

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-77095; File No. SR-BOX-2016-04)

February 9, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 7070 (Opening the Market) to Implement a New Price Protection Feature for the Opening

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 27, 2016, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

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

The Exchange proposes to amend Rule 7070 (Opening the Market) to implement a new price protection feature for the opening. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at <http://boxexchange.com>.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has

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

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

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 proposes to amend Rule 7070 (Opening the Market) to enhance the price protections available during the opening by providing a process that helps mitigate the potential risk associated with orders and quotes trading at prices substantially away from the best available prices on other exchanges.

Background

The Exchange currently employs certain protections during opening. Specifically, from the time that the Trading Host<sup>3</sup> commences accepting orders and quotes at the start of the Pre-Opening Phase,<sup>4</sup> the Trading Host will calculate and provide the Theoretical Opening Price ("TOP") for the current resting orders and quotes on the BOX Book<sup>5</sup> during the Pre-Opening Phase. The TOP is that price at which the Opening Match<sup>6</sup> would occur at the current time, if that time were the

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<sup>3</sup> The term "Trading Host" means the automated trading system used by BOX for the trading of options contracts. See Rule 100(a)(66).

<sup>4</sup> For some period of time of not less than one hour before the opening in the underlying security, the Trading Host will accept orders and quotes. During this period, known as the Pre-Opening Phase, orders and quotes are placed on the BOX Book but do not generate trade executions. Complex Orders and contingency orders (except "Market-on-Opening" orders) do not participate in the opening and are not accepted by the BOX Trading Host during this Pre-Opening Phase. Price Improvement Period orders and Complex Order Price Improvement Period orders are not accepted during the Pre-Opening Phase.

<sup>5</sup> The term "BOX Book" means the electronic book of orders on each single option series maintained by the Trading Host. See Rule 100(a)(10).

<sup>6</sup> The Opening Match is the process employed by the Exchange to open a series for

opening, according to the Opening Match procedures described in Rule 7070(e). The quantity that would trade at this price is also calculated. The TOP is re-calculated and disseminated every time a new order or quote is received, modified or cancelled and where such event causes the TOP price or quantity to change. A TOP can only be calculated if an opening trade is possible. An opening trade is possible if: i) the BOX Book is crossed (highest bid is higher than the lowest offer) or locked (highest bid equals lowest offer), or ii) there are Market or Market-on-Opening Orders in the BOX Book and at least one order or quote on the opposite side of the market.

Complex Orders and contingency orders do not participate in the Opening Match or in the determination of the opening price. The Trading Host establishes the opening price at the time of the Opening Match. The opening price is the TOP at the moment of the Opening Match. The Trading Host will process the series of a class in a random order, starting promptly after the opening for trading of the underlying security in the primary market. The TOP/opening price of a series is the "market clearing" price which will leave bids and offers which cannot trade with each other. In determining the priority of orders to be filled, the Trading Host gives priority to Market Orders first, then to Market-on-Opening orders, then to Limit Orders whose price is better than the opening price, and then to resting orders on the BOX Book at the opening price.

The Exchange currently applies a protection mechanism that delays the opening of trading in the event of unusual quoting activity in a particular series or class of options. The BOX Trading Host will not open a series if one of the following

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trading. See Rule 7070(e).

conditions is met: i) A Market Maker's quote crosses the TOP by more than "P" percent plus "x" amount<sup>7</sup> of the theoretical opening price, or ii) if the sum of the volume for all of the series within a class exceeds "y" series or "z" contracts.<sup>8</sup>

### Proposal

The Exchange is now proposing to enhance the opening protections on the Exchange. Specifically, BOX is proposing to implement a new price protection feature designed to prevent orders and quotes on the opening from trading at prices that are away from the best available prices on other exchanges. The Exchange believes that the below-described protection feature will enhance the existing functionality and assist with the maintenance of fair and orderly markets by providing an automated process that helps mitigate the potential risks associated with orders and quotes trading at prices that are substantially away from the best available prices on other exchanges (thereby resulting in executions at prices that are extreme and potentially erroneous).

As mentioned above, the Exchange calculates a TOP which is the price that the Opening Match would occur at the current time, if that time were the opening. The Exchange is now proposing to enhance the opening procedures to add a price protection which will validate the TOP against the best available prices on other exchanges, or if no TOP can be calculated because an opening trading is not possible, validate the highest Bid (lowest Ask) Limit Order or quote price against the best

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<sup>7</sup> The Market Regulation Center ("MRC") shall distribute what the appropriate "P" percent and "x" amount is for each series via Regulatory Circular.

<sup>8</sup> The MRC shall distribute what the appropriate "y" series and "z" contracts are for each class via Regulatory Circular.

available prices on other exchanges. Specifically, the Exchange will not open trading if the TOP, or when there is no TOP, the highest Bid (lowest Ask) Limit Order or quote, is not at a valid price. For purposes of this rule filing, a valid price is a price that is equal to or within the High Limit and Low Limit; these Limits give a range of the acceptable prices that the opening can occur (“Acceptable Price Range”).<sup>9</sup> The High Limit is the Away Best Offer (“ABO”)<sup>10</sup> plus the Price Collar and the Low Limit is the Away Best Bid (“ABB”)<sup>11</sup> minus the Price Collar. If there is no ABB, the Low Limit is calculated by subtracting the Price Collar from the ABO. The proposed price protection feature will only apply to options that are multiply listed; it will not cover options that are exclusive to the Exchange. This is because the proposed price protection requires there to be prices available on other exchanges that can be used to calculate the Acceptable Price Range.

### **Price Collar**

The Price Collar is calculated by taking the acceptable number of ticks<sup>12</sup> that the order or quote can trade away from the ABBO.<sup>13</sup> The acceptable number of ticks is then multiplied by the minimum trading increment<sup>14</sup> applicable to that series. The acceptable number of ticks will be determined by the Exchange on an underlying

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<sup>9</sup> For Limit Orders and quotes when there is no TOP, if the Bid (Ask) price is equal to or lower than (higher than) the High (Low) Limit, then the Bid (Ask) price is valid and the series can open. See Proposed Rule 7070(m)(2).

<sup>10</sup> The “ABO” is the NBO not including the Exchange’s Best Offer.

<sup>11</sup> The “ABB” is the NBB not including the Exchange’s Best Bid.

<sup>12</sup> The term “tick” refers to one minimum trading increment for that option series.

<sup>13</sup> The “ABBO” is the NBBO not including the Exchange’s Best Bid/Offer.

<sup>14</sup> See Rule 7050.

security basis.<sup>15</sup> Unless determined otherwise by the Exchange and announced to Participants via Informational Circular, the acceptable number of ticks for all option series shall be three (3) ticks. The Price Collar is designed to give an acceptable range for orders or quotes to execute based on the best available market prices on other exchanges.

For example, if the Exchange determines that the acceptable number of ticks for a series that has a minimum trading increment of a penny (\$0.01) is three (3), the Price Collar applicable to that series will be \$0.03 (3\*\$0.01). If the series has an ABO of \$1.25 and ABB of \$1.20, then the High Limit would be \$1.28 and the Low Limit would be \$1.17 giving an Acceptable Price Range of \$1.28 to \$1.17. If the TOP is within or equal to the outside limits of the Acceptable Price Range, the TOP is at a valid price and the Exchange can open the series. If, however, no TOP is available but there is a Limit Order or quote present, it will be evaluated. Specifically, if the Bid (Ask) price of the highest Bid (lowest Ask) Limit Order or quote price is equal to or lower than (higher than) the High (Low) Limit, then the Bid (Ask) price is valid and the series can open.<sup>16</sup>

### **Dynamic opening process**

If the proposed price protection prevents a series from opening, the Exchange will initiate a dynamic opening iteration process.<sup>17</sup> Specifically, if the TOP, or if a TOP is not present, the highest Bid (lowest Ask) Limit Order or quote price, is not at a

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<sup>16</sup> For example, if there is a Limit Order to buy at \$1.25 it would be less than or equal to the High Limit of \$1.30, therefore it would be at a valid price and the Exchange could open the series.

<sup>17</sup> See proposed Rule 7070(m)(3).

valid price the Exchange will initiate the dynamic opening iteration process outlined below. The Exchange will also initiate the dynamic opening process when the ABO and ABB prices are crossed or no ABO for the series exists.<sup>18</sup> This proposed process will reevaluate whether a series can open for trading whenever there is an update to the TOP, ABO, ABB, or the highest Bid (lowest Ask) Limit Order or quote price, when applicable. When an update is received by the Exchange, the Exchange will reevaluate whether the TOP (or the highest Bid (lowest Ask) Limit Order/quote price) is now within or equal to the limits of the Acceptable Price Range. If the ABO and/or the ABB are updated, the system will recalculate the High Limit and Low Limit and therefore an updated Acceptable Price Range will be calculated by the system. If the TOP (or the highest Bid (lowest Ask) Limit Order/quote price) is now within or equal to the limits of the new Acceptable Price Range, the system will allow the series to open at the price of the TOP (or the highest Bid (lowest Ask) Limit Order/quote price). If, instead, the system receives an update to the TOP or, the highest Bid (lowest Ask) Limit Order or quote price, when applicable, the system will evaluate the updated price to determine if it is within or equal to the limits of the Acceptable Price Range. If the updated price is now within or equal to the limits of the Acceptable Price Range, the system will allow the series to open at the updated price. This proposed process will continue until the TOP (or the highest Bid (lowest Ask) Limit Order/quote price) is within or equal to the limits of the Acceptable Price Range, or the Exchange intervenes and manually opens the series.

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<sup>18</sup> See proposed Rule 7070(m)(1)(C).

For example, assume again that a series has an ABO of \$1.25 and ABB of \$1.20 and a Price Collar of \$0.03, thereby giving it an Acceptable Price Range of \$1.28 to \$1.17. Assume the TOP is at \$1.33 so the system will not allow the series to open because it is outside of the Acceptable Price Range. If the system receives an updated ABO of \$1.30, the new High Limit will be \$1.33 and the Acceptable Price Range will be \$1.33 to \$1.17. The TOP will now be within or equal to the limits of the Acceptable Price Range so the series can open. If instead of receiving an update to the ABO, assume the system receives an updated TOP of \$1.25. The new TOP is within the Acceptable Price Range of \$1.28 to \$1.17 so the series will be allowed to open.

The Exchange notes that the current protections at the opening will continue to apply; the proposed opening protections are designed to enhance the Exchange's current offerings, not replace them.<sup>19</sup> Additionally, the Exchange may deviate from the proposed price protections at the open. Specifically, the Exchange can deviate from the standard manner of the opening procedure when it believes it is necessary in the interest of a fair and orderly market.<sup>20</sup>

The Exchange will provide Participants with notice, via Information Circular, about the implementation date of the proposed enhancements to the price protections.

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<sup>19</sup> The current protection in Rule 7070(g), that prevents a series from opening when a Market Maker's quote crosses the TOP by a certain amount, will occur after the TOP is validated by the proposed price protection.

<sup>20</sup> See Rule 7070(k).

## 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”),<sup>21</sup> in general, and Section 6(b)(5) of the Act,<sup>22</sup> 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, by enhancing the risk protections available to Participants. In particular, the propose [sic] rule change is consistent with these requirements in that it will reduce the negative impacts of sudden, unanticipated volatility in individual options, and serve to preserve an orderly market in a transparent and uniform manner, increase overall market confidence, and promote fair and orderly markets and the protection of investors. Specifically, BOX believes that the ABBO is a fair representation of then-available prices at the opening and accordingly the proposal helps to avoid executions at prices that are significantly worse than the ABBO. Additionally, the Exchange believes the proposal promotes policy goals of the Commission which has encouraged execution venues, exchange and non-exchange alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability.

BOX believes the proposed price protection functionality will remove impediments to and perfect the mechanism of a free and open market by providing greater control over the prices at which the opening occurs. Additionally, the Exchange

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<sup>21</sup> 15 U.S.C. 78f(b).

<sup>22</sup> 15 U.S.C. 78f(b)(5).

believes that the proposed protection feature for the opening will enhance the existing functionality and assist with the maintenance of fair and orderly markets by providing an automated process that helps mitigate the potential risks associated with orders and quotes trading at prices that are substantially away from the best available prices on other exchanges (thereby resulting in executions at prices that are extreme and potentially erroneous).

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. BOX believes the proposal will provide market participants with additional price protection while submitting orders and quotes to the Exchange. The Exchange does not believe the proposal will impose a burden on competition among the options exchanges, because of vigorous competition for order flow among the options exchanges. The Exchange competes with many other options exchanges. In this highly competitive market, market participants can easily and readily direct order flow to competition venues.

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 Act<sup>23</sup> and Rule 19b-4(f)(6) thereunder.<sup>24</sup> Because the proposed

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

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 Act and Rule 19b-4(f)(6)(iii) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>25</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>26</sup> 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 Exchange may implement the proposed price protections as soon as possible, which will benefit all market participants. In support of its request, the Exchange states the proposed rule change is designed to prevent executions on the opening at prices substantially away from the best prices available on other exchanges. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.<sup>27</sup>

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<sup>24</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>25</sup> 17 CFR 240.19b-4(f)(6).

<sup>26</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>27</sup> For purposes only of waiving the operative date of this proposal, the Commission

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](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2016-04 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-2016-04. 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

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has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<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 such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2016-04 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.<sup>28</sup>

Brent J. Fields  
Secretary

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<sup>28</sup> 17 CFR 200.30-3(a)(12).