

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79531; File No. SR-BOX-2016-58)

December 12, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change to Amend Interpretive Material to Rule 7150 (Price Improvement Period “PIP”) and Interpretive Material to Rule 7245 (Complex Order Price Improvement Period “COPIP”) to Make Permanent the Pilot Programs that Permit the Exchange to Have No Minimum Size Requirement for Orders Entered into the PIP (“PIP Pilot Program”) and COPIP (“COPIP Pilot Program”)

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 December 9, 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 Interpretive Material to Rule 7150 (Price Improvement Period “PIP”) and Interpretive Material to Rule 7245 (Complex Order Price Improvement Period “COPIP”) to make permanent the pilot programs that permit the Exchange to have no minimum size requirement for orders entered into the PIP (“PIP Pilot Program”) and COPIP (“COPIP 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>.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 BOX Rules to make permanent the pilot programs that permit the Exchange to have no minimum size requirement for orders entered into the PIP (“PIP Pilot Program”) and COPIP (“COPIP Pilot Program”), collectively known as the (“Programs”). In addition, BOX proposes to modify the requirements for the PIP where the National Best Bid and Offer (“NBBO”) is only \$0.01 wide.

Background

The PIP Pilot Program was approved on a pilot basis with the establishment of BOX and the PIP in January 2004³ and the COPIP Pilot Program was approved on a pilot basis with

³ See Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004) (SR-BSE-2003-04) (“Order Granting Approval to Proposed Rule Change and Amendment No. 3 and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 4 Thereto by the Boston Stock Exchange, Inc. Establishing Trading Rules for the Boston Options Exchange Facility”); 66871 (April 27, 2012) 77 FR 26323 (May 3, 2012) (File No.10–206, In the Matter of the Application of BOX Options Exchange LLC for Registration as a National Securities Exchange Findings, Opinion, and Order of the Commission), 67255 (June 26, 2012) 77 FR 39315 (July 2, 2013) (SR-BOX-2012-009)(Notice of Filing and Immediate Effectiveness of a Proposal To Extend a Pilot Program That Permits BOX to Have No Minimum Size Requirement for Orders Entered Into the Price Improvement Period), 69846 (June 25, 2013) 78 FR 39365 (July 1, 2013) (SR-BOX-2013-33) (Notice of Filing and Immediate Effectiveness of a Proposal To

introduction of the COPIP in December 2013.⁴ Both Programs are scheduled to expire on January 18, 2017.⁵ The Exchange believes that both the PIP and COPIP Pilot Programs have been successful and well-received by Participants and the investing public.

The PIP and COPIP Pilot Programs guarantee Participants the right to trade with their customer orders that are less than 50 contracts. In particular, any order entered into the PIP is guaranteed an execution at the end of the auction at a price at least equal to the NBBO. Any order entered into the COPIP is guaranteed an execution at the end of the auction at a price at least equal to or better than the cNBBO,⁶ cBBO⁷ and BBO on the Complex Order Book for the Strategy at the time of commencement.

BOX first introduced the PIP auction process for obtaining customer price improvement to the options market place when it launched in 2004. As part of BOX's commitment to price

Extend a Pilot Program That Permits BOX to Have No Minimum Size Requirement for Orders Entered Into the Price Improvement Period), 72545 (July 7, 2014), 79 FR 40182 (July 11, 2014) (SR-BOX-2014-19) (Notice of Filing and Immediate Effectiveness of a Proposal To Extend a Pilot Program That Permits BOX to Have No Minimum Size Requirement for Orders Entered Into the Price Improvement Period and Complex Order Price Improvement Period), 75480 (July 17, 2015), 80 FR 43803 (July 23, 2015) (SR-BOX-2015-27) (Notice of Filing and Immediate Effectiveness of a Proposal To Extend a Pilot Program That Permits BOX to Have No Minimum Size Requirement for Orders Entered Into the Price Improvement Period and Complex Order Price Improvement Period).

⁴ See Securities Exchange Act Release No. 71148 (December 19, 2013) 78 FR 78437 (December 26, 2013) (Notice of Filing of Amendment Nos. 1 and 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, to Permit Complex Orders to Participate in Price Improvement Periods).

⁵ See Securities Exchange Act Release No. 78353 (July 18, 2016), 81 FR 47843 (July 22, 2016) (SR-BOX-2016-32).

⁶ As defined in BOX Rule 7240(a)(3), the term "cNBBO" means the best net bid and offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy.

⁷ As defined in BOX Rule 7240(a)(1), the term "cBBO" means the best net bid and offer price for a Complex Order Strategy based on the BBO on the BOX Book for the individual options components of such Strategy.

improvement, the Exchange sought to provide small customer orders with benefits not available under the rules of the other exchanges by having no minimum size requirements for orders entered into the PIP. After concerns were raised that this lack of size requirement would promote internalization and inferior price improvement within the PIP and also lead to reduced order flow and market quality on the regular BOX Book,⁸ BOX began the PIP Pilot Program.

In June of 2005 concerns were also raised when BOX introduced Market Orders⁹ to the Exchange and detailed how these orders, as well BOX-Top Orders,¹⁰ would be treated when entered while a PIP is in progress. Specifically, submission to BOX of a Market Order or BOX-Top Order on the same side as a PIP Order prematurely terminates the PIP when, at the time of submission of the Market Order or BOX-Top Order, the best Improvement Order is equal to or better than the NBBO on the same side of the market as the best Improvement Order. The Commission was concerned that this premature termination of the PIP could result in a PIP Order being disadvantaged by the early conclusion of a PIP, in that the PIP Order would not have received the full exposure period in which to receive price improvement. BOX then agreed to include in its monthly reports additional information with respect to situations in which the PIP

⁸ See September 12, 2003 Letter from Michael J. Simon, Vice President and Secretary, ISE, to Jonathan Katz, Secretary, Commission regarding SR-BSE-2002-15; and see generally letters to Jonathan Katz, Secretary, Commission regarding SR-BSE-2002-15, February 28, 2003 Letter from Philip DeFeo, Chairman and Chief Executive Officer, PCX; February 14, 2003 Letter from William Brodsky, Chairman and Chief Executive Officer, CBOE; February 14, 2003 Letter from Michael Ryan, General Counsel, AMEX; February 12, 2003 Letter from Michael J. Simon, Secretary, ISE; February 12, 2003 Letter from Meyer S. Frucher, Chairman and Chief Executive Officer, PHLX.

⁹ See Securities Exchange Act Release No. 51821 (June 10, 2005), 70 FR 35143 (June 16, 2005)(Order Approving SR-BSE-2004-51).

¹⁰ BOX-Top Orders have since been removed from the BOX Rulebook. See Securities Exchange Act Release No. 71374 (January 23, 2014), 79 FR 4783 (January 29, 2014)(Notice of Filing and Immediate Effectiveness of SR-BOX-2014-05).

is terminated prematurely or a Market Order or BOX-Top Order interacts with a PIP Order before the PIP's conclusion.¹¹

The Exchange then established the COPIP in January 2014 to further BOX's commitment to price improvement.¹² The COPIP mechanism allows Complex Orders to be submitted to the COPIP in substantially the same manner as orders for single options series instruments currently are submitted to the PIP. Because of the similarities between the PIP and COPIP, the Exchange proposed a COPIP Pilot Program and agreed to provide certain information, periodically as required by the Commission, to support that, among other things, there is meaningful competition for all size COPIP orders, that there is significant price improvement for all orders executed through the COPIP and that an active and liquid market is functioning on BOX outside of the COPIP mechanism.

PIP Pilot Program

The Exchange believes that the data submitted to the Commission on a monthly and confidential basis for the PIP Pilot Program, as well as the data reference [sic] below covering January through June 2015 establishes that it has not placed an undue burden on competition; lessened the amount of price improvement in the PIP; nor reduced order flow and liquidity to the BOX Book. The Exchange therefore believes that it appropriate to approve the no minimum size requirement on a permanent basis. In fact, since the launch of the PIP customers have received over \$841 million in savings through better executions on BOX, including \$12.6 million in October 2016. Order flow and liquidity on BOX has also remained strong through this entire period, with an average daily volume of approximately 434,000 contracts for the first six ten

¹¹ See supra, note 9.

¹² See Securities Exchange Act Release No. 71148 (December 19, 2013), 78 FR 78437 (December 26, 2013)(Order Approving SR-BOX-2013-43).

months of 2016. Further, many of the exchanges which first raised concerns have recognized the benefits of price improvement auctions, and have adopted similar mechanisms with no minimum order size since 2004.¹³ Approving the PIP Pilot Program on a permanent basis will allow the PIP to continue to offer meaningful price improvement and will not have an adverse effect on the market functioning on the Exchange outside of the PIP.

The Exchange provided the Commission with a summary report, included herein as Exhibit 3, which demonstrates the price improvement benefits of the PIP. Specifically, the Report contains eight categories of non-customer and customer auction data, as well as three categories of summary auction data, during the period January 2015 through June 2015. Each of the eight categories is divided into subcategories based on the spread of the NBBO at the time an auction was initiated. The data is further divided into the number of orders that were auctioned within each particular subcategory. Finally, for each

¹³ See Securities Exchange Act Release Nos. 53222 (February 3, 2006), 71 FR 7089 (February 10, 2006)(SR-CBOE-2005-60)(Order Granting Approval of Proposed Rule Change and Amendment No. 1 Thereto and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 2 to the Proposed Rule Change Relating to an Automated Improvement Mechanism); 63238 (November 3, 2010), 75 FR 68844 (November 9, 2010)(SR-C2-2010-008)(Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Update Rules Based on Chicago Board Options Exchange, Inc. Rules and Recent Chicago Board Options Exchange, Inc. Rule Filings); 72009 (April 23, 2014), 79 FR 24032 (April 29, 2014)(SR-MIAX-2014-09)(Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Adopt the MIAX PRIME Price Improvement Mechanism and the MIAX PRIME Solicitation Mechanism); 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010)(SR-Phlx-2010-108)(Order Granting Approval to a Proposed Rule Change Relating to a Proposed Price Improvement System, Price Improvement XL); 50819 (December 8, 2004), 69 FR 75093 (December 15, 2004)(SR-ISE-2003-06)(Order Granting Approval of Proposed Rule Change and Amendment No. 1 Thereto and Notice of Filing and Order Granting Accelerated Approval to Amendments No. 2 and 3 Thereto by the International Securities Exchange, Inc. To Establish Rules Implementing a Price Improvement Mechanism); and 70050 (July 26, 2013), 78 FR 46622 (August 1, 2013)(Order Granting the Application of Topaz Exchange, LLC for Registration as a National Securities Exchange).

subcategory, Exchange identified the per contract price improvement that occurred at each NBBO spread; the average number of participants responding to the auctions plus the initiator; the total volume the initiator received; the average percentage of orders the initiator received; and the percentage of contracts received by the auction initiator.

The various categories contained in the Report include:

- (1) Non-Public Customer Auction / Under 50 Contracts / BOX not at NBBO
- (2) Non-Customer Auction / Under 50 Contracts / BOX at NBBO
- (3) Non-Customer Auction / 50 Contracts and over / BOX not at NBBO
- (4) Non-Customer Auction / 50 Contracts and over / BOX at NBBO
- (5) Customer Auction / Under 50 Contracts / BOX not at NBBO
- (6) Customer Auction / Under 50 Contracts / BOX at NBBO
- (7) Customer Auction / 50 Contracts and over / BOX not at NBBO
- (8) Customer Auction / 50 Contracts and over / BOX at NBBO
- (9) Summary of all Non-Customer Auctions for the Period
- (10) Summary of all Customer Auctions for the Period
- (11) Summary of all Auctions for the Period

BOX believes that the data gathered demonstrates there is an active and liquid market functioning on the Exchange outside of the auction mechanism. In the period between January and June 2015, 30.5 million contracts were executed through the BOX PIP, approximately 64% of BOX total contract volume. While during this period average daily contract volume traded through the PIP fell from 339,088 contracts per day in January 2015 to 255,150 contracts per day in June 2015, overall contract volume outside of the PIP also fell during that period.

Additionally, with an average number of 4.0 participants in each auction, the data shows there is meaningful competition in PIP auctions for all size orders.

The Exchange also believes there is significant price improvement and significant opportunity for price improvement in the PIP with one modification. Currently, a PIP Order may be submitted to BOX with a matching contra order ("Primary Improvement Order") that is equal to the full size of the PIP Order and at a price equal to or better than that of the NBBO at the time of the commencement of the PIP (the "PIP Start Price"), at any NBBO spread. BOX proposes to amend the PIP auction to reject any auction where the quoted NBBO spread¹⁴ is less than or equal to \$0.01.¹⁵ While the Exchange believes that opportunities remain for price improvement where the NBBO spread is less than or equal to \$0.01, the Exchange notes that the data for the current pilot shows small amounts of price improvement in these orders.¹⁶

The Exchange does believe, however, that based on the data there is significant price improvement and significant opportunity for price improvement when the NBBO spread is greater than \$0.01. During the period, there was an average price improvement of \$0.05 per contract for contracts executed through the PIP when BOX was at the NBBO, and \$0.01 per contract for contracts executed through the PIP when BOX was not at the NBOO regardless of size.

The Exchange has also gathered data on the premature terminations in the PIP to determine if these could result in a PIP Order being disadvantaged by the early conclusion of a

¹⁴ The NBBO spread is the difference between the NBBO Bid and the NBBO Ask.

¹⁵ All PIP Auctions where the NBBO spread is more than \$0.01 will continue to be allowed.

¹⁶ During the six month time period, .05% of auctions where the NBBO spread was less than or equal to \$0.01 received price improvement.

PIP. Between January and June 2015, the number of auctions that terminated early was less than 0.05% of all PIP auctions.

COPIP

The Exchange believes that the data submitted to the Commission on a monthly and confidential basis for the COPIP Pilot Program establishes that it has not placed an undue burden on competition; lessened the amount of price improvement in the COPIP ; nor reduced order flow and liquidity to the Complex Order Book.¹⁷ From January 2015 through June 2015 COPIP volume accounted for 41% of all Complex Order volume on BOX. Further, the average price improvement amount (when improved) was \$0.11 for this same period. The Exchange believes the COPIP Pilot program does not place an undue burden on competition. In fact, the average number of responders is higher for COPIP Orders of 50 contracts and under (0.23) when compared to COPIP Orders greater than 50 contracts (0.01). While the average numbers of responders in the COPIP is lower than that of the PIP, the Exchange believes that as volume in the COPIP increases, the overall average number of responders will also increase.

The Exchange has also gathered data on the premature terminations in the COPIP to determine if these could result in a COPIP Order being disadvantaged by the early conclusion of or COPIP. Between January and June 2015, the number of auctions that terminated early was less than 0.09% of all COPIP auctions.

¹⁷ The Exchange notes that the COPIP has been in place for significantly less time than the PIP and therefore has generated significantly less data. Given the similarities between the two mechanisms, the Exchange expects the COPIP, if operated on a pilot basis over a longer period of time, would generate data that is comparable to the PIP.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,¹⁸ in general, and Section 6(b)(5) of the Act,¹⁹ 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, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

In particular, the proposed change will allow the Exchange to continue the Programs free of any pilot conditions which the Exchange believes are no longer necessary. The Programs were put in place to determine the full impact that the lack of minimum size requirement would have on competitiveness and price improvement in the PIP and COPIP. The PIP Pilot Program has been in place for over ten years,²⁰ and the COPIP PIP Program has been in place for over two years. During these time periods there has been no evidence to suggest that the Programs have had the negative effects predicted in the comment letters.²¹ As such, removal of the pilot restrictions is the logical next step.

The Exchange believes that the change to the PIP auction which will reject any auction where the quoted NBBO spread is less than or equal to \$0.01 will further price improvement for PIP Orders overall. The Exchange notes that statistics for the current pilot show relatively small amounts of price improvement for these orders. The Exchange believes the proposed change will therefore increase the price improvement that orders may receive in the PIP overall.

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C. 78f(b)(5).

²⁰ See supra, note 3.

²¹ See supra, note 8

Permanent approval of the Pilot Programs would continue to provide investors with real and significant price improvement regardless of the size of the order. The Exchange believes that allowing price improvement to any size order removes impediments to a free and open market and national market system, therefore creating more competition for the best execution of all orders. The Exchange also believes that making the Pilot Programs permanent does not raise any unique regulatory concerns.

Lastly, the Exchange also believes that the proposed rule change, which provides all market participants, including public investors, with opportunity to trade with small customer orders of less than 50 contracts in the PIP and COPIP, is appropriate in the public interest and for the protection of investors

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 either among BOX Participants, or among the various options exchanges, which is not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the PIP and COPIP mechanisms are offered to all BOX Participants and making the Pilot Programs permanent will not impose a competitive burden on any participant. Additionally, the Exchange believes that the proposed change will not have impact on intermarket competition, as noted above many other exchanges have similar pilot programs in place in their auction mechanisms and are free to file to make these permanent as well.

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-2016-58 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-2016-58. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies

of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; 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-2016-58 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.²²

Eduardo A. Aleman
Assistant Secretary

²² 17 CFR 200.30-3(a)(12).