

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-92724; File No. SR-BOX-2021-17)

August 23, 2021

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Response Time Period in the Facilitation and Solicitation Auction Mechanisms

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 August 10, 2021, 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 from interested persons.

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

The Exchange proposes to amend the time period allowed for Participant submission of Responses in the Facilitation and Solicitation auction mechanisms from one (1) second to a time period designated by the Exchange of no less than 100 milliseconds and no more than one (1) second. 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.

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

1. Purpose

The purpose of the proposed rule change is to amend the time period allowed for Participant submission of Responses in the Facilitation and Solicitation auction mechanisms from one (1) second to a time period designated by the Exchange of no less than 100 milliseconds and no more than one (1) second.³

Rule 7270 contains the requirements applicable to the execution of orders in the Facilitation⁴ and Solicitation⁵ Auction Mechanisms. Currently, under the Facilitation and Solicitation auction mechanisms, when the Exchange receives a designated Agency Order for auction processing, a broadcast message will be sent and Options Participants will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to

³ While the Exchange intends to decrease the time period allowed for Responses, the proposed rule would also allow the Exchange to increase this time period up to one (1) second, which is the time currently allowed for the submission of Responses. See IM-7270-4.

⁴ BOX's Facilitation Auction is a process by which an OFP can attempt to execute a transaction wherein the OFP seeks to facilitate a block-size order it represents as agent ("Agency Order"), and/or a transaction wherein the OFP solicited interest to execute against an Agency Order. OFPs must be willing to execute the entire size of Agency Orders entered into the Facilitation Auction through the submission of a contra "Facilitation Order". See BOX Rule 7270(a).

⁵ BOX's Solicitation Auction is a process by which an OFP can attempt to execute orders of 500 or more contracts it represents as agent (the "Agency Order") against contra orders that it has solicited ("Solicited Order"). Each Agency Order entered into the Solicitation Auction shall be all-or-none. See BOX Rule 7270(b).

participate in the execution of the Agency Order. Currently, the time given to Options Participants to enter Responses for Facilitation and Solicitation auctions is one (1) second pursuant to IM-7270-4. The Exchange now proposes to amend IM-7270-4 to state that the time given to Options Participants to enter Responses shall be determined by the Exchange and announced through a Regulatory Circular. The time to enter Responses will be no less than 100 milliseconds and no more than one (1) second. The Exchange notes that substantially similar language exists at other options exchanges with similar auction mechanisms.⁶

The Exchange believes that proposed rule change could provide more customer orders an opportunity for price improvement because it will reduce the market risk for all Participants executing trades in these mechanisms. Participants that submit orders into such mechanisms to initiate an auction (“Initiating Participants”) are required to guarantee an execution at the Agency Order price or a better, and are subject to market risk while the order is exposed in the mechanisms to other Participants. While other Participants are subject to market risk, the Initiating Participant is most exposed because the market can move against them during the auction period and they have guaranteed the customer an execution at the Agency Order price or better based on the market prices prior to the commencement of the auction. In today’s fast-paced markets, big price changes can occur in 100 milliseconds or less, leaving the Initiating Participants vulnerable to trading losses due to their choice to seek price improvement for their customer. The Initiating Participant acts in a critical role in the price improvement process and

⁶ See Securities Exchange Act Release Nos. 79352 (November 18, 2016), 82 FR 3055 (January 10, 2017)(Order Approving SR-ISE-2016-26, a Proposed Rule Change To Modify the Response Times in the Block Mechanism, Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism); 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032); 77557 (April 7, 2016), 81 FR 21935 (April 13, 2016) (SR-PHLX-2016-40) and 80570 (May 1, 2017), 82 FR 28369 (June 21, 2017)(SR-MIAX-2017-16).

their willingness to guarantee the customer an execution at the Agency Order Price or better is keystone to the customer order gaining the opportunity for price improvement. Therefore, limiting Initiating Participants' market risk by reducing the exposure time in the mechanisms should increase the likelihood that an Initiating Participant would seek price improvement for its customer by entering such orders into one of the mechanisms.

Further, although the Exchange currently plans to reduce the time period allowed for the auction Responses to 100 milliseconds, the Exchange believes that it is appropriate to provide the flexibility to choose a Response period of up to one (1) second as this is consistent with the rules of other options markets.⁷

The Exchange's Participants operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. The Exchange anticipates that its Participants will continue to compete within the proposed auction duration designated by the Exchange. In particular, the Exchange believes the proposed auction Response time will continue to provide Participants with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

To substantiate that BOX Participants can receive, process, and communicate a response to an auction broadcast within 100 milliseconds, the Exchange surveyed all Participants that responded to a Facilitation or Solicitation auction in the period beginning January 1, 2021 and ending June 30, 2021. The Exchange received responses from all Participants surveyed, and each Participant confirmed that they can receive, process, and communicate a response back to the Exchange within 100 milliseconds.

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Id.

Accordingly, the Exchange believes that an auction time as low as 100 milliseconds will continue to provide Participants with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional traffic associated with the additional transactions that may occur with the implementation of the proposed reduction in the auction duration to no less than 100 milliseconds. Additionally, the Exchange represents that its systems will be able to sufficiently maintain an audit trail for order and trade information with the reduction in the auction duration.

Upon effectiveness of the proposal, the Exchange will issue an Informational Circular to Participants informing them of the implementation date of the reduction of the auction from one (1) second to the auction time designated by the Exchange to allow Participants the opportunity to perform systems changes. This will give Participants an opportunity to make any necessary modifications to coincide with the implementation date.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,⁸ in general, and Section 6(b)(5) of the Act,⁹ in particular, in that it designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general protect investors and the public interest.

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

In particular, the proposed rule change will provide investors with more timely execution of their option orders, while ensuring that there is an adequate exposure of orders in these mechanisms. Additionally, the proposed change will allow more investors the opportunity to receive price improvement through the mechanisms and will reduce market risk for Participants using the mechanisms. Finally, as mentioned above, other exchanges have amended their rules to permit response times consistent with those proposed here – i.e., no less than 100 milliseconds and no more than 1 second.¹⁰As such, the Exchange believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors’ and the public’s interest.

The Exchange believes the proposed rule change is not unfairly discriminatory because the auction duration would be the same for all Participants. All Participants in the mechanisms have today, and will continue to have, an equal opportunity to receive the broadcast and respond with their best prices during the auction. Additionally, the Exchange believes the reduction in the auction duration reduces the market risk for all Participants. The reduction in the time period reduces the market risk for the Initiating Participant as well as any Participants providing orders in response to a broadcast. Moreover, based on the feedback the Exchange received from its Participants, the

¹⁰ See supra note 6. The Exchange notes that its Facilitation and Solicitation mechanisms are substantially similar to the Facilitation and Solicitation mechanisms at Nasdaq ISE. The Exchange notes one minor difference. Specifically, ISE’s Solicitation Mechanism does not include a surrender quantity provision where BOX’s Solicitation Mechanism does. The Exchange believes this is a minor difference and will not have a material impact with respect to the proposed response time discussed herein. Further, as discussed above, Nasdaq ISE has identical rule language to that of the proposed language discussed herein. See Securities Exchange Act Release No. 79352 (November 18, 2016), 82 FR 3055 (January 10, 2017)(Order Approving SR-ISE-2016-26, a Proposed Rule Change To Modify the Response Times in the Block Mechanism, Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism). As such, the Exchange believes the proposed change does not raise any new or novel issues and should be approved by the Commission.

Exchange believes that a reduction in the auction period to a low of 100 milliseconds would not impair Participants' ability to compete in the mechanisms. The Exchange believes these results support the assertion that a reduction in the auction duration would not be unfairly discriminatory and would benefit investors.

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

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act¹¹ in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change provides the Exchange flexibility in determining potentially shorter durations for Facilitation and Solicitation auctions does not impose an undue burden on intra-market competition as the Exchange believes that allowing for an auction period of no less than 100 milliseconds and no more than 1 second will benefit Participants utilizing the auction mechanisms. The Exchange believes it is in these Participants' best interest to minimize the Facilitation and Solicitation Auction duration while continuing to allow Participants adequate time to respond electronically. Further, based on the feedback the Exchange received from its Participants, the Exchange believes that a reduction in the auction period to a low of 100 milliseconds would not impair Participants' ability to compete in the mechanisms.

The proposed rule allows Participants to respond quickly at the most favorable price while reducing the risk that the market will move against the response. The Exchange believes that its Participants will be able to compete within a range of no less than 100 milliseconds and no more than 1 second, and that any specific duration within this range is a sufficient amount of

¹¹ 15 U.S.C. 78f(b)(8).

time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants more timely executions, and reduce their market risk.

The Exchange does not believe its proposed rule change will impose an undue burden on inter-market competition as the Exchange notes other exchanges offer similar mechanisms with similar auction durations.¹²

For all the reasons stated, 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, and believes the proposed change will 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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act¹³ and Rule 19b-4(f)(6) thereunder.¹⁴ 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁵ and Rule 19b-4(f)(6)(iii) thereunder.¹⁶

¹² See supra note 6.

¹³ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁴ 17 CFR 240.19b-4(f)(6).

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business

A proposed rule change filed under Rule 19b-4(f)(6)¹⁷ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁸ the Commission may 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 states that waiver of the operative delay will allow the Exchange to immediately decrease the Response time which would allow Participants to respond quickly at their most favorable price, while reducing the risk that the market will move against the response. The Exchange also notes that other exchanges with similar auction mechanisms permit the same response time period.¹⁹ The Commission believes that the proposed changes do not raise any material new issues that have not been previously considered by the Commission. For this reason, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposal operative upon filing.²⁰

At any time within 60 days of the filing of this 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

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.

¹⁷ 17 CFR 240.19b-4(f)(6).

¹⁸ 17 CFR 240.19b-4(f)(6)(iii).

¹⁹ See supra note 6.

²⁰ For purposed 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).

otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change 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-2021-17 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-2021-17. 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, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the 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-2021-17, 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.²¹

Jill M. Peterson
Assistant Secretary

²¹ 17 CFR 200.30-3(a)(12).