

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78946; File No. SR-BOX-2016-45)

September 27, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change to Amend the Treatment of Quotes to Provide that All Quotes on BOX are Liquidity Adding Only

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 September 13, 2016, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III 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 8050 to amend the treatment of quotes to provide that all quotes on BOX are liquidity adding only. 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

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 proposes to amend the treatment of incoming quotes to BOX so that they are only accepted if they are liquidity adding.³ Specifically, the Exchange is proposing that all quotes and quote updates after the opening that are submitted by Market Makers on the Exchange will only be accepted by the Trading Host⁴ if they will add liquidity to the BOX Book.⁵

Currently, on the Exchange, an incoming quote from a Market Maker can take liquidity. Specifically, an incoming quote that is executable against an interest on the BOX Book, whether it is a resting order or quote, will execute against such interest. The Exchange is now proposing that if an incoming quote or quote update is marketable because it would execute against a resting order or quote on the BOX Book, it will be rejected. The Exchange will not reject incoming quotes during the opening of the market.⁶ Therefore, all quotes accepted by the Trading Host after the opening will be liquidity adding only. As is the case

³ See proposed IM-8050-3 to Rule 8050.

⁴ The term “Trading Host” means the automated trading system used by BOX for the trading of options contracts. See Rule 100(a)(66).

⁵ The term “Central Order Book” or “BOX Book” means the electronic book of orders on each single option series maintained by the BOX Trading Host. See Rule 100(a)(10).

⁶ Transactions occurring on the opening are deemed to neither add nor remove liquidity and therefore are exempt from the liquidity fees and credits on the Exchange. See Section II.C. of the BOX Fee Schedule.

today, rejected quotes will not be considered when determining a Market Maker's quoting obligations.⁷

The Exchange believes that this proposed change will strengthen the market at BOX and better align market making activity with its intended purpose, which is to provide liquidity to the market.⁸ This proposal will benefit market participants as it has the potential to provide for more robust quoting on the Exchange. The Exchange notes that Market Makers will still be able to execute against resting orders and quotes on the BOX Book. Specifically, a Market Maker can still submit an order to execute against resting liquidity on the BOX Book.⁹ Additionally, Market Makers will still be permitted to submit orders in and out of their appointed classes. This will provide Market Makers with the ability to take liquidity on BOX.

The proposed rule change also amends the treatment of incoming quotes after they interact with the Price Improvement Period ("PIP"). Currently, when an incoming quote is on the same side as a PIP Order,¹⁰ it may cause the PIP to end early, if, at the time of submission,

⁷ On a daily basis, a Market Maker must, during regular market hours, make markets and enter into any resulting transactions consistent with the applicable quoting requirements, such that on a daily basis a Market Maker must post valid quotes at least sixty percent (60%) of the time that the classes are open for trading. These obligations apply to all of the Market Maker's appointed classes collectively, rather than on a class-by-class basis. See Rule 8050(e). See also Rule 8040.

⁸ The concept of having liquidity adding only mechanisms available for market participants is not a new one; other exchanges currently offer liquidity adding only order types. See International Securities Exchange, LLC ("ISE") Rule 715(n) and NYSE Arca Options, Inc. ("NYSE Arca") Rule 6.62(t).

⁹ Market Makers will have one interface to submit quotes to BOX and another interface they can utilize for submitting orders.

¹⁰ Options Participants, both Order Flow Providers and Market Makers, executing agency orders may designate Market Orders and marketable limit Customer Orders for price improvement and submission to the PIP. Customer Orders designated for the PIP ("PIP Orders") shall be submitted to BOX with a matching contra order equal to the full size of the PIP Order. See Rule 7150.

the price of the incoming quote satisfies certain criteria outlined in Rule 7150(i). Under the proposal, the incoming quote will continue to cause the PIP to end early if the conditions of Rule 7150(i) exist. However, after the PIP is concluded, if the incoming quote would execute against resting orders or quotes on the BOX Book, it will be rejected. Additionally, when an incoming quote on the opposite side of the PIP Order is received such that it would cause an execution to occur prior to the end of the PIP, the incoming quote shall be immediately executed pursuant to Rule 7150(j). In order for the incoming quote on the opposite side of the PIP Order to execute against the PIP Order, the conditions of Rule 7150(j) must be met. Under the proposal, any remaining balance of the incoming quote that did not execute against the PIP Order, and that would execute against a resting order or quote on the BOX Book, will be rejected. The Exchange is not proposing to change the interaction of an incoming quote with a PIP Order; the Exchange is simply clarifying how the proposal will affect quotes after they interact with the PIP Order.

The Exchange will provide Participants with notice, via Information Circular, about the implementation date of this proposed change.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹² in particular, in that it is designed to promote just and equitable principles of trade, 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.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

In particular, the proposed change will better align market making on BOX with its intended purpose of providing liquidity to the market. A Market Maker that is submitting quotes is doing so to create a market, not take a market. As such, the Exchange believes that the proposed change will add value to market making on BOX, which will benefit investors and the public, and therefore, the Exchange believes that the proposed change will remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that if a Market Maker's quote takes liquidity against the BOX Book, it was unintentional. If the Market Maker wanted to take the order or quote on the BOX Book, he would do so with an order, not a quote. As such, the Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange notes that Market Makers will still be permitted to submit orders in and out of their appointed classes. This will provide Market Makers with the ability to take liquidity on BOX. Lastly, Market Makers will still be subject to the obligations detailed in BOX Rules 8040 and 8050. The Exchange believes that the proposed changes have no material impact on a Market Maker's obligations pursuant BOX Rules 8040 and 8050.

The Exchange believes that the proposed change will protect investors and the public interest by providing a more robust market. The Exchange believes that the proposed rule change will lead to enhanced liquidity on the Exchange, which in turn will benefit and protect investors and the public interest through the potential for greater volume of orders and executions on BOX.

The Exchange notes that a Market Maker's obligation to provide continuous two-sided quotes on a daily basis is not diminished by the proposed change. A Market Maker will still be

required to provide continuous two-sided quotes on a daily basis and quotes will still expire at the end of the day. Even though rejected quotes will not be considered when determining a Market Maker's quoting obligations, due to the fact that a Market Maker's quote very rarely ever takes liquidity on BOX,¹³ the Exchange believes that the proposed rule change will not have a material effect on a Market Maker's quoting ability or a Market Maker's quoting requirements outlined in BOX Rule 8050. Lastly, the Exchange notes that Market Makers will still be able to send orders in and out of classes to which they are appointed.

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 add value to market making on BOX. 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 competing venues. The proposal does not impose an undue burden on intramarket competition because the proposed change will apply to all Market Makers on BOX. The Exchange does not believe that the proposed restriction on Market Maker quotes will impose an undue burden on Market Makers because they will continue to be permitted to submit orders which can take liquidity. The Exchange

¹³ It is the Exchange's understanding that generally when a Market Maker's quote takes liquidity, it was done unintentionally. Specifically, it occurs when the price of the underlying security updates, but the Market Maker did not update the incoming quote to reflect the new price of the underlying security. When Market Makers wish to take liquidity they do so by sending an order to the Exchange, not a quote. When a Market Maker sends a quote to the Exchange it is done as part of a bulk quote message with numerous other quotes and quote updates; this is why it is more efficient for a Market Maker to use an order when it is looking to take liquidity.

does not believe that the proposed rule change will provide Market Makers with any advantage over other Participants. The Exchange notes that although it does not have liquidity adding orders, Participants can easily add liquidity by submitting orders as they currently do today. The Exchange also notes that other exchanges already have liquidity adding only mechanisms for market participants;¹⁴ therefore, the Exchange does not believe this proposal imposes an undue burden on inter-market 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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be 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

¹⁴ See supra note 8.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2016-45 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-2016-45. 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 such filing will also 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-2016-45 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.¹⁵

Robert W. Errett
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).