 better than the cBBO; (iii) is at or better than any non-Public Customer Complex Order on the Complex Order Book and further provided that each option leg executes at a price that is at least $0.01 better than any Public Customer Order on the BOX Book and each option leg executes at or between the NBBO. The purpose of the requirement that the execution must be at least $0.01 better than the cBBO is to ensure that the Exchange is respecting the implied market price. The purpose of the requirement that each option leg must be at least $0.01 better than any Public Customer Complex Order on the Complex Order Book is to ensure that the Complex QCC Order does not trade in front of any resting Public Customer Complex Orders. Similarly, the purpose of the requirement that each option leg be at least $0.01 better than any Public Customer Order on the BOX Book is to ensure that the Complex QCC Order does not trade in front of any resting regular Public Customer Orders. The purpose of the requirement that the individual options legs of the Complex QCC Order be executed at or between the NBBO is to ensure that the execution price of each option leg is within the best price available in the market and is in line with the requirement that simple QCC Orders must execute at or within the NBBO.

The system does not consider the NBBO price for the stock component because the Exchange does not execute the stock component; the Exchange executes the option components

---

allowed to execute automatically on entry without exposure provided the execution: (1) is not at the same price as a Public Customer Order on the BOX Book; and (2) is at or between the NBBO.

9 Proposed Rule 7110(c)(8) is based on ISE Rule 721(d).

at a net price and ensures that, among other things, the execution (i) is at least $0.01 better than any Public Customer Complex Order on the Complex Order Book; (ii) is at least $0.01 better than the cBBO; (iii) is at or better than any non-Public Customer Complex Order on the Complex Order Book; (iv) each option leg executes $0.01 better than any Public Customer Order on the BOX Book; and (v) each option leg executes at or between the NBBO.

The system will reject a Complex QCC Order if, at the time of receipt of the Complex QCC 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 QCC Order with components that are involved in other system functions that could affect the execution price of the Complex QCC Order, and by avoiding concurrent processing on the Exchange involving the same strategy.

Proposed Rule 7110(c)(8)(A) states that Complex QCC Orders will be automatically cancelled if they cannot be executed. Proposed Rule 7110(c)(8)(B) provides that Complex QCC Orders may only be entered in the minimum trading increments applicable to Complex Orders under Rule 7240(b)(1).

The following example illustrates the execution of a Complex QCC Order:

<u>Example 1 – Execution of a Complex QCC Order</u>

BOX Leg A Book: 6.00 – 6.60 (no Public Customer interest)
BOX Leg B Book: 3.00 – 3.30 (no Public Customer interest)
Leg A NBBO: 6.00 – 6.60
Leg B NBBO: 3.00 – 3.30

Strategy: Buy A Call, Sell B Call

The cBBO is 2.70 – 3.60
The cNBBO is 2.70 – 3.60
The Complex Order Book contains a broker-dealer order to sell the strategy at 3.29.

The Exchange receives a Complex QCC Order for the simultaneous purchase and sale of the strategy at a net price of 3.29, 1,000 times. Since the order can be executed at or between the NBBO for each leg of the strategy, is not at a worse price than the non-Public Customer Order on the Complex Order Book, is at least $0.01 better than the cBBO, is not at the same price as a Public Customer Order on the BOX Book, and the order size is met, the Complex QCC Order is automatically executed upon entry.

Example 2 – Execution of a Complex QCC Order

BOX Leg A Book: 6.00 – 6.60 (no Public Customer interest)
BOX Leg B Book: 3.00 – 3.30 (Public Customer Order to sell at 3.30)
Leg A NBBO: 6.00 – 6.60
Leg B NBBO: 3.00 – 3.30

Strategy: Buy A Call, Sell B Call

The cBBO is 2.70 – 3.60
The cNBBO is 2.70 – 3.60

The Exchange receives a Complex QCC Order for the simultaneous purchase and sale of the strategy at a net price of 3.30, 1,000 times. Since there is a Public Customer Order on the BOX Book for Leg B to sell at 3.30 and the incoming Complex QCC Order is not at least $0.01 better than the resting Public Customer Order on the BOX Book, the Complex QCC Order is rejected.

The proposed rules governing Complex QCC Orders are based on the rules of another exchange with certain differences.[10] The Exchange is proposing the additional requirement that the execution price is at or better than any non-Public Customer Complex Order on the Complex Order Book. The Exchange believes that this additional requirement is reasonable because the Exchange is respecting resting Complex Orders. Further, the Exchange proposes that the execution is at least $0.01 better than the cBBO. The Exchange believes that this additional

[10] See supra note 4.

requirement is reasonable because the Exchange is respecting the implied market price. Further, the Exchange believes that this additional requirement will encourage Participants to add liquidity because incoming orders will not trade ahead of resting interest on the BOX Book. Lastly, MIAX rejects a Complex QCC 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.[11] 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.[12] Further, the Exchange notes that orders on the regular book are protected by the fact that the execution price must be at least $0.01 better than the cBBO. Additionally, in order to ensure orderly markets involving multiple Complex Orders with common components, the Exchange is proposing additional circumstances in which a Complex QCC Order will be rejected, specifically, when there is an exposed order on the strategy, there is an ongoing Facilitation or Solicitation auction on the strategy or when there is a COPIP.

Lastly, the Exchange proposes to expand certain Complex Order protections to Complex QCC Orders. Specifically, the Exchange proposes to amend Rule IM-7240-1(a)(5) and IM-7240-1(b)(5) to apply these price protection checks to Complex QCC Orders. The Exchange notes that another options exchange has similar price checks.[13]

---

11 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.

12 See IM-7245-2.

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

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"),[14] in general, and Section 6(b)(5) of the Act,[15] 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 Exchange believes that the proposed change requiring each leg of a Complex Customer Cross order to execute at least $0.01 better than any Public Customer Order on the BOX Book promotes just and equitable principles of trade and protects investors and the public interest by further protecting resting Public Customer interest.

The proposal to amend Rules 7110 and 7240 to codify rules covering Complex QCC Orders 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 requiring the execution to be at least $0.01 better than any Public Customer Complex Order on the Complex Order Book protects investors and the public interest as it will ensure that the Complex QCC Order does not trade in front of any resting Public Customer Complex Orders. The Exchange also believes that requiring the execution to be at least $0.01 better than the cBBO will further protect investors as it ensures that the implied market prices are respected. Further, the Exchange believes that requiring the individual legs of a Complex QCC Order to execute at least $0.01

[14] 15 U.S.C. 78f(b).

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

better than any resting Public Customer interest further protects Public Customers on the Exchange. Lastly, the Exchange believes that requiring each option leg to execute at or between the NBBO protects investors and the public interest because it ensures that the execution price of each option leg is within the best price available in the market and is in line with the requirement that simple QCC Orders must execute at or within the NBBO.

The Exchange also believes that the proposed Complex QCC 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 QCC Orders remove impediments to and perfect 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 an additional order type. Providing rules that make QCC 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 QCC Orders and Complex Orders remains consistent with the processing and execution of these order types, unless otherwise specifically set forth in the rules.

The system does not consider the NBBO price for the stock component because the Exchange does not execute the stock component; the Exchange executes the option components at a net price and ensures that the net execution (i) is at least $0.01 better than any Public Customer Complex Order on the Complex Order Book; (ii) is at least $0.01 better than the cBBO; (iii) is at or better than any non-Public Customer Complex Order on the Complex Order Book; (iv) each option leg executes $0.01 better than any Public Customer Order on the BOX Book; and (v) each option leg executes at or between the NBBO.

The Exchange believes that the proposal to reject a Complex QCC 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 Complex QCC 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 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 QCC 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 changes 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 other exchanges.[16] Additionally, the proposed rule change is intended to promote competition by adding rules for a new order type 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 the proposed change will impose a burden on intramarket competition because it is available to all Participants.

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 other exchanges.[17] 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

[16] See supra note 4.

[17] Id.

the Exchange. Further, the Exchange does not believe the proposed change will impose a burden on intramarket competition because the price protections are available to all Complex QCC Orders.

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.

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 Act[18] and Rule 19b-4(f)(6) thereunder.[19]

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

---

18 15 U.S.C. 78s(b)(3)(A).

19 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.

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-2019-17 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-2019-17. 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-2019-17, 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.[20]

Eduardo A. Aleman
Deputy Secretary

[20] 17 CFR 200.30-3(a)(12).