

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79557; File No. SR-BOX-2016-57)

December 14, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Detail How Complex Orders Will Execute Through the Solicitation Auction Mechanism

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 December 7, 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to detail how Complex Orders will execute through the Solicitation Auction mechanism. 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 detail how the Solicitation Auction mechanism will treat Complex Orders on the Exchange.³ Pursuant to BOX Rule 7270, the Exchange has two block-sized auction mechanisms, the Solicitation Auction Mechanism and the Facilitation Auction Mechanism whereby Order Flow Providers (OFPs) can provide price improvement opportunities for a transaction where the OFP seeks to facilitate an order it represents as agent, and/or a transaction where the OFP solicited interest to execute against an order it represents as agent. Transactions executed through the Solicitation or Facilitation auction mechanisms are comprised of the order the OFP represents as agent (the "Agency Order") and the contra order for the full size of the Agency Order (either the "Solicitation" or "Solicited" Order).⁴ The contra order may represent interest for the Participant's own account or interest the Participant has solicited from one or more other parties, or a combination of both.

This proposal only addresses how the Solicitation Auction mechanism will treat Complex

³ Complex Orders are not currently traded through the Solicitation Auction mechanism. Prior to implementation, BOX will issue an informational circular to inform Participants of the implementation date for Complex Orders to trade through the Solicitation Auction.

⁴ The Exchange notes that it does not trade stock option orders.

Orders on the Exchange.⁵ Similar to the ISE’s Block-Trade rules,⁶ Complex Orders⁷ executed through the Solicitation auction mechanism on BOX function in substantially the same manner as single-leg orders executed through this mechanism. To detail how the Solicitation mechanism treats Complex Orders, the Exchange proposes to adopt IM-7270-8. IM-7270-8 will state that Participants may use the Solicitation Mechanism according to paragraph (b) of Rule 7270 to execute block-size Complex Orders at a net price. The OFP must be willing to execute the entire size of the Agency Order through the submission of a contra order; and block-size Complex Orders executed through the Solicitation Mechanism will continue to be limited to Complex Orders of five hundred (500) contracts per leg or more.⁸ Each Complex Agency Order entered into the Solicitation Auction shall be all-or-none.

Upon the entry of a block-sized Complex Order into the Solicitation mechanism, a broadcast message will be sent to Options Participants, giving them one second to enter responses with the prices and sizes at which they would be willing to participate opposite the Agency Order (“Responses”).⁹ Responses to a Complex Order within the Solicitation Auction

⁵ The Exchange recently adopted rules to allow Complex Orders to execute through the Facilitation Auction mechanism. See Securities Release No. 78444 (July 29, 2016), 81 FR 51533 (August 4, 2016)(Notice of Filing and Immediate Effectiveness of file Number SR-BOX-2016-37).

⁶ See International Securities Exchange Rule 716 and Supplementary Material .08 to Rule 716.

⁷ Under Rule 7240(a)(5) a “Complex Order” is defined as “any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.) A Complex Order that does not meet this definition will be automatically rejected.

⁸ See proposed IM 7270-8. Complex Orders comprised of less than five hundred (500) contracts on each leg will automatically be rejected.

⁹ See BOX Rule 7270(b)(1). The Exchange believes that 1 second is an adequate duration for the Solicitation Auction. Specifically, the Exchange believes customers are capable

mechanism may be submitted for any size up to the size of the entire Complex Order, however, the Responses must be for all Legs of the unique Complex Order.¹⁰ Responses must be priced equal to or better than the Agency Order and cannot exceed the size of the Agency Order.¹¹ At the end of the one second period for the entry of Responses, the block-sized Solicitation Complex Order will be automatically executed in full or canceled.¹²

As is also the case for single-leg orders executed through the Solicitation mechanism, the Complex Agency Order will execute against the Complex Solicited Order at the proposed execution price if at the time of execution there is insufficient size to execute the entire Complex Agency Order at a better price (or prices) and (A) the execution price is equal to or greater than the NBBO and (B) there are no Book Priority Public Customer Complex Orders on the Complex Order Book. A Book Priority Public Customer Complex Order is a Complex Order (A) at a price equal to or better than the proposed execution price; and (B) on the BOX Complex Order Book within a depth of the BOX Complex Book so that it would otherwise trade with Agency Order if the Agency Order had been submitted to the BOX Complex Book.¹³ Both the Solicited Complex Order and the Agency Complex Order will be canceled if an execution would take place at a price that is inferior to the BOX BBO or the NBBO, or if there is a Book Priority Public Customer order on the BOX Book and there is insufficient size to execute the Agency

of responding within this duration and has not received any complaints regarding the duration of the Solicitation Auction broadcast since the mechanism was adopted in 2011.

¹⁰ See proposed IM-7270-8.

¹¹ See proposed IM-7270-8.

¹² See BOX Rule 7270(b)(2).

¹³ See BOX Rule 7270(b)(2)(i). If the execution price is inferior to the best bid or offer on BOX, the NBBO or if there is a Book Priority Public Customer Order on the BOX Complex Book the Solicited Complex Order and Agency Order will be cancelled.

Order, except as provided in BOX Rule 7270(b)(2)(iv).¹⁴

If at the time of execution there is sufficient size to execute the entire Agency Complex Order at an improved price (or prices), the Agency Complex Order will be executed at the improved price(s) and the Solicited Order will be canceled.¹⁵ The aggregate size of all bids (offers) on the BOX Book and the Complex Order Book and all Responses at each price will be used to determine whether the entire Agency Order can be executed at an improved price (or prices.)¹⁶ For example, an OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10. During the one second auction, BOX receives the following bids (offers) in time priority:

- 1) Market Maker Complex Order Response to sell 400 of A+B at \$2.08
- 2) Market Maker offer on the Complex Order Book to sell 300 A+B at \$2.08
- 3) Public Customer Response to sell 200 A+B at \$2.08
- 4) Public Customer Complex Order on the Complex Order Book to sell 300 A+B at \$2.08

Since there is sufficient size to execute the entire Agency Order at an improved price, the Agency Order will execute in time priority¹⁷ against each of the bids (offers) and Responses at \$2.08, and the Solicited Order will be canceled.¹⁸ The Agency Order would execute 400 contracts against the Market Maker Response; 300 contracts against the Market Maker offer on the Complex Order Book; 200 contracts against the Public Customer Response and 100 contracts

¹⁴ See BOX Rule 7270(b)(2)(i).

¹⁵ See BOX Rule 7270(b)(2)(iii).

¹⁶ See BOX Rule 7270 (b)(2)(iii) and proposed IM-7270-8.

¹⁷ See BOX Rule 7270(b)(2)(v).

¹⁸ See BOX Rule 7270(b)(2)(iii).

against the Public Customer Complex Order on the Complex Book. The remaining 200 contracts of the Public Customer Complex Order will remain unexecuted.

However, notwithstanding the execution provisions of Rule 7270(b)(2), the execution rules for Complex Orders detailed in BOX Rule 7240(b)(2) and (3) continue to apply for Complex Orders executed through the Solicitation Auction Mechanism.¹⁹ For example, if there is sufficient interest on the BOX Book for the individual legs to be executed at a permissible ratio, this “Implied Order”²⁰ will have priority over Responses and Complex Orders on the Complex Order Book. Although an Implied Order will be able to execute against an Agency Order in the Solicitation Auction mechanism, the Implied Order will not be considered a Book Priority Public Customer Order for purposes of Rule 7270(b).

Using the same scenario above, an OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10 and during the one second auction, BOX receives the following bids (offers) in time priority:

- 1) Market Maker Complex Order Response to sell 400 of A+B at \$2.08
- 2) Market Maker offer on the Complex Order Book to sell 300 A+B at \$2.08
- 3) Public Customer Response to sell 200 A+B at \$2.08
- 4) Public Customer Complex Order on the Complex Order Book to sell 300 A+B at \$2.08
- 5) Interest on the BOX Book (Implied Order):
 - Market Maker Option A – Order to sell 300 at \$1.04

¹⁹ See proposed IM-7270 -8. The Exchange notes that this includes the Complex Order Filter outlined in BOX Rule 7240(b)(3)(iii).

²⁰ An “Implied Order” is a Complex Order that is derived from the orders on the BOX Book for each component leg of a strategy. Each of the Implied Order component Legs must be equal to or better than its respective NBBO.

- Market Maker Option B – Order to sell 300 at \$1.04

There is sufficient size to execute the entire Agency Order at an improved price so the Solicited Order will be canceled. However, the Agency Order would execute first against the 300 Implied Order contracts and then in time priority against the remaining Complex Order bids (offers) and Responses. After the Implied Order contracts the Agency Order will execute 400 contracts against the Market Maker Response; and 300 contracts against the Market Maker offer on the Complex Order Book. Both the Public Customer Response and Complex Order will receive no trade allocation because the buy order has been exhausted.

If at the time of execution, there are one or more Book Priority Public Customer Orders on the Complex Order Book, the Agency Order will execute against the Complex Order Book if there is sufficient size available to execute the entire Agency Order, and the Solicited Order will be cancelled.²¹ In this instance, the aggregate size of all bids (offers) on the Complex Order Book at or better than the proposed execution price will be used to determine whether there is sufficient size available to execute the entire Agency Order.²² BOX Book Interest and Responses²³ are excluded when determining whether sufficient size exists to execute the Agency Order at its proposed price under BOX Rule 7270(b)(2)(ii). However, if there is sufficient interest on the Complex Order Book, the execution rules for Complex Orders will continue to apply and any Implied Orders will have priority.²⁴ For example, if an OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10 and during the one second auction, BOX receives the following bids (offers) in time priority:

²¹ See BOX Rule 7270(b)(2).

²² See Rule 7270(b)(2)(ii) and proposed IM-7270-8.

²³ Responses are sent by Options Participants in response to a Facilitation or Solicitation Auction broadcast message.

²⁴ See BOX Rule 7240(b)(2) and (3).

- 1) Market Maker offer on the Complex Order Book to sell 300 A+B at \$2.10
- 2) Public Customer Complex Order on the Complex Order Book to sell 500 A+B at \$2.10
- 3) Interest on the BOX Book (Implied Order):
 - Market Maker Option A – Order to sell 300 at \$1.05
 - Market Maker Option B – Order to sell 300 at \$1.05
- 4) Broker Dealer offer on the Complex Order Book to sell 300 A+B at \$2.10

There is a Book Priority Public Customer Order on the Complex Order Book (i.e., the Public Customer Complex Order to sell 500 at \$2.10) and there is sufficient size on the Complex Order Book to execute the entire Agency Order. As such, the Agency Order will be executed against the Implied Order and the orders on the Complex Order Book, and the Solicited Complex Order will be canceled. In this example, the Agency Order will execute 300 contracts against the Implied Order, then 300 contracts against the Market Maker and 400 contracts against the Book Priority Public Customer Complex Order. The remaining 100 contracts of the Book Priority Public Customer Complex Order and the Broker Dealer 300 contracts will remain unexecuted, based on price/time priority.

If however, there is a Book Priority Public Customer Order on the Complex Order Book, but there is insufficient size to execute the entire Agency Order at the proposed execution price, both the Agency and Solicited Orders will be canceled, except as provided in BOX Rule 7270(b)(2)(iv).²⁵ For example, if an OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10 and during the one second auction, BOX receives the following bids (offers) in time priority:

²⁵ See BOX Rule 7270(b)(2)(iv).

- 1) Market Maker offer on the Complex Order Book to sell 300 A+B at \$2.10
- 2) Public Customer Complex Order on the Complex Order Book to sell 300 A+B at \$2.10
- 3) Interest on the BOX Book (Implied Order):
 - Market Maker Option A – Order to sell 300 at \$1.05
 - Market Maker Option B – Order to sell 300 at \$1.05

In this example, there is a Book Priority Public Customer Order on the Complex Order Book (i.e. the Public Customer Complex Order to sell 300 at \$2.10) but there is insufficient size on the Complex Order Book to execute the entire Agency Order. As such, both the Solicited Order and the Agency Order will be cancelled²⁶, unless the OFP has designated a Surrender Quantity.²⁷

When starting a Solicitation Auction the OFP may designate, for the Solicited Order, the quantity of contracts of the Agency Order that it is willing to surrender interest to on the Complex Order Book.²⁸ The Surrender Quantity only applies if at the time of execution there are (1) Book Priority Public Customer Orders on the Complex Order Book or (2) any bids (offers) on the Complex Order Book at any price better than the proposed execution price, but there is insufficient size to execute the entire Agency Complex Order at an improved price.²⁹

If there is a Book Priority Public Customer Order on the Complex Order Book, and the aggregate size of the Book Priority Public Customer Order and all bids (offers) on the Complex Order Book at prices better than the proposed execution price, excluding Responses and BOX

²⁶ See BOX Rule 7270(b)(2)(i).

²⁷ See BOX Rule 7270(b)(2)(iv).

²⁸ See BOX Rule 7270(b)(2)(iv).

²⁹ See BOX Rule 7270(b)(2)(iv).

Book Interest, are equal to or less than the Surrender Quantity, the Agency Complex Order will first execute against all such Book Priority Public Customer Orders and such bids (offers) and then against the Solicited Order. For example, an OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10 and designates 200 contracts as the Surrender Quantity. During the one second auction, BOX receives the following bids (offers) in time priority:

- 1) Public Customer Complex Order on the Complex Order Book to sell 200 A+B at \$2.10
- 2) Market Maker offer on the Complex Order Book to sell 800 A+B at \$2.10

Without the Surrender Quantity, the Agency Order would execute against the Public Customer Order on the Complex Order Book for 200 Contracts and against the Market Maker on the Complex Order Book for 800 contracts. Using the Surrender Quantity, however, the Agency Order would still execute against the Public Customer Order on the Complex Order Book, but would then execute against the Solicited Order for 800 contracts.

As stated above, the Surrender Quantity can also be used to allow Solicitation auction trades which would otherwise be canceled. For example, if an OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10 and designates 200 contracts as the Surrender Quantity. During the one second auction, BOX receives the following bids (offers) in time priority:

- 1) Market Maker offer on the Complex Order Book to sell 300 A+B at \$2.10
- 2) Public Customer Complex Order on the Complex Order Book to sell 100 A+B at \$2.10

There is a Book Priority Public Customer, but there is insufficient size to execute the

entire Agency Order with interest on the Complex Order Book, and this auction would normally be canceled. However, since the OFP designated a Surrender Quantity of 200 that is greater than the total size of the Book Priority Public Customer Order, the Agency Order will execute 100 contracts against the Book Priority Public Customer Order and the remaining 900 contracts against the Solicited Order.

However, if the aggregate size of the Book Priority Public Customer Order and all bids (offers), excluding Responses and BOX Book Interest, on the Complex Order Book at prices better than the proposed execution price exceeds the Surrender Quantity, and there is insufficient size to execute the entire Agency Complex Order, then both the Solicited Complex Order and the Agency Complex Order will be canceled.³⁰ For example, the OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10 and designates 200 contracts as the Surrender Quantity. During the one second auction, BOX receives the following bids (offers) in time priority:

- 1) Market Maker offer on the Complex Order Book to sell 300 A+B at \$2.10
- 2) Public Customer Complex Order on the Complex Order Book to sell 300 A+B at \$2.10

Even though the OFP has designated a Surrender Quantity of 200 contracts, the total size of the Book Priority Public Customer Order (300 contracts) is greater than the Surrender Quantity and there is insufficient size on the Complex Order Book to execute the entire Agency Complex Order. Therefore both the Solicited Complex Order and Agency Complex Order will be canceled.

The Surrender Quantity can also be used to allow Solicitation Auction trades when there

³⁰ See BOX Rule 7270(b)(2)(iv)(A)(1).

are bids (offers) on the Complex Book on the opposite side of the Agency Complex Order at a price better than the proposed execution price, but there is insufficient size to execute the entire Agency Order at an improved price.³¹ For example, an OFP submits a Complex Order through the Solicitation Auction to buy 1000 A+B at \$2.10 and designates 200 contracts as the Surrender Quantity. During the one second auction, BOX receives the following bids (offers) in time priority:

- 1) Market Maker offer on the Complex Order Book to sell 100 A+B at \$2.09
- 2) Public Customer Complex Order on the Complex Order Book to sell 100 A+B at \$2.08

Since there is insufficient size to execute the entire Agency Complex Order at a better price, this auction would normally be canceled. However, since the OFP designated a Surrender Quantity of 200 that is equal to the aggregate size of these better priced orders, the Agency Order will execute 100 contracts against the Public Customer Order at \$2.10, 100 contracts against the Market Maker Order at \$2.09 and the remaining 800 contracts against the Solicited Order. Note that even though the Public Customer Order on the Complex Order Book was priced lower than the proposed execution price at \$2.08, it is executed at the proposed execution price of \$2.10. Public Customer bids (offers) on the Complex Order Book at the time of the Surrender Quantity execution that are priced higher (lower) than the proposed execution price will be executed at the proposed execution price.³² Non-Public Customer and Market Maker bids (offers) that are priced lower (higher) than the proposed execution price will execute at their stated price.³³

³¹ See BOX Rule 7270(b)(2)(iv)(A)(2).

³² See BOX Rule 7270(b)(2)(iv)(B).

³³ See BOX Rule 7270(b)(2)(iv)(B).

The Exchange intends to implement the proposed change no later than January 30, 2017. The Exchange will provide Participants with notice, via Information Circular, of the exact implementation date.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,³⁴ in general, and Section 6(b)(5) of the Act,³⁵ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, 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. In particular, the Exchange believes that the proposed rule change to amend BOX Rule 7270 to provide for the execution of Complex Orders through the Solicitation Auction mechanism on BOX is designed to help BOX remain competitive among options exchanges and provide market participants additional opportunities to execute block-size crossing transactions in Complex Orders.

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

The proposed change provides for the execution of Complex Orders through the Solicitation auction mechanism. As such, 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 does not believe the proposal will impose any burden on intermarket competition, as the proposed rule will allow BOX to compete with other options exchanges in the industry. Specifically, ISE has a similar mechanism in place.³⁶ Additionally,

³⁴ 15 U.S.C. 78f(b).

³⁵ 15 U.S.C. 78f(b)(5).

³⁶ See supra note 6.

the Exchange does not believe the proposal will impose any burden on intramarket competition, as the Solicitation Auction mechanism is available to all Participants and all OFPs may submit orders through the mechanism.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 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 Act³⁷ and Rule 19b-4(f)(6) thereunder.³⁸

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.

³⁷ 15 U.S.C. 78s(b)(3)(A).

³⁸ 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.

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-2016-57 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2016-57. 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-2016-57, 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.³⁹

Robert W. Errett
Deputy Secretary

³⁹ 17 CFR 200.30-3(a)(12).