SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79831; File No. SR-BOX-2016-58)

January 18, 2017

Self-Regulatory Organizations; BOX Options Exchange LLC; Order Granting Approval 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")

I. Introduction

On December 9, 2016, BOX Options Exchange LLC (the "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] a proposed rule change to amend the eligibility requirements for its Price Improvement Period auction ("PIP" or "Auction") and make permanent pilot programs for the PIP and Complex Order Price Improvement Period ("COPIP") programs. The proposed rule change was published for comment in the Federal Register on December 16, 2016.[3] The Commission received no comments regarding the proposal. This order approves the proposed rule change.

II. Description of the Proposal

Pursuant to BOX Rule 7150, Options Participants executing agency orders ("Initiating Participants") may designate Market Orders and marketable limit Customer Orders for price improvement and submission to the PIP ("PIP Orders") along with a matching contra order equal to the full size of the PIP Order. The PIP was introduced with the launch of the BOX Options

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 79531 (December 12, 2016), 81 FR 91227 ("Notice").

Exchange facility ("BOX Facility") in 2004.[4] 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. The COPIP was established in January 2014.[5]

The PIP Pilot Program and COPIP Pilot Program ("Pilot Programs") guarantee Participants the right to trade with their customer orders that are less than 50 contracts. The rules permitting an Initiating Participant to enter an agency order into the PIP and COPIP with no minimum size requirement were approved on a pilot basis.[6] Any order entered into the PIP is guaranteed an execution at the end of the auction at a price at least equal to the National Best Bid and Offer ("NBBO").[7] 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,[8] cBBO[9] and BBO on the Complex Order Book for the Strategy at the time of commencement.[10] Both Pilot Programs are scheduled to expire on January 18, 2017.[11]

BOX proposes to amend the PIP and COPIP to make permanent the Pilot Programs that permit the Exchange to have no minimum size requirement for orders entered into the PIP. In

---

4 See Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004) (SR-BSE-2003-04) ("PIP Approval Order").

5 See Securities Exchange Act Release No. 71148 (December 19, 2013) 78 FR 78437 (December 26, 2013) ("COPIP Approval Order").

6 See PIP Approval Order, supra note 4, and COPIP Approval Order, supra note 5.

7 See BOX Rule 7150(f).

8 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. See BOX Rule 7240(a)(3).

9 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. See BOX Rule 7240(a)(1).

10 See BOX Rule 7245(f).

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

addition, BOX proposes to modify the eligibility requirements for the PIP where the NBBO is only $0.01 wide.

A. PIP Eligibility Requirements

The Exchange proposes to amend the PIP eligibility requirements. Currently, a PIP Order may be submitted to BOX with a matching contra 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, at any NBBO spread. BOX proposes to amend the PIP to reject any Auction where the quoted NBBO spread[12] is less than or equal to $0.01.[13] 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.[14]

B. PIP Pilot Program

The Exchange has provided the Commission with a summary report containing Auction data for the period between January through June 2015.[15] BOX believes that the data gathered demonstrates there is an active and liquid market functioning on the Exchange outside of the auction mechanism.[16] 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

---

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

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

14 See Notice, supra note 3, at 91229. During the six month time period, .05% of auctions where the NBBO spread was less than or equal to $0.01 received price improvement. See id.

15 See Notice, supra note 3, at 91228. See Exhibit 3 to SR-BOX-2016-58.

16 See Notice, supra note 3, at 91229.

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.[17]

The Exchange believes, based on the data, that there is significant price improvement and significant opportunity for price improvement when the NBBO spread is greater than $0.01.[18] During the period between January through June 2015, 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 NBBO regardless of size.[19]

The Exchange has also gathered data on the premature terminations in the PIP. Between January and June 2015, the number of auctions that terminated early was less than 0.05% of all PIP auctions.[20]

C. COPIP Pilot Program

With respect to the COPIP Pilot Program, the Exchange notes that between January through June 2015, COPIP volume accounted for 41% of all complex order volume on BOX.[21] The average price improvement amount (when improved) was $0.11 for this same period. 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

---

17 See id.

18 See id.

19 See id.

20 See id.

21 See id.

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.[22]

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.[23]

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with Section 6(b) of the Act.[24] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[25] which requires, among other things, that the rules of a national securities exchange be 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect customers, issuers, brokers and dealers.

As part of its proposal, the Exchange provided summary data on Exhibit 3 of its filing for the period January through June 2015, which the Exchange and Commission both publicly

---

22 See id.

23 See id.

24 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

25 15 U.S.C. 78f(b)(5).

posted on their respective websites. Among other things, this data is useful in assessing the level of price improvement in the auction, in particular for orders for fewer than 50 contracts; the degree of competition for order flow in such auctions; and a comparison of liquidity in the auctions with liquidity on the Exchange generally.[26] Based on the data provided by the Exchange, the Commission believes that the Exchange's price improvement auction generally delivers a meaningful opportunity for price improvement to orders, including orders for fewer than 50 contracts, when the spread in the option is $0.02 or more. At the same time, as the Exchange has recognized, the data do not demonstrate that such orders have realized significant price improvement when the NBBO has a bid/ask differential of $0.01.[27] Recognizing this, the Exchange has proposed to amend the auction eligibility requirements to reject any Auction where the quoted NBBO spread is less than or equal to $0.01. The Exchange's proposal to modify the auction eligibility requirements and seek permanent approval of the Pilot Programs, as amended with the new provision, will, in the Commission's view, promote opportunities for price improvement.

The Commission believes that, particularly for auctions for fewer than 50 contracts when the bid/ask differential is wider than $0.01, the data provided by the Exchange support its proposal to make the Pilot Programs permanent. The data demonstrate that the auction generally provides price improvement opportunities to simple and complex orders, including orders of retail customers and particularly when the bid/ask differential is wider than $0.01, that there is meaningful competition for orders on the Exchange; and that there exists an active and liquid market functioning on the Exchange outside of the auction.[28] The Commission further believes

---

[26] See Exhibit 3 to SR-BOX-2016-58.

[27] See Notice, supra note 3, at 91229.

[28] See Exhibit 3 to SR-BOX-2016-58.

that the proposed revisions to the eligibility requirements for simple PIP Orders with respect to circumstances when the NBBO is $0.01 wide should help to enhance the operation of the auction by limiting its use to circumstances when there are more meaningful opportunities for price improvement, and should benefit investors and others in a manner that is consistent with the Act. Thus, the Commission has determined to approve the Exchange's proposed revisions to Rule 7150 and to approve the Pilot Programs, as proposed to be modified, on a permanent basis.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[29] that the proposed rule change (SR-BOX-2016-58), be and hereby is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[30]

Eduardo A. Aleman
Assistant Secretary

---

[29] 15 U.S.C. 78s(b)(2).

[30] 17 CFR 200.30-3(a)(12).