SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79258; File No. SR-BOX-2016-50)

November 8, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change to Amend Rule 5050 Series of Options Contracts Open for Trading to Provide for the Listing and Trading on the Exchange of RealDay™ Options Pursuant to a Pilot Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on October 26, 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 5050 to provide for the listing and trading on the Exchange of RealDay™ Options pursuant to a pilot program. 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 its rules to provide for the listing and trading on the Exchange of a new type of standardized option product on the SPDR® S&P 500® Exchange Traded Fund ("ETF") (this security is known by its symbol "SPY") called RealDay™ Options ("RealDay Options") pursuant to a pilot program ending 12 months after approval of all necessary changes to the applicable BOX Rules has been received from the Securities and Exchange Commission (the "SEC" or "Commission"). RealDay Options will possess many of the characteristics of existing standardized options with some important variations. Most notably, at the commencement of trading of a particular RealDay Option and until the close of trading on the last trading day before its expiration, the numerical value of the strike price will not be known. However, the formula used to calculate the strike price will be fixed and known from the time of listing.[3]

RealDay Options are a propriety product that are designed and exclusively licensed by the RealDay Options Corporation.[4] RealDay Options will be exclusively listed on BOX. RealDay Options are designed to have an active period, where the numerical value of the strike prices is known, for exactly one trading day but can be listed far in advance of their expiration date. Although the active period is only one trading day, RealDay options can still be traded

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3 The Exchange notes that this is not a new concept. See Chicago Board Options Exchange, Incorporated ("CBOE") Rule 24.1(aa).

4 The RealDay Options Corporation is a design and product development company specializing in innovative exchange-listed derivative instruments. For more information visit http://realdayoptions.com/.

during the anticipatory period which is the period of time from listing until the close of trading on the trading day prior to expiration. The Exchange believes that there is interest for options designed to cover a single trading day across all market participants, including institutional investors and the public. RealDay Options are true, or real, one-day options, because they are forward-start (or delayed start[5]) options whose strike increments and strike price setting formula are fixed from the time they are listed, but whose numerical strike prices are determined based on the formula which uses the closing price of SPY from the last trading day before expiration. This unique structure of having the strike intervals and strike price setting formula fixed from the time they are listed but not knowing the numerical value of the strike price until the exercise price setting date – which is after the close of trading on the last trading day before expiration – is what makes these options one-day options.

Initially, RealDay Options will only be listed on SPY but the Exchange may seek to list RealDay Options on additional securities in the future,[6] provided that the Exchange receives the necessary approval from the Commission. The Exchange has selected SPY as the initial security to list RealDay Options on due to the vast liquidity in the security. Specifically, SPY is the largest and most actively traded ETF in the United States. According to State Street Global Advisor, the Trustee of SPY, as of October 5, 2016, the total net assets of SPY were approximately \$198 billion, and the weighted average market capitalization of the portfolio components was approximately \$146 billion.[7] For the three months ending October 5, 2016, the

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5 Delayed start options are options that do not have an exercise price when first introduced for trading, but instead have an exercise price setting formula pursuant to which the exercise price will be fixed on a specified future date. The price setting formula is fixed and known from the time of listing.

6 The Exchange would use the SEC's form 19b-4 approval process in order to list RealDay Options on additional securities.

7 See https://www.spdrs.com/product/fund.seam?ticker=SPY.

average daily volume in SPY shares was approximately 85 million.[8]

RealDay Options will be P.M. cash-settled and have European-style exercise provisions.[9] These options may expire every trading day, including days on which monthly options series, Short Term Options Series, and Quarterly Options Series on SPY expire. The Exchange believes that cash settlement is more appropriate than physical settlement and therefore is best suited for this product. Physical settlement possesses certain risks with respect to volatility and movement of the underlying security at expiration that the recipient may need to hedge against. Cash settlement does not have any of these risks associated with the underlying security. If an issue with the delivery of the underlying security arises, it may become more expensive to reverse due to a change in the price of the underlying security; such risk does not exist with reversing a cash payment. Additionally, with physical settlement, the recipient has to sell the underlying security if they desire cash, which would cause them to incur costs associated with liquidating the position and has risks related to movement of the underlying price before it can be liquidated. Further, if RealDay Options were physically settled, an investor would need to carry the security overnight and liquidate the next trading day; this would defeat the purpose of having an option where the active period is designed to cover only a single trading day. If an investor had to liquate the next trading day, there would be a risk that the price of the security could change overnight before the investor would be able to liquidate their position.[10] The Exchange notes that there are still certain risks with cash settlement, however, these risks are minimal and will continue to be monitored. The Exchange notes that cash settlement for options is not a unique

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8 Calculated using data from Yahoo as of October 5, 2016.

9 See Proposed Rule 5050(f)(4).

10 If an investor was required to wait until the next trading day to liquidate, RealDay Options would essentially be A.M.-settled options instead of P.M.-settled, as designed.

feature and other options exchanges have cash settled options.[11] Additionally, the Exchange has discussed RealDay Options with market participants and they have expressed their preference for the product to be cash-settled.

RealDay Options are P.M.-settled due to the nature of the product. Specifically, RealDay Options are designed to cover a single trading day due to the fact they are only active for one trading day. The only way to ensure that the option covers one trading day is to have it be P.M.-settled, as opposed to A.M.-settlement where additional factors may have an effect on the settlement price. Specifically, A.M.-settled options use the opening price for settlement which means they will price in after-hours news and events and therefore do not cover only one trading day. If RealDay Options were A.M.-settled, they would not cover only a single trading day because the settlement price would include events occurring after the close, which is not the intended goal of RealDay Options. Additionally, the Exchange notes that standard options in SPY are already P.M.-settled.

Listing

Although RealDay Options are designed to cover one trading day, they will be listed at least two weeks prior to their expiration but no greater than nine (9) months prior to their expiration.[12] The options are in essence divided into two periods: the anticipatory period and the active period.[13] The anticipatory period is the period of time from the day the option is listed up until the close of trading on the last trading day before expiration. The active period is the expiration day of the option. During the anticipatory period the strike intervals and strike price setting formula are known, but not the numerical value of the strike prices, because they depend

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11 See e.g. NASDAQ's FX Options and CBOE's SPX Options.

12 See Proposed Rule 5050(f).

13 See Exhibit 3-2 for a chart illustrating the two periods.

on the closing price of SPY from the last trading day before expiration. RealDay Options may still be traded in the anticipatory period in the same manner as standard options on SPY. The fact that the numerical strike prices will only be known for the active period, which is one trading day, is how RealDay Options are designed to be active for one trading day.

Strike Prices

The numerical value of the strike prices for RealDay Options will not be known until the close of trading on the last trading day before expiration, although the strike intervals and strike price setting formula will be fixed from inception.[14] As described in greater detail below, the formula will involve multiplying the closing price of SPY from the last trading day before expiration ("Strike Setting Price") by the Strike Multiplier.[15] The Exchange notes that calculating strike prices based on a previous close is not an entirely new concept.[16] In effect, the strike price will stay at the same percentage relationship to the price of SPY from the time of listing. Further, the Exchange may only list up to a maximum of seven strike prices for each expiration date. The seven strike prices will consist of up to three (3) strike prices with a price greater than the Strike Setting Price, three (3) strike prices with a price less than the Strike Setting Price, and one (1) strike price equal to the Strike Setting Price.[17] The Exchange will have discretion in determining the number of strike prices it will list per expiration, provided that the strike prices listed satisfy the restrictions above. Additionally, the Exchange must list the strike

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14 See Proposed Rule 5050(f)(8).

15 The "Strike Multiplier" is the decimal equivalent of the percentage strike of the specific option. The Strike Multiplier will be expressed with three decimal places. For example, an option that is equal to the Strike Setting price would be 100%, making the Strike Multiplier 1.000.

16 See CBOE Rule 24.9(d). The exercise price of CBOE Delayed Start Options Series is determined in relation to the closing price of the underlying index on the date on which the exercise price is fixed.

17 See Proposed Rule 5050(f)(2).

price that is equal to the Strike Setting Price for every RealDay Option expiration. For example, the Exchange could not list four (4) strike prices at a price greater than the Strike Setting Price, one (1) strike price equal to the Strike Setting Price and two (2) options that have a strike price less than the Strike Setting Price. However, the Exchange could list three (3) strike prices at a price greater than the Strike Setting Price, one (1) strike price equal to the Strike Setting Price and two (2) strike prices that are less than the Strike Setting Price.

The Exchange may, in its sole discretion, determine to not list in-the-money ("ITM") put or call options for any of the seven (7) strike prices.[18] The ITM puts that the Exchange may decide to not list are those corresponding to the three strike prices that are greater than the Strike Setting Price and the ITM call options are those corresponding to the three strike prices that are less than the Strike Setting Price. The Exchange notes that nothing in its Rules prohibits the Exchange from deciding to list only a put or call option for a specific strike price. The Exchange also notes that the listing of only a put or call option for a specific strike price will allow for quote mitigation. Additionally, the Exchange believes it will be beneficial to have this discretion because it will allow the Exchange to limit the number of instruments listed. Additionally, the Exchange believes that the value of RealDay Options is in the instruments that are at-the-money ("ATM") and out-of-the-money ("OTM").

As is the case with other options that the Exchange lists, the Exchange may add additional strike prices after the initial listing of a RealDay Option, provided that the Exchange does not list more than the seven strike prices as described above. For example, if the Exchange lists a RealDay Option at the beginning of March with only the strike price equal to the Strike Setting Price that expires on June 29, 2017, the Exchange could list up to six additional strike

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18 See Proposed Rule 5050(f)(2)(ii).

prices at the beginning of June for the same expiration.[19] When listing the additional strike prices, the Exchange must follow the guidelines above with respect to only being allowed to list up to three strike prices above and three strike prices below the Strike Setting Price.

The strike price formula will be used after the close of trading on the last trading day before expiration in order to calculate the numerical values of the strike prices. Specifically, the strike prices will be determined by multiplying the Strike Setting Price by the Strike Multiplier. Additionally, the strike prices will have fixed strike intervals of 0.50%; therefore the Exchange's general strike price interval rules shall not apply to RealDay Options.[20] This means there will be one strike price equal to 100% of the Strike Setting Price.[21] The three strike prices greater than then Strike Setting Price will be determined by adding 0.5%, 1.0%, and 1.5%,[22] respectively, to the Strike Setting Price. The three strike prices less than the Strike Setting Price will be determined by subtracting 0.5%, 1.0%, and 1.5%,[23] respectively, from the Strike Setting Price. The strike prices will be rounded to the nearest minimum trading increment, if necessary.

<u>Example #1</u>

On Tuesday, SPY's closing price is 180.15, which will be the Strike Setting Price. RealDay Options on SPY expiring on the next trading day, Wednesday, may have the following strike prices computed by multiplying the Strike Setting Price by the Strike Multiplier.

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19 For example, on June 1, 2017, the Exchange could list three strike prices greater than the Strike Setting Price and three strike prices lower than the Strike Setting Price. The threes [sic] strike prices greater than the Strike Setting Price will be the strike prices calculated by adding 0.5%, 1.0%, and 1.5%, respectively, to the Strike Setting Price. The three strike prices less than the strike Setting Price will be the strike prices calculated by subtracting 0.5%, 1.0%, and 1.5%, respectively, from the Strike Setting Price.

20 <u>See</u> Proposed Rule 5050(f)(3).

21 The Strike Multiplier would be 1.000.

22 The Strike Multipliers would be 1.005, 1.010 and 1.015, respectively.

23 The Strike Multiplies would be 0.995, 0.990 and 0.985 respectively.

Option	Formula (Strike Setting Price * Strike Multiplier)	Strike Prices
Strike Setting Price +1.5%	180.15 * 1.015	182.85
Strike Setting Price +1.0%	180.15 * 1.010	181.95
Strike Setting Price +0.5%	180.15 * 1.005	181.05
Strike Setting Price	180.15 * 1.000	180.15
Strike Setting Price -0.5%	180.15 * 0.995	179.25
Strike Setting Price -1.0%	180.15 * 0.990	178.35
Strike Setting Price -1.5%	180.15 * 0.985	177.45

If SPY does not open for trading on the trading day before the options expiration date, then the last available closing price for SPY will be the Strike Setting Price. For Example, if a RealDay Option is expiring on Friday but SPY does not open for trading on Thursday, which is the last trading day before the expiration date, the Strike Setting Price used for the RealDay Option expiring on Friday will be the closing price of SPY from Wednesday, provided that SPY is open for trading on Wednesday.

The Exchange is proposing to list RealDay Options on SPY with the symbol “SPYZ.” During the anticipatory period, the strike prices will be listed as the Strike Multiplier, since the numerical value of the strike price is not yet known. The table below illustrates how this will work.

Option	Strike Price During Anticipatory Period (Strike Multiplier)
Strike Setting Price +1.5%	1.015
Strike Setting Price +1.0%	1.010
Strike Setting Price +0.5%	1.005
Strike Setting Price	1.000
Strike Setting Price -0.5%	0.995
Strike Setting Price -1.0%	0.990
Strike Setting Price -1.5%	0.985

The Exchange believes that using three decimal places will minimize the potential for investor confusion.[24] Specifically, since three decimal places is unique and not currently used for options, investors will be on notice and aware that the Strike Multiplier does not represent a strike price of a typical standard option. The Exchange notes that it will also provide information and education to market participants via circular prior to the launch of RealDay Options to further minimize any investor confusion. Additionally, since the Exchange will never list RealDay Options on an underlying security with a price below $10.00, there will be no confusion that the decimal equivalent is actually a strike price around $1.00. For example, if the underlying security was trading around $2.00, a strike price of 1.005 during the anticipatory period may be confused as a strike price equal to $1.005 instead of .05% above the Strike Setting Price. Below is an example of how RealDay Options will be listed.

	Symbol	**Strike**	**CALL/PUT**	**Expiration Date**
SPYZ 161021C1.000	SPYZ	100%	CALL	10/21/2016
SPYZ 161021C.995	SPYZ	99.50%	CALL	10/21/2016

After the close of trading on the last trading day before expiration, the decimal will be converted into the numerical strike price by multiplying the Strike Setting Price by the Strike Multiplier.[25] For example, if SPY closes at $190.00 on the last trading day before expiration, the 1.005 strike price will be converted to $190.95 ($190.00*1.005).

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24 The Exchange notes that it has confirmed with data vendors, the Options Clearing Corporation and various market participants to confirm that they will be able to handle three decimal places when RealDay Options are launched. The Exchange also explained what the three decimal places would represent.

25 An adjustment to the Strike Setting Price may be needed in order to remove the effects of corporate actions, such as cash dividends. If a dividend is declared, the Strike Setting Price would be adjusted by subtracting the declared dividend before multiplying it by the Strike multiplier.

Although the Exchange will have some discretion in determining the exact number of strike prices that can be listed, the Exchange will follow additional procedures[26] based on the price of the underlying security. Specifically, if the underlying security is at or above $25.00 per share, the Exchange may list all seven strike prices. If the underlying security is at or below $10.00 per share, the Exchange will not list any RealDay Option on the underlying security. If the underlying security is between $10.00 and $25.00 per share, the Exchange will only list one strike price. In such a case, the one strike price will be equal to the Strike Setting Price.

These unique strike price features are designed to minimize excessive quoting traffic that would come from listing standard options that expire every trading day and are listed at least two weeks prior to their expiration. If the Exchange were to list standard options on an underlying security that expire every trading day, there would be an enormous increase in quoting trading traffic due to the sheer number of strike prices that would have to be listed for each series. This is in part due to the fact that the price of the underlying security will fluctuate between when a standard option is listed and its expiration date. For example, on March 1, 2016 there were 127 strike prices listed for the weekly SPY option expiring on March 4, 2016 and 232 strike prices listed for the standard SPY option expiring on March 18, 2016. The number of strike prices further increases as the options expiration date approaches, as well as in response to any price swings. Listing a maximum of seven strike prices, instead of over 100 strike prices for each expiration date, is designed to mitigate issues associated with RealDay Option quoting traffic interfering with Exchange messaging by minimizing the additional quoting traffic. Additionally, having the strike prices based on a percentage of the underlying security up to the expiration date will eliminate any issue around the underlying security moving drastically from the period of

[26] See Proposed Rule 5050(f)(2).

time between listing and expiration, which would lead to the need to list additional strike prices so that there are strike prices near the price of the underlying security.

Exercise and Settlement

The exercise and settlement price will be calculated based on the closing price of SPY on the trading day of expiration. The exercise-settlement amount is equal to the difference between the settlement price and the exercise price of the option multiplied by 100. Exercise will result in the delivery of cash on the business day following expiration.

Example #2

On Monday, a trader purchased a 1.005 (0.50%) call for expiration on Thursday. The Strike Multiplier is 1.005. When he purchased the call he did not know the numerical value of the strike price, only that he will get a call option whose strike price is fixed at 0.50% above the close of SPY on Wednesday. On Wednesday, SPY closed at 177.43 (the Strike Setting Price). All RealDay strike prices for expiration on Thursday are determined as follows:

Option	Strike Multiplier	Strike Price
Strike Setting Price +1.5%	1.015	180.09
Strike Setting Price +1.0%	1.010	179.20
Strike Setting Price +0.5%	1.005	178.32
Strike Setting Price	1.000	177.43
Strike Setting Price -0.5%	0.995	176.54
Strike Setting Price -1.0%	0.990	175.66
Strike Setting Price -1.5%	0.985	174.77

Since the trader purchased the RealDay SPY 1.005 call, the strike price is now set at 178.32. Upon the close on Thursday, if SPY has risen above 178.32, the option expires in the money. Assume that SPY closes at 178.75 on Thursday, the call option purchased by the trader will be $0.43 in the money (178.75 – 178.32 = 0.43), and the trader will receive $43.00 (100*0.43).

If SPY does not open for trading on the trading day of expiration, then the last available closing price for SPY will be used to determine the settlement price of the expiring RealDay Options. Specifically, if SPY does not open for trading, at the close of trading on expiration, RealDay Options will have an exercise price that is equal to the closing price from the last trading day before expiration. This will result in all RealDay Options expiring either ATM, OTM, or ITM; depending on whether an ATM, OTM, or ITM option was purchased. This is due to the nature of options that are designed to have an active period of one trading day. For example, if a trader purchases an ATM RealDay call option, which is equal to the closing price of SPY from the last trading day before expiration (1.000 call), and SPY does not open for trading on the expiration day of that RealDay Options, then the call option purchased by the trader would expire ATM. This is because the exercise price would be equal to the closing price which, in this case, is equal to the closing price from the last trading day before expiration, since SPY did not open for trading on the expiration day. This is the same procedure used for standard options. Specifically, when an option does not open for trading on an expiration date, the last available closing price is used for settlement purposes.

Contract Specifications

The contract specifications for RealDay Options are set forth in Exhibit 3-1. RealDay Options will be European-style and P.M. cash-settled. As mentioned above, the Exchange believes that having a P.M. settlement is the best way to adequately represent the goal of RealDay Options, which are designed to cover one trading day. The Exchange does not believe that having a P.M. settlement will raise any issues since the market for SPY is so large that any attempt to alter the closing price would be extremely difficult and would subject the manipulator to regulatory scrutiny. As previously mentioned, BOX is only proposing to list RealDay Options on SPY, the most actively traded ETF in the U.S. Due to the vast liquidity and diversity in market participants trading SPY, any attempt to manipulate the closing price of SPY would be near impossible to accomplish. Additionally, the Exchange has surveillance measures in place to monitor such behavior. RealDay Options will overlie 100 shares of SPY in the same manner as standard options on SPY. The Exchange's standard trading hours for SPY options will apply to trading in RealDay Options.

With respect to margin requirements[27] for RealDay Options, the Exchange proposes to apply margin requirements for the purchase and sale of RealDay Options that are identical to the margin requirements for standard options on SPY.[28] Margin requirements for RealDay Options will be calculated in the same manner as margins for standard options on SPY. Margins should be calculated in the same manner during the anticipatory and active periods. The Exchange notes that even though the numerical value of the strike price is not known until the close of trading on the trading day before expiration, the margins will still be calculated the same way as standard options. Specifically, the strike price used for calculating the margin will just be the numerical value of the strike price using the current price of SPY for the strike setting formula. For example, if on Monday, a RealDay SPY Call Option with a strike of 100% expiring on Friday is purchased where the price of SPY is $200, the strike price used for calculating margins will be $200 (100% * current SPY price).

The minimum trading increments for RealDay Options will be the same as the minimum trading increments applicable to standard options on SPY.[29] Specifically, RealDay Options on SPY will have a minimum trading increment of $0.01. The Exchange believes that, since SPY

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27 Options Participants and associated persons are bound by the initial and maintenance margin requirements of either the CBOE or the New York Stock Exchange. See Rule 10120, see also CBOE Rule 12.3.

28 See Proposed Rule 5050(f)(6).

29 See Proposed Rule 5050(f)(5).

options have a minimum trading increment of $0.01, also having a minimum trading increment of $0.01 for RealDay Options on SPY will avoid investor confusion. The Exchange notes that this is similar to the treatment of Mini Options for which the minimum trading increment is the same as the minimum trading increment permitted for standard options on the same underlying security.[30]

Position Limits

The Exchange proposes that the position limits for RealDay Options will be the same as the position limits for standard options on SPY.[31] For example, the Exchange proposes that there shall be no position or exercise limits for RealDay Options on SPY. As noted above, RealDay Options will settle using the published closing price from SPY. Given that there are currently no position limits for SPY options,[32] the Exchange believes it is appropriate for there to be no position or exercise limits for RealDay Options on SPY. Since the removal of any position limits on SPY is subject to a pilot program, if the pilot is discontinued or cancelled and therefore SPY becomes subject to position limits, then RealDay Options would become subject to the same position limits as SPY options. Positions in RealDay Options shall be aggregated with positions in all other options on SPY.

Customer Trading

Section 4000 of the Exchange's rules is designed to protect public customer trading and shall apply to trading in RealDay Options. Specifically, Rules 4020(a) and (b) prohibit Order

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30 See IM-5050-10(d) to Rule 5050.

31 See Proposed Rule 5050(f)(10).

32 See Securities Exchange Act Release No. 67936 (September 27, 2012), 77 FR 60491 (October 3, 2012) (Notice of Filing and Immediate Effectiveness of SR-BOX-2012-013)

Flow Providers ("OFP")[33] from accepting a Public Customer order to purchase or write an option, including RealDay Options, unless such customer's account has been approved in writing by a designated Options Principal of the OFP. Additionally, Rule 4040 regarding suitability is designed to ensure that options, including RealDay Options, are sold only to customers capable of evaluating and bearing the risks associated with trading in the instrument. Further, Rule 4050 permits OFPs to exercise discretionary power with respect to trading options, including RealDay Options, in a Public Customer's account only if the OFP has received prior written authorization from the customer and the account has been accepted in writing by a designated Options Principal. Finally, Rule 4030 Supervision of Accounts, Rule 4060 Confirmation to Public Customers, and Rule 4100 Delivery of Current Options Disclosure Documents and Prospectus, will also apply to trading in RealDay Options.

Surveillance

The Exchange has an adequate surveillance program in place for RealDay Options and intends to apply the same program procedures that it applies to the Exchange's other options products. The Exchange does not believe that it will have any issues with the surveillance of RealDay Options. Although there are certain differences with RealDay Options as compared to standard options, the Exchange believes its current surveillance procedures will adequately monitor RealDay Options. Additionally, the Exchange is also a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement dated June 20, 1994. The ISG members work together to coordinate surveillance and investigative information sharing in the stock and options markets.

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33 See Rule 100(a)(45). The terms "Order Flow Provider" or "OFP" mean those Options Participants representing as agent Customer Orders on BOX and those non-Market Maker Participants conducting proprietary trading.

Per the proposed rule change, RealDay Options will be settled using a calculation based on the daily closing prices of SPY. The Exchange believes that manipulating the settlement price will be difficult based on the size of the market for SPY. As discussed above, the Exchange is only proposing to list RealDay Options on SPY, which is the most actively traded ETF in the United States. The vast liquidity of the equities markets ensures a multitude of market participants at any given time. Due to the high level of participation among market makers that can enter quotes in SPY, the Exchange believes it would be very difficult for a single participant to alter the closing price in any significant way without exposing the would-be manipulator to regulatory scrutiny and financial costs. This is especially true for SPY given the vast amount of liquidity in the ETF.

The Exchange believes that there is no additional risk of manipulation of RealDay Options as compared to other P.M.-settled options. RealDay Options will be listed on the most actively traded ETF and should dispel any concerns of manipulation. Due to the vast liquidity in SPY and the diverse group of market participants that trade SPY, any potential manipulator would be subject to regulatory scrutiny.

The Exchange represents that it has the necessary system capacity to support additional quotations and messages that will result from the listing and trading of RealDay Options. The Exchange believes that by limiting the listing of RealDay Options to only seven (7) strike prices per expiration, the Exchange will minimize the system capacity required to list them. Additionally, the Exchange believes that having the discretion to not list ITM call or put options will further minimize the required system capacity.

<u>Standardized Options</u>

Rule 9b-1 under the Act establishes a disclosure framework for standardized options that are traded on a national securities exchange and cleared through a registered clearing agency.[34] The exchange on which a standardized option is listed and traded must prepare an Options Disclosure Document ("ODD") that, among other things, identifies the issuer and describes the uses, mechanics, and risk of options trading, in language that can be easily understood by the investing public. The ODD is treated as a substitute for the traditional prospectus. Pursuant to Rule 9b-1 of the Act, use of the ODD is limited to standardized options. The Exchange believes that RealDay Options are covered by the current language of the ODD. Specifically, the June 2008 Supplement to the ODD added a definition for delayed start options.[35] The ODD describes delayed start options as "an option that does not have an exercise price when first introduced for trading but instead has an exercise price setting formula pursuant to which the exercise price will be fixed on a specified future date."[36] Although the Exchange believes that RealDay Options are covered by the current language of the ODD, BOX respectfully requests that the Commission designate RealDay Options as standardized options. The Exchange notes that the Commission has previously designated options similar to RealDay Options as standardized options.[37]

Market Participation

The Exchange believes that RealDay Options will be a useful tool for all market participants. The unique strike price setting structure and the fact that RealDay Options may

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34 "Standardized options" are defined in Rule 9b-1(a)(4) as "options contracts trading on a national securities exchange, an automated quotation system of a registered securities association, or a foreign securities exchange which relate to options classes the terms of which are limited to specific expiration dates and exercise prices, or such other securities as the Commission may, by order, designate." See 17 CFR 240.9b-1(a)(4).

35 See pg. 129 of the Characteristics & Risks of Standardized Options, located at http://www.optionsclearing.com/about/publications/character-risks.jsp.

36 Id.

37 See Securities Exchange Act Release No. 56855 (November 28, 2007), 72 FR 68613 (December 5, 2007)(Order Approving Proposed Rule Change as Modified by Amendment No. 1 Thereto to List and Trade Delayed Start Option Series).

expire every trading day will allow investors to hedge single day events, including the release of an economic report or a company's earnings release ("event days"). Although the Exchange believes that these event days will be more active as compared to the non-event days, the Exchange still believes that investors will see value, including obtaining exposure to implied volatility, as described in greater detail below, and trade RealDay Options expiring on non-event days. Additionally, market participants can capture interday realized volatility when they are bundled as consecutive at-the-money straddles.

Additionally, the Exchange believes that market participants will find value in trading RealDay Options during both the anticipatory period and active period. During the anticipatory period investors can trade RealDay Options in order to get exposure to implied volatility and during the active period RealDay Options will act and be traded in the same manner as standard options. Market participants can obtain exposure to implied volatility by initiating a position and then liquidating it prior to the expiration day.

The Exchange believes that Market Makers will be able to price and quote RealDay Options effectively. Since RealDay Options will not have their strike prices set until the day before expiration, the Exchange believes that the models Market Makers use to price and quote RealDay Options will be simpler than the models they use for standard options. Specifically, Market Makers will not have to account for price movements in SPY or time to expiration; basically Market Makers will just have to deal with implied volatility when pricing RealDay Options.

<u>Pilot Program</u>

As proposed, the proposal would become effective on a pilot program basis for a period of twelve months.[38] If the Exchange were to propose an extension of the program or should the Exchange propose to make the program permanent, then the Exchange would submit a filing to the Commission proposing such amendments to the program. The Exchange notes that any positions established under the pilot would not be impacted by the expiration of the pilot. For example, a position in a RealDay Option series that expires beyond the conclusion of the pilot period could be established during the 12-month pilot. If the pilot program were not extended, then the position could continue to exist. However, the Exchange notes that any further trading in the series would be restricted to transactions where at least one side of the trade is a closing transaction.

The Exchange proposes to submit a pilot program report to the Commission two months prior to the expiration date of the Pilot Program (the "pilot report"). The pilot report would contain an analysis of volume, open interest, and trading patterns. The analysis would examine trading in RealDay Options. In addition, for certain series, the pilot report would provide analysis of price volatility and trading activity in additional option series. In addition to the pilot report, the Exchange would provide the Commission with periodic interim reports while the pilot is in effect that would contain some, but not all, of the information contained in the pilot report. The pilot report would be provided to the Commission on a confidential basis.

The pilot report would contain the following volume and open interest data for RealDay Options:

(1) daily contract trading volume aggregated for all trades, for all option series with less than 31 days until expiration;

(2) daily contract trading volume aggregated by expiration date, for all option series with

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38 See Proposed Rule 5050(f)(9).

less than 31 days until expiration;

(3) daily contract trading volume for each individual series;

(4) daily open interest aggregated for all series, for all option series with less than 31 days until expiration;

(5) daily open interest aggregated for all series by expiration date, for all option series with less than 31 days until expiration;

(6) daily open interest for each individual series;

(7) statistics on the distribution of trade sizes;

(8) type of market participant trading (e.g., contract trading volume for each market participant type); and

(9) 5-minute returns, level changes, and trading volume for the S&P 500 Index, VIX, SPY, IVV, and expiring RealDay options between open and close for the first and second Wednesday of the month that is a trading day and trading days when standard SPY options expire.

In addition to the pilot report, the Exchange would periodically provide the Commission with interim reports of the information listed in items (1) through (9) above as required by the Commission while the pilot is in effect. These interim reports would also be provided on a confidential basis.

<u>Additional Changes</u>

The Exchange also proposes to amend Rule 5050(a). Specifically, the Exchange proposes to amend the rule to state that the Exchange will fix a specific expiration date and exercise price for RealDay Options, as provided in proposed Rule 5050(f).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[39] in general, and furthers the objectives of Section 6(b)(5) of the Act[40] 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. Specifically, the Exchange believes that the introduction of RealDay Options will attract order flow to the Exchange, increase the variety of listed options to investors, and provide a valuable hedge tool to investors.

The Exchange believes the proposed rule change will further the Exchange's goal of introducing new and innovative products to the marketplace. The Exchange believes that listing RealDay Options will provide an opportunity for investors to hedge, or speculate on, the market risk associated with single day events. The proposed rule change will allow the Exchange to list options that will allow traders to manage risk associated with certain events, such as a company's earnings or the release of an economic report. The Exchange believes that RealDay Options will give traders an unprecedented ability to hedge against single day events. As the Exchange previously noted, the concept of a delayed start options is not a new proposal. Specifically, CBOE has rules covering delayed start options. [41]Additionally, the ODD already has language covering delayed start options.[42]

Finally, the Exchange represents that it has an adequate surveillance program in place to detect manipulative trading in RealDay Options. The Exchange believes that by initially limiting

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39 15 U.S.C. 78f(b).

40 15 U.S.C. 78f(b)(5).

41 See supra notes 3 and 16.

42 See supra note 35.

RealDay Options to only SPY, it will reduce the chances of manipulation due to the robust market and liquidity in SPY. The Exchange also represents that it has the necessary systems capacity to support the new options series; and as stated in the filing, the Exchange has rules in place designed to protect public customer trading.

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. The Exchange notes that the proposed rule change will facilitate the listing and trading of a novel option product that will enhance competition among market participants, to the benefit of investors and the marketplace.

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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2016-50 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-2016-50. 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; 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-2016-50 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.[43]

Brent J. Fields
Secretary

[43] 17 CFR 200.30-3(a)(12).