

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79832; File No. SR-BOX-2017-01)

January 18, 2017

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule on the BOX Market LLC (“BOX”) Options Facility

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 January 5, 2017, 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 Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,³ and Rule 19b-4(f)(2) thereunder,⁴ which renders the proposal effective upon filing with the Commission. 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 the Substance of the Proposed Rule Change

The Exchange is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend the Fee Schedule to on the BOX Market LLC (“BOX”) options facility. While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on January 9, 2017. 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.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

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 Exchange 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 Exchange 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 Section III (Complex Order Transaction Fees) to specify that all Complex Order transactions executed through the Exchange's auction mechanisms will be subject to Section I (Exchange Fees) and II (Liquidity Fees and Credits) of the BOX Fee Schedule. The Exchange recently amended its rules to permit Complex Order⁵ transactions to execute through the Solicitation Auction mechanism⁶ and the Exchange is submitting this filing to clarify the fees that are applicable to these transactions.

Generally, Complex Order transactions are subject to the fees and credits set forth in Section III (Complex Order Transaction Fees) of the BOX Fee Schedule while transactions executed through the Facilitation and Solicitation auction mechanisms are subject to Sections I (Exchange Fees) and II (Liquidity Fees and Credits). The Exchange proposes to add language

⁵ As defined in Rule 7240(a)(5), the term "Complex Order" means 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.

⁶ See Securities [sic] Release No. 79557 (December 14, 2016), 81 FR 92919 (December 20, 2016) (Notice of Filing and Immediate Effectiveness SR-BOX-2016-57).

that clarifies that Complex Order transactions executed through Auction Mechanisms⁷ will be subject to Sections I (Exchange Fees) and II (Liquidity Fees and Credits).

Under Section I (Exchange Fees), the Exchange proposes the following fees for Complex Order transactions executed through the Solicitation auction mechanism. For Agency Orders⁸ and Solicitation Orders, Professional Customers, Broker Dealers and Market Makers will be charged \$0.15 in Penny and Non-Penny Pilot Classes, and Public Customers will not be charged. For Responses in the Solicitation Auction, all account types will be charged \$0.25 for Penny Pilot Classes and \$0.40 for Non-Penny Pilot Classes.

The Exchange then proposes to treat Complex Order transactions executed through the Solicitation mechanism in the same manner as single legged Solicitation transactions for liquidity fees and credits, which are applied in addition to any applicable exchange fees as described in Section I of the Fee Schedule. The fee structure for liquidity fees and credits for Complex Orders executed through the Solicitation mechanisms will be as follows:

Facilitation and Solicitation Transactions	Fee for Adding Liquidity (All Account Types)	Credit for Removing Liquidity (All Account Types)
Non-Penny Pilot Classes	\$0.75	(\$0.75)
Penny Pilot Classes	\$0.25	(\$0.25)

Complex Order transactions executed through the Solicitation mechanism will be assessed a “removal” credit only if the Agency Order does not trade with their contra order. Responses to Complex Order transactions executed through the Solicitation mechanism shall be charged the “add” fee.

⁷ BOX’s auction mechanisms include the Price Improvement Period (“PIP”), Complex Order Price Improvement Period (“COPIP”), Facilitation Auction and Solicitation Auction.

⁸ An Agency Order is the block-size order that an Order Flow Provider “OFP” seeks to facilitate as agent through the Facilitation Auction or Solicitation Auction mechanism.

Finally, the Exchange is proposing to make additional non-substantive changes to the Fee Schedule. Specifically, the Exchange is renumbering certain footnotes to accommodate the above proposed changes to the Fee Schedule.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act, in general, and Section 6(b)(4) and 6(b)(5) of the Act,⁹ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among BOX Participants and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Exchange believes that the proposal to specify that Complex Order transactions executed through the Exchange's Auction Mechanisms are subject to fees and credits in Sections I (Exchange Fees) and II (Liquidity Fees and Credits) is reasonable, equitable and not unfairly discriminatory. The new ability for Complex Order transactions to execute through the Solicitation Auction mechanism is similar to Complex Orders executing through the COPIP and Facilitation Auction mechanisms. As such, the Exchange believes it is reasonable for the fees for Complex Orders executed through the Solicitation mechanism to mimic the current COPIP and Facilitation mechanism transaction fees.¹⁰ In the BOX Fee Schedule, COPIP transactions are not subject to Section III (Complex Order Transactions) and are instead treated the same as PIP transactions. Similarly, Complex Order Facilitation Auction transactions are not subject to Section III (Complex Order Transactions) and are instead treated the same as single-legged

⁹ 15 U.S.C. 78f(b)(4) and (5).

¹⁰ See Securities Exchange Release Nos. 71312 (January 15, 2014), 79 FR 3649 (January 22, 2014)(SR-BOX-2014-01); 78827 (September 13, 2016), 81 FR 64218 (September 19, 2016) (SR-BOX-2016-42); where the Exchange established fees for Complex Orders submitted to the PIP and the Facilitation Mechanisms in the BOX Fee Schedule, respectively.

Facilitation transactions in Section I. The Exchange believes the proposed fees will allow the Exchange to be competitive with other exchanges and to apply fees and credits in a manner that is equitable among all BOX Participants. The proposed fees are intended to attract Complex Orders to the Exchange by offering market participants incentives to submit their Complex Orders through the Exchange's Solicitation auction mechanism. The Exchange believes it is appropriate to provide incentives for market participants to submit orders to the auction mechanisms, resulting in greater liquidity and ultimately benefiting all Participants trading on the Exchange.

Exchange Fees

Currently, for Facilitation Orders, the Exchange assesses a \$0.15 per contract fee for Professional Customers, Broker Dealers and Market Makers in Penny and Non-Penny Pilot Classes and does not assess a fee for Public Customers. The Exchange proposes to assess the same fees for Solicitation Orders. The Exchange believes that charging Professional Customers and Broker Dealers and Market Makers more than Public Customers for Solicitation Orders is reasonable, equitable and not unfairly discriminatory. The securities markets generally, and BOX in particular, have historically aimed to improve markets for investors and develop various features within the market structure for Public Customer benefit. The Exchange believes that charging lower fees to Public Customers in Facilitation and Solicitation transactions is reasonable and, ultimately, will benefit all Participants trading on the Exchange by attracting Public Customer order flow.

Currently, for Responses in the Facilitation Auction mechanism, the Exchange assesses a \$0.25 fee in Penny Pilot Classes and a \$0.40 fee in Non-Penny Pilot Classes, regardless of account type. The Exchange proposes to assess the same fees for Responses in the Solicitation

Auction mechanism. The Exchange believes it is reasonable, equitable and not unfairly discriminatory to charge higher exchange fees for responders to Complex Orders in the Solicitation auction than for initiators of these orders. Moreover, the higher fees for responders to Complex Orders are similar with fees charged by another options exchange.¹¹ For example, at the ISE, fees for Responses to Crossing Orders are \$0.50, regardless of Participant type, in both Penny and Non-Penny Pilot Classes where fees for initiating Crossing Orders range from \$0.20 and \$0.25. Further, the Exchange believes its proposed fees for Responses in the Solicitation Auction mechanism are reasonable as they are identical to the fees charged for Complex Orders executed through the Facilitation auction mechanism on the Exchange. The Exchange also notes that the proposed fees for Responses to Solicitation Orders are not unfairly discriminatory because they apply equally to all Participants.

The Exchange believes it is reasonable to establish different fees for Solicitation transactions in Penny Pilot Classes compared to transactions in Non-Penny Pilot Classes. The Exchange makes this distinction throughout the BOX Fee Schedule, including the Exchange Fees for PIP and COPIP Transactions. The Exchange believes it is reasonable to establish higher fees for Non-Penny Pilot Classes because these Classes are typically less actively traded and have wider spreads.

Liquidity Fees and Credits

The Exchange believes the proposed liquidity fees and credits for Complex Orders executed through the Solicitation auction mechanism are equitable and not unfairly discriminatory. Specifically, the Exchange believes the liquidity fees and credits fee structure aims to attract order flow to the Solicitation mechanism, potentially providing greater liquidity

¹¹ See International Securities Exchange (“ISE”) Fee Schedule Section I available at https://www.ise.com/assets/documents/OptionsExchange/legal/fee/ISE_fee_schedule.pdf.

within the overall BOX Market to the benefit of all BOX market participants. The Exchange notes that the proposed fees and credits for Complex Order transactions executed through the Solicitation mechanism offset one another in any particular transaction. The result is that BOX will collect a fee from Participants that add liquidity on BOX and credit another Participant an equal amount for removing liquidity. Stated otherwise, the collection of these liquidity fees will not directly result in revenue to BOX, but will simply allow BOX to provide the credit incentive to Participants in order to attract order flow. The Exchange believes it is appropriate to provide incentives to market participants to direct order flow to remove liquidity from BOX, similar to various and widely-used, exchange-sponsored payment for order flow programs. Further, the Exchange believes that fees for adding liquidity on BOX will not deter Participants from seeking to add liquidity to the BOX market so that they may interact with those participants seeking to remove liquidity.

The Exchange continues to believe it is reasonable to establish different fees and credits for Solicitation transactions in Penny Pilot Classes compared to transactions in Non-Penny Pilot Classes. The Exchange makes this distinction throughout the BOX Fee Schedule, including the liquidity fees and credits for PIP and COPIP Transactions. The Exchange believes it is reasonable to establish higher fees and credits for Non-Penny Pilot Classes because these Classes are typically less actively traded and have wider spreads. The Exchange believes that offering a higher rebate will incentivize order flow in Non-Penny Pilot issues on the Exchange, ultimately benefitting all Participants trading on BOX.

Further, the Exchange continues to believe it is reasonable, equitable and not unfairly discriminatory to only assess liquidity fees and credits on Agency Orders that do not trade with their contra order, and the Responses to these Orders. As stated above, liquidity fees and credits

are meant to incentivize order flow, and the Exchange believes incentives are not necessary for internalized orders in these mechanisms that only trade against their contra order. Additionally, other Exchanges also make this distinction in their Solicitation auction mechanism.¹²

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing exchanges. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

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 proposed change is designed to provide greater specificity and precision within the Fee Schedule with respect to the fees that will be applicable to Complex Order transactions executed through the Exchange's Solicitation auction mechanism.

The Exchange believes that adopting these fees will not impose a burden on competition among various Exchange Participants. The proposed fees are meant to mimic the fees currently assessed for Complex Orders executed through the Facilitation auction mechanism. Submitting an order through an auction mechanism is entirely voluntary and Participants can determine which type of order they wish to submit, if any, to the Exchange.

¹² See ISE Schedule of Fees at http://www.ise.com/assets/documents/OptionsExchange/legal/fee/ISE_fee_schedule.pdf. Under the ISE Fee Schedule, in the equivalent of Penny Pilot Classes, the initiator receives a "break-up" rebate only for contracts that are submitted to the Facilitation and Solicitation mechanisms that do not trade with their contra order. The responder fee for these Orders is only applied to any contracts for which the rebate is provided.

Further, the Exchange believes that the proposed fees will enhance competition between exchanges because it is designed to allow the Exchange to better compete with other exchanges for Complex Order flow. In this regard, the new feature which allows Complex Order transactions to execute through the Solicitation mechanism is being introduced by the Exchange and BOX is unable to absolutely determine the impact that the proposed fees proposed herein will have on trading. That said, however, the Exchange believes that the proposed fees would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Exchange Act¹³ and Rule 19b-4(f)(2) thereunder,¹⁴ because it establishes or changes a due, or fee.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend the rule change if it appears to the Commission that the action is necessary or appropriate in the public interest, for the protection of investors, or would otherwise further 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.

¹³ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁴ 17 CFR 240.19b-4(f)(2).

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-2017-01 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-2017-01. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing 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-2017-01, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Eduardo A. Aleman
Assistant Secretary

¹⁵ 17 CFR 200.30-3(a)(12).