

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80720; File No. SR-BOX-2016-48)

May 18, 2017

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Amendment No. 2 to a Proposed Rule Change to Adopt Rules for an Open-Outcry Trading Floor

On November 16, 2016, BOX Options Exchange LLC (“BOX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to adopt rules for an open-outcry trading floor. The proposed rule change was published for comment in the Federal Register on December 05, 2016.<sup>3</sup> The Commission received three comment letters in response to the publication of the Notice.<sup>4</sup> On January 10, 2017, the Commission extended the time period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change to March 05, 2017.<sup>5</sup> On February 21, 2017, the Commission received a response letter from the Exchange, as well as Amendment No. 1 to the proposed rule change.<sup>6</sup> On March 1, 2017, the Commission instituted proceedings to determine

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 79421 (November 29, 2016), 81 FR 87607 (“Notice”).

<sup>4</sup> See letters to Brent J. Fields, Secretary, Commission, from Angelo Evangelou, Deputy General Counsel, The Chicago Board Options Exchange, Inc. (“CBOE”), dated January 10, 2017; Steve Crutchfield, Head of Market Structure, CTC Trading Group, LLC (“CTC Trading”), dated December 31, 2016; and Joan C. Conley, Senior Vice President and Corporate Secretary, The Nasdaq Stock Market LLC (“Nasdaq”), dated December 22, 2016.

<sup>5</sup> See Securities Exchange Act Release No. 79768 (January 10, 2017), 82 FR 4956 (January 17, 2017).

<sup>6</sup> See letter to Brent J. Fields, Secretary, Commission, from Lisa J. Fall, President,

whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.<sup>7</sup> In response to the OIP, the Commission received five additional comment letters.<sup>8</sup> On May 17, 2017, the Exchange filed Amendment No. 2 to the proposed rule change, which replaced and superseded the original filing, as modified by Amendment No. 1, in its entirety.<sup>9</sup> The Commission is publishing this notice to solicit comments from interested persons on Amendment No. 2. Items I and II below have been prepared by the Exchange. On May 18, 2017, the Commission extended the time period within which to approve or disapprove the proposed rule change to August 2, 2017.<sup>10</sup>

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

The proposed rule change was filed on November 16, 2016, which was published in the Federal Register.<sup>11</sup> The Exchange filed an Amendment 1 to this rule change on February 21, 2017, which was published in the Federal Register notice along with the Order Instituting

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Exchange, received February 21, 2017, and Amendment No. 1, dated February 21, 2017. Amendment No. 1 is available at: <https://www.sec.gov/comments/sr-box-2016-48/box201648.shtml>.

<sup>7</sup> See Securities Exchange Act Release No. 80134 (March 1, 2017), 82 FR 12864 (March 7, 2017) (“OIP”).

<sup>8</sup> See letters to Brent J. Fields, Secretary, Commission, from Angelo Evangelou, Deputy General Counsel, CBOE, dated April 21, 2017; Steve Crutchfield, Head of Market Structure, CTC Trading, dated April 13, 2017; John Kinahan, CEO, Group One Trading, LP, dated April 11, 2017; Elizabeth King, General Counsel and Corporate Secretary, New York Stock Exchange, dated March 28, 2017; and Joan C. Conley, Senior Vice President and Corporate Secretary, Nasdaq, dated March 27, 2017.

<sup>9</sup> See Amendment No. 2, dated May 17, 2017. Amendment 2 is available on the Exchange's website at [http://lynxstorageaccount.blob.core.windows.net/boxvr/SE\\_resources/SR-BOX-2016-48\\_Amendment\\_2.pdf](http://lynxstorageaccount.blob.core.windows.net/boxvr/SE_resources/SR-BOX-2016-48_Amendment_2.pdf).

<sup>10</sup> See Securities Exchange Act Release No. 80719 (May 18, 2017).

<sup>11</sup> See Securities Exchange Act Release No. 79421 (November 29, 2016), 81 FR 87607 (December 5, 2016) (“Original Filing”).

Proceedings.<sup>12</sup> The Exchange is proposing an Amendment 2 to provide more specificity to the rule change. This Amendment 2 amends and replaces the Original Filing and Amendment 1 in their entirety.

This Amendment 2 makes the following changes to the Original Filing as modified by Amendment 1, to : (i) clarify that the Trading Floor will have a single Crowd Area;<sup>13</sup> (ii) clarify that the BOX Order Gateway (“BOG”) is a component of the Trading Host;<sup>14</sup> (iii) clarify the public outcry process;<sup>15</sup> (iv) remove proposed Rule 7010(d);<sup>16</sup> (v) provide clarity regarding Trading Floor admittance;<sup>17</sup> (vi) provide more specificity on how trade-through and priority rules are enforced;<sup>18</sup> (vii) provide clarity on the handling of orders by Floor Brokers;<sup>19</sup> (viii) clarify the processing of orders by the Trading Host;<sup>20</sup> (ix) include the requirement of the presence of a Floor Market Maker when a Floor Broker announces an order;<sup>21</sup> (x) include the requirement of a Floor Broker to pass an examination as part of the registration process;<sup>22</sup> (xi) provide clarity on

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<sup>12</sup> See Securities Exchange Act Release No. 80134 (March 1, 2017), 82 FR 12864 (March 7, 2017) (SR-BOX-2016-48).

<sup>13</sup> See changes in Exhibit 4 to proposed Rules 100(a)(67), 7660(i), and IM-8510-2(b). The Commission notes that Exhibits 3, 4, and 5, which were submitted with Amendment No. 2, are available on the Commission’s website at <https://www.sec.gov/rules/sro/box.htm>.

<sup>14</sup> See changes in Exhibit 4 to proposed Rule 100(b)(2), 7580(e)(2), 7600(c), IM-7580-2, and 8510(i).

<sup>15</sup> See changes in Exhibit 4 to proposed Rule 100(b)(5).

<sup>16</sup> See changes in Exhibit 4 to proposed Rule 7010(d).

<sup>17</sup> See changes in Exhibit 4 to proposed Rule 7520.

<sup>18</sup> See changes in Exhibit 4 to proposed Rule 7600(a).

<sup>19</sup> See changes in Exhibit 4 to proposed Rule 7580(e).

<sup>20</sup> See changes in Exhibit 4 to proposed Rules 100(b)(2), 100(b)(3), 7240(b)(3)(iii), 7580(e), 7600(a), 7600(c), and 8510(i).

<sup>21</sup> See changes in Exhibit 4 to proposed Rule 7580(a).

<sup>22</sup> See changes in Exhibit 4 to proposed Rules 2020(h) and 7550.

the allocation process;<sup>23</sup>(xii) provide additional detail on orders from the Trading Floor;<sup>24</sup> (xiii) clarify the submission parameters and process of a QOO Order<sup>25</sup>; (xiv) clarify that orders are announced on the Trading Floor;<sup>26</sup> (xv) clarify the guarantee provision;<sup>27</sup> (xvi) clarify that combination orders are Complex Orders;<sup>28</sup> (xvii) clarify priority in the trading crowd;<sup>29</sup> (xviii) clarify that single-sided orders may be represented on the Trading Floor;<sup>30</sup> (xix) remove proposed Rule 7620;<sup>31</sup> (xx) remove the continuous electronic quoting obligation;<sup>32</sup> (xxi) clarify that orders for covered accounts<sup>33</sup> relying on an exemption under Section 11(a)(1)(G) of the Exchange Act (the “G Exemption”) are not allowed when the Trading Floor is utilized;<sup>34</sup> (xxii) clarify the responsibilities of an Options Exchange Official;<sup>35</sup> (xxiii) clarify certain rules related

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<sup>23</sup> See changes in Exhibit 4 to proposed Rules 7600(a), 7600(d), and 7600(h).

<sup>24</sup> See changes in Exhibit 4 to proposed Rules 7600 and 7580(e).

<sup>25</sup> As described in greater detail below, the Exchange is proposing to adopt a Qualified Open Outcry (“QOO”) Order type. All orders executed from the Trading Floor must be QOO Orders. See changes in Exhibit 4 to proposed Rule 7600(c).

<sup>26</sup> See changes in Exhibit 4 to proposed Rules 7580(e)(1), 7580(e)(2), 7600(a), 7600(b), IM-7600-1, 7640(b), 8510(i), and IM-8510-2(b).

<sup>27</sup> See changes in Exhibit 4 to proposed Rule 7600(f).

<sup>28</sup> See changes in Exhibit 4 to proposed Rules 7580(c), IM-7590-1, 7600(f)(2), and IM-7600-1(d).

<sup>29</sup> See changes in Exhibit 4 to proposed Rules 7610(d)(1) and IM-7600-1(c).

<sup>30</sup> See changes in Exhibit 4 to proposed Rules 7580(e)(1), 7580(e)(2), and IM-7600-4.

<sup>31</sup> See changes in Exhibit 4 to proposed Rules 7620 and IM-7600-5.

<sup>32</sup> See changes in Exhibit 4 to proposed Rules 8500(a) and 8510(c)(1).

<sup>33</sup> A “covered account” is the member’s account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion.

<sup>34</sup> See changes in Exhibit 4 to proposed Rules 7620(d), IM-7600-5, and 8510(h).

<sup>35</sup> See changes in Exhibit 4 to proposed Rule 100(b)(6).

to behavior on the Trading Floor;<sup>36</sup>(xxiv) provide certain data to the SEC with respect to activity on the Trading Floor; and (xxv) make grammatical changes to the rule text.

The Exchange is amending the rule text to clarify that the Trading Floor will have a single Crowd Area where all option classes will be located.<sup>37</sup> The Exchange believes this change will provide greater clarity on how the Trading Floor will be organized by removing the Exchange's discretion to have multiple Crowd Areas. The Exchange believes this change is reasonable as it adds more clarity to the rule text by making clear in the rules the number of Crowd Areas on the Trading Floor.

The Exchange is amending the rule text to clarify that the BOG is a component of the Trading Host.<sup>38</sup> The Exchange believes that this change will provide greater clarity on the relationship between the BOG and Trading Host. Specifically, the Exchange believes clarifying that the BOG is a component of the Trading Host will provide greater detail on how QOO Orders submitted by Floor Brokers are processed by the Trading Host. The Exchange believes this change is reasonable as it adds more clarity to the rule text.

The Exchange is amending rule text to clarify the public outcry process on the Trading Floor.<sup>39</sup> The proposed change will provide how long a Floor Participant has to respond to a Floor Broker when an order is announced and additional details on the public outcry process. Specifically, a Floor Broker must give a Floor Participant a reasonable amount of time to respond. The Exchange believes this change is reasonable as it adds clarity and removes any potential confusion from the rule text.

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<sup>36</sup> See changes in Exhibit 4 to proposed Rule 8510(h)(4).

<sup>37</sup> See changes in Exhibit 4 to proposed Rules 100(a)(67), 7660(i), and IM-8510-2(b).

<sup>38</sup> See changes in Exhibit 4 to proposed Rules 100(b)(2), 7580(e)(2), 7600(c), IM-7580-2, and 8510(i).

<sup>39</sup> See changes in Exhibit 4 to proposed Rule 100(b)(5).

The Exchange is amending the rule text to remove proposed Rule 7010(d).<sup>40</sup> The Exchange is removing the proposed Rule because it is not necessary. Specifically, the proposed Rule provides that the Board may impose a charge upon Options Participants measured by their respective net commissions on transactions effected on the Trading Floor of the Exchange. The Exchange does not believe the provision is necessary because the Exchange does not intend to charge fees based on net commissions.<sup>41</sup> The Exchange believes this change is reasonable as it removes a proposed Rule that is not necessary for the Trading Floor.

The Exchange is amending the rule text to provide clarity regarding Trading Floor admittance.<sup>42</sup> The proposed change makes clear that the Exchange must follow applicable disciplinary rules and procedures when the Exchange withdraws existing approval to access the Trading Floor. The Exchange believes this change is reasonable as it adds clarity to the rule text by providing additional detail on the admittance process of the Exchange and the existing disciplinary rules that are applicable.

The Exchange is amending the rule text to provide more specificity on how trade-through and priority rules are enforced.<sup>43</sup> The proposed changes will make clear that the Trading Host will enforce trade-through and priority rules in the same manner for QOO Orders as the Trading Host does for all other orders on BOX. As is the case with all orders on BOX, the QOO Order is validated when the QOO Order is received by the Trading Host.

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<sup>40</sup> See changes in Exhibit 4 to proposed Rule 7010(d).

<sup>41</sup> The Exchange notes that this proposed change does not prevent the Exchange from charging fees on the Trading Floor.

<sup>42</sup> See changes in Exhibit 4 to proposed Rule 7520.

<sup>43</sup> See changes in Exhibit 4 to proposed Rule 7600(a).

The Exchange is amending rule text to provide clarity on the handling of orders by Floor Brokers.<sup>44</sup> The Exchange is amending the rule text to make clear that Floor Brokers must comply with certain requirements when representing an order on the Trading Floor. The Exchange notes that the proposed change does not impose any new requirements, but simply seeks to clarify the rules surrounding Floor Broker order handling requirements. As such, the Exchange believes that these changes are reasonable as they provide clarity to the rules.

The Exchange is amending the rule text describing the processing of an order by the Trading Host.<sup>45</sup> As part of this clarifying change, the Exchange is amending the rule text on how orders are submitted from the Trading Floor. The Exchange is making this change because a QOO Order is not executed until the Trading Host processes the QOO Order as opposed to when it is announced on the Trading Floor. Additionally, the Exchange is amending the rule text to make clear that all options transactions on BOX are executed automatically by the Trading Host. The Exchange believes these changes are reasonable as they eliminate confusion and provide clarity to the rules.

The Exchange is amending the rule text to include the requirement of the presence of a Floor Market Maker when a Floor Broker announces an order.<sup>46</sup> This proposed change is designed to better align the Exchange's rules with those of another options exchange.<sup>47</sup> The Exchange believes this change is reasonable as it enhances consistency between the Exchange's proposed rules and existing rules at another exchange with a trading floor.

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<sup>44</sup> See changes in Exhibit 4 to proposed Rule 7580(e).

<sup>45</sup> See changes in Exhibit 4 to proposed Rules 100(b)(2), 100(b)(3), 7240(b)(3)(iii), 7580(e), 7600(a), 7600(c), and 8510(i).

<sup>46</sup> See changes in Exhibit 4 to proposed Rule 7580(a).

<sup>47</sup> See NASDAQ PHLX LLC ("PHLX") Rule 1063(a).

The Exchange is amending the rule text to include the requirement of a Floor Broker to pass an examination as part of the registration process.<sup>48</sup> In the Original Filing, the Exchange was proposing to make Floor Broker examinations discretionary, which was a departure from another options exchange with a trading floor. Therefore, the Exchange believes this change is reasonable as it enhances consistency between the exchange's proposed rules and existing rules of another exchange with a trading floor.<sup>49</sup>

The Exchange is amending rule text to provide additional detail on orders from the Trading Floor.<sup>50</sup> The proposed change provides details of how a Floor Broker may execute orders from the Trading Floor. The proposed change also provides additional details on a Floor Broker's responsibility to announce an order to the trading crowd. Additionally, as part of this proposed change, the Exchange is moving proposed Rule 7580(e)(3) and combining it with proposed Rule 7600(a) in order to make the rule text clearer. The Exchange believes the proposed change is reasonable as it provides additional detail and clarity to the rule text.

The Exchange is amending the rule text to provide clarity on the allocation process.<sup>51</sup> The allocation process has not changed from the Original Filing; the proposed change is clarifying the timing and procedure that a Floor Broker must use on the Trading Floor. Specifically, the executing Floor Broker is responsible for providing the correct allocation of the initiating side of the QOO Order to an Options Exchange Official or his or her designee who will properly record the order in the Exchange's system. Additionally, the proposed change reformatted the rule text to make it clearer for Participants. As part of this change, the Exchange

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<sup>48</sup> See changes in Exhibit 4 to proposed Rules 2020(h) and 7550.

<sup>49</sup> See PHLX Rule 1061.

<sup>50</sup> See changes in Exhibit 4 to proposed Rules 7600 and 7580(e).

<sup>51</sup> See changes in Exhibit 4 to proposed Rules 7600(a), 7600(d), and 7600(h).

is clearly laying out how the initiating side of the QOO Order is allocated. The Exchange is also clarifying the rule text language with respect to the book sweep size. The Exchange believes that these changes are reasonable because they add clarity and provides additional detail to the rules.

The Exchange is amending the rule text to clarify the submission parameters and process of a QOO Order.<sup>52</sup> This proposed change is designed to provide additional clarity on how the open-outcry process on the Trading Floor will occur. Specifically, the Exchange is adding rule text requiring a Floor Broker to submit the QOO Order to the BOG without undue delay.

Although the Original Filing did not specifically state this, it was generally understood that a Floor Broker would submit the QOO Order to the BOG after announcement and would not unreasonably delay the submission, provided that the executing Floor Broker allows adequate time for Floor Participants to participate in the transaction as provided in proposed Rule 100(b)(5). The Exchange is also providing additional detail on the requirements for submitting a Complex QOO Order. As part of this proposed change, the Exchange is also making certain clarifying changes to the rule text. As such, the Exchange believes the change is reasonable since it provides additional clarity to the rules by codifying this requirement of Floor Brokers.

The Exchange is amending the rule text to clarify that orders are announced on the Trading Floor.<sup>53</sup> This proposed rule change is designed to clarify when an execution occurs. In the Original Filing, the Exchange used the terms “executed”, “announced” and “represented” on the Trading Floor interchangeably. In actuality, an order is announced on the Trading Floor but not executed; the execution occurs when the QOO Order is processed by the Trading Host. Additionally, a Floor Broker may represent an order on the Trading Floor, however, this only

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<sup>52</sup> See changes in Exhibit 4 to proposed Rule 7600(c).

<sup>53</sup> See changes in Exhibit 4 to proposed Rules 7580(e)(2), 7600(a), 7600(b), IM-7600-1, 7640(b), 8510(i), and IM-8510-2(b).

means he is holding the order and does not necessarily mean he is announcing the order for execution. The Exchange believes that these clarifications are reasonable since they are designed to clarify and remove confusion from the rule text.

The Exchange is amending the rule text related to guarantees.<sup>54</sup> Specifically, the Exchange is amending the rule text to remove language that may lead to confusion among Floor Participants. The Exchange believes this change is reasonable as it provides clarity to the rule text.

The Exchange is amending the rule text to clarify that combination orders, including spreads, straddles, and stock options, are Complex Orders.<sup>55</sup> The Exchange is making this change in order to clarify the usage of certain terms throughout the Exchange's Rulebook. The Exchange believes that this minor change is designed to provide clarity in the rules and is reasonable.

The Exchange is amending the rule text to clarify priority in the trading crowd.<sup>56</sup> Specifically, the proposed change clarifies that it is the responsibility of the Floor Participant who established the market to alert the Floor Broker of the fact that the Floor Participant has priority when a Floor Broker announces an order to the trading crowd. The Exchange believes this change is reasonable because it will provide clarity and guidance to Floor Participants on the requirements of the rules.

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<sup>54</sup> See changes in Exhibit 4 to proposed Rule 7600(f).

<sup>55</sup> See changes in Exhibit 4 to proposed Rules 7580(c), IM-7590-1, 7600(f)(2), and IM-7600-1(d).

<sup>56</sup> See changes in Exhibit 4 to proposed Rules 7610(d)(1) and IM-7600-1(c).

The Exchange is amending the rule text to clarify that single-sided orders may be represented on the Trading Floor.<sup>57</sup> Single-sided orders have always been allowed on the Trading Floor; however, the Original Filing was silent on whether they may be represented on the Trading Floor. This proposed change is simply codifying that single-sided orders are allowed on the Trading Floor and, therefore, the Exchange believes the change is reasonable.

The Exchange is removing proposed Rule 7620.<sup>58</sup> Proposed Rule 7620 is not necessary since orders executed by Floor Brokers from the Trading Floor must be QOO Orders processed by the Trading Host and proposed Rule 7600 provides adequate details on the process of executing orders from the Trading Floor. Specifically, paragraph (a) of proposed Rule 7620 is covered by proposed Rule 7600(d)(2) and paragraph (b) is covered by proposed Rule 7600(d)(3)(ii). Paragraph (c) was inadvertently included. Paragraph (c) provides that bids and offers of non-Public Customers on the BOX Book ranked behind any Public Customer Orders at the same price have last priority. This provision is not applicable to the Trading Floor because the executing Floor Broker has last priority on the Trading Floor, not bids and offers of non-Public Customers on the BOX Book ranked behind any Public Customer Orders at the same price.<sup>59</sup> Lastly, paragraph (d) is being moved to proposed IM-7600-5. The Exchange believes this proposed change is reasonable as it removes unnecessary rule text.

The Exchange is amending rule text to remove the continuous electronic quoting obligation for Floor Market Makers.<sup>60</sup> The proposed change will better align the rule text with that of other exchanges with trading floors that do not have electronic quoting requirements for

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<sup>57</sup> See changes in Exhibit 4 to proposed Rule IM-7600-4.

<sup>58</sup> See changes in Exhibit 4 to proposed Rules 7620 and IM-7600-5.

<sup>59</sup> At the same price, bids and offers of non-Public Customers on the BOX Book ranked behind any Public Customer Orders are not allocated to orders from the Trading Floor.

<sup>60</sup> See changes in Exhibit 4 to proposed Rules 8500(a) and 8510(c)(1).

Floor Market Makers. As such, the Exchange believes this change is reasonable as it enhances consistency between the Exchange's proposed Rule and existing rules at other exchanges with trading floors.

The Exchange is amending the rule text to clarify that orders for covered accounts relying on an exemption under Section 11(a)(1)(G) of the Exchange Act (the "G Exemption") are not allowed on the Trading Floor.<sup>61</sup> The Exchange is proposing this change to clarify that Participants may not utilize the Trading Floor to effect certain transactions. The Exchange is providing this information to Floor Brokers to provide clarity on applicable restrictions.

The Exchange is amending rule text to clarify the responsibilities of an Options Exchange Official.<sup>62</sup> The Exchange is proposing this change to make clear the authority of Options Exchange Officials on the Trading Floor. The Exchange believes the proposed change is reasonable as it is clarifying the authority of the Options Exchange Officials and not proposing any change to their authority.

The Exchange is amending rule text to clarify certain rules related to behavior on the Trading Floor.<sup>63</sup> This change is designed to clarify the rule text where the potential for confusion exists. The Exchange believes this change is reasonable as it clarifies the rule text and removes the possibility of confusion.

The Exchange is proposing to provide data to the SEC with respect to activity on the Trading Floor. Specifically, the Exchange will provide information regarding size, participation, and price improvement by spread and trade type, effective spread, Floor Market Maker

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<sup>61</sup> See changes in Exhibit 4 to proposed Rules 7620(d), IM-7600-5, and 8510(h).

<sup>62</sup> See changes in Exhibit 4 to proposed Rule 100(b)(6).

<sup>63</sup> See changes in Exhibit 4 to proposed Rule 8510(h)(4).

participation, and BOX Book participation. This information will be provided on a confidential basis with non-firm specific information being available quarterly on the Exchange's website.

Lastly, the Exchange is proposing to make various grammatical changes to the rule text. The changes are simply designed to correct errors in the rule text.

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 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 is proposing to adopt rules to allow for open-outcry trading on a physical trading floor ("Trading Floor"). The Exchange notes that this is not a novel proposal and that other exchanges currently offer open-outcry trading in addition to electronic trading.<sup>64</sup> The Exchange is proposing a hybrid model similar to these other exchanges.

## General

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<sup>64</sup> NYSE Arca, Inc. ("NYSE Arca"), PHLX, Chicago Board Options Exchange, Incorporated ("CBOE"), and NYSE MKT LLC ("NYSE MKT").

The Exchange is proposing various changes to the definition section of the Rulebook to accommodate the proposed Trading Floor. First, the Exchange is proposing to define “Floor Participant” as Floor Brokers as defined in Rule 7540 and Floor Market Makers as defined in Rule 8510(b).<sup>65</sup> The Exchange is proposing to define “Trading Floor” or “Options Floor” as the physical trading floor of the Exchange located in Chicago.<sup>66</sup> The Trading Floor shall consist of one “Crowd Area” or “Pit” where all option classes will be located. The Crowd Area or Pit shall be marked with specific visible boundaries on the Trading Floor, as determined by the Exchange. A Floor Broker must open outcry an order in the Crowd Area.

The Exchange is proposing to add the definition of “Presiding Exchange Officials.”<sup>67</sup> Specifically, the President of the Exchange and his or her designated staff shall be responsible for monitoring: (1) dealings of Floor Participants and their associated persons on the Trading Floor, and of the premises of the Exchange immediately adjacent thereto; (2) the activities of Floor Participants and their associated persons, and shall establish standards and procedures for the training and qualification of Floor Participants and their associated persons active on the Trading Floor; (3) all Trading Floor employees of Floor Brokers and Floor Market Makers, and shall make and enforce such rules with respect to such employees as may be deemed necessary; (4) all connections or means of communications with the Trading Floor and may require the discontinuance of any such connection or means of communication when, in the opinion of the President or his or her designee, it is contrary to the welfare or interest of the Exchange; (5) the location of equipment and the assignment and use of space on the Trading Floor; and (6) relations with other options exchanges. The Exchange is also proposing that any Exchange

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<sup>65</sup> See proposed Rule 100(a)(26).

<sup>66</sup> See proposed Rule 100(a)(67).

<sup>67</sup> See proposed Rule 100(b)(1). Proposed Rule 100(b)(1) is based on PHLX Rule 1000(e).

employee or officer designated as an Options Exchange Official will from time to time as provided in these rules have the ability to recommend and enforce rules and regulations relating to trading access, order, decorum, health, safety and welfare on the Exchange.<sup>68</sup>

### BOX Order Gateway

Next, the Exchange is proposing to add a definition for the “BOX Order Gateway.” The BOX Order Gateway (“BOG”) is a component of the Trading Host<sup>69</sup> which enables Floor Brokers and/or their employees to enter transactions on the Trading Floor.<sup>70</sup> Specifically, a Floor Broker will have a connection to the BOG giving the Floor Broker the ability to submit orders to the Trading Host. Once orders are submitted through the BOG they are immediately processed by the Trading Host. The Trading Host will establish an electronic audit trail for options orders represented and executed by Floor Brokers.<sup>71</sup> The audit trail will provide an accurate, time-sequenced record of all orders from the Trading Floor, beginning with the receipt of an order by the Exchange, and further documenting the life of the order. Additional information on the requirements for Floor Broker’s audit trail requirements are described in greater detail below. Additionally, the Exchange is proposing to clarify that all transactions executed on the Exchange

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<sup>68</sup> See proposed Rule 100(b)(6). Proposed Rule 100(b)(6) is based on NYSE Arca Rule 6.1(b)(34).

<sup>69</sup> The term “Trading Host” means the automated trading system used by BOX for the trading of options contracts. See Rule 100(a)66.

<sup>70</sup> See proposed Rule 100(b)(2). Proposed Rule 100(b)(2) is based on PHLX Rule 1080.06. Proposed Rule 100(b)(2) is slightly different to PHLX Rule 1080.06 to account for the fact that all orders from the Trading Floor are not deemed executed until they are processed by the Trading Host. Specifically, with respect to providing a time-sequenced record, the Exchange is not including the distinction between electronic and other orders, and quotations on the trading floor. The Exchange is not including these references because, as mentioned above, all orders from the Trading Floor are electronic and not deemed executed until they are processed by the Trading Host.

<sup>71</sup> To be clear, the execution of an order represented on the Trading Floor does not occur until the order is processed by the Trading Host.

shall be executed automatically by the Trading Host pursuant to Rule 7130 or 7600.<sup>72</sup> The Exchange is also proposing to clarify that bids and offers on the Trading Floor, to be effective, must be made by public outcry on the Trading Floor and that all bids and offers shall be general ones and shall not be specified for acceptance by particular Floor Participants.<sup>73</sup>

The Exchange is also proposing to provide details on how the public outcry process will work on the Trading Floor. Specifically, the Exchange is proposing that bids and offers must be made in an audible tone of voice and a Floor Market Maker shall be considered “out” on a bid or offer if he does not affirmatively respond to the Floor Broker who is announcing the order, provided that a Floor Broker must give a Floor Participant a reasonable amount of time to respond.<sup>74</sup> A “reasonable amount of time” will be interpreted on a case-by-case basis by an

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<sup>72</sup> See proposed Rule 100(b)(3). Proposed Rule 100(b)(3) is based on PHLX Rule 1000(f). The Exchange notes that PHLX includes additional methods for executions on PHLX’s Trading Floor that BOX is not including in proposed Rule 100(b)(3). The Exchange does not believe that these methods are necessary as the Exchange believes that all transactions from the Trading Floor shall be processed by the Trading Host to ensure an accurate and complete audit trail.

<sup>73</sup> See proposed Rule 100(b)(4). Proposed Rule 100(b)(4) is based on PHLX Rule 1000(g). The Exchange notes that PHLX includes information about bidding and offering electronically as well as in public outcry; however, the Exchange is only proposing to include information about public outcry. BOX already has rules in place that govern electronic bidding and offering and therefore there is no need to mention it in proposed Rule 100(b)(4).

<sup>74</sup> See proposed Rule 100(b)(5). Proposed Rule 100(b)(5) is based on PHLX Rule 1000(g). The Exchange notes that proposed Rule 100(b)(5) is slightly different to PHLX Rule 1000(g). Specifically, PHLX Rule 1000(g) considers a member to be “in” on a bid or offer while he remains at the post, unless he shall distinctly and audibly say “out.” The Exchange is requiring the Floor Market Maker to make an affirmative assertion that he is “in”. The Exchange believes that this difference is reasonable and necessary. Requiring an affirmative response by a Floor Market Maker will allow for a more efficient process for executing orders on the Trading Floor. The Exchange is concerned that requiring every Floor Market Maker to affirmatively be “out” on every order before it is executed will lead to unnecessary delays on the Trading Floor and has the potential to cause disruptions. The Exchange notes that CBOE Rule 6.74(a) does not consider members of the trading crowd in on the order; they must respond to the Floor Broker. Additionally, the Exchange is not including part of PHLX Rule 1000(g) that requires a member to

Options Exchange Official based on current market conditions and trading activity on the Trading Floor. A Floor Participant who is bidding and offering in immediate and rapid succession shall be deemed “in” until he says “out” on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (i) a reasonable amount of time has passed, or (ii) there is a significant change in the price of the underlying security, or (iii) the market given in response to the request has been improved. In the case of a dispute, the term “significant change” will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors. A Floor Participant must verbalize that he is “in” after a Floor Broker announces an order, even if a valid quote has been provided by the Floor Participant prior to the announcement of the order by a Floor Broker.<sup>75</sup> The Exchange believes that requiring the Floor Participant to confirm that they are still “in” after providing a valid quote will ensure that a Floor Participant is only participating in trades that he intends.

The Exchange is proposing that all bids or offers made on the Trading Floor for options contracts shall be deemed to be for one options contract unless a specific number of option contracts is expressed in the bid or offer and that bid or offer for more than one option contract shall be deemed to be for the amount thereof or a smaller number of options contracts.<sup>76</sup> The

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audibly say “out” before the Floor Broker submits the order for execution and, if the order is not executed, the member must audibly say “out” before each time the Floor Broker resubmits the order for execution. The Exchange is not including this provision of PHLX’s Rule 1000(g) because, as previously stated, a Floor Participant, including a Floor Market Maker, must provide an affirmative response if they want to be in on the trade.

<sup>75</sup> A Floor Broker may request a market prior to announcing an order on the Trading Floor (“market probe”). When a Floor Broker conducts a market probe, any responses from Floor Participants are public to all Floor Participants. When a Floor Broker conducts a market probe, he probes all Floor Participants.

<sup>76</sup> See proposed Rule 7040(d). Proposed Rule 7040(d) is based on PHLX Rule 1033(a).

Exchange is also proposing the following process for the solicitation of quotations on the Trading Floor.<sup>77</sup> Specifically, in response to a Floor Broker's solicitation of a single bid or offer, Floor Participants may discuss, negotiate, and agree upon the price or prices at which an order of a size greater than the Exchange's disseminated size can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Options Order Protection and Locked/Crossed Market Plan<sup>78</sup> and the Exchange's Rules respecting Trade-Throughs. Notwithstanding the foregoing, a single Floor Participant may voice a bid or offer independently from, and differently from, the Participants of a trading crowd.

The Exchange is proposing to adopt Rule 7230(f) Limitation of Liability, which codifies that each Options Participant that physically conducts business on the Exchange's Trading Floor is required, at its sole cost, to procure and maintain liability insurance that provides defense and indemnity coverage for itself, any person associated with it, and the Exchange for any action or proceeding brought relating to the conduct of the Options Participant or associated person.<sup>79</sup> The insurance shall provide defense and indemnity coverage to the Exchange for the Exchange's sole, concurrent, or contributory negligence, or other wrongdoing, relating to or in connection with such claim and the Exchange shall be expressly named by endorsement as an Additional Insured under the Insurance. The Exchange's status and rights to coverage under the insurance shall be the same rights of the named insured of the insurance, including, without limitation, rights to the full policy limits; and the limits for the insurance shall be not less than \$1,000,000 without erosion by defense costs, but under no circumstance shall the Exchange be entitled to

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<sup>77</sup> See proposed Rule 7040(d)(2).

<sup>78</sup> See Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (August 6, 2009).

<sup>79</sup> Proposed Rule 7230(f) is based on PHLX Rule 652(c)(2).

less than the full policy limits of such insurance. The insurance shall state that it is primary to any insurance maintained by the Exchange. Each Options Participant annually shall cause a certificate of insurance to be issued directly to the Exchange demonstrating that insurance compliant with this proposed Rule has been procured and is maintained. Each Options Participant also shall furnish a copy of the insurance to the Exchange for review upon the Exchange's request at any time. This proposed section (f) is the only section of Rule 7230 specifically limited to Options Participants physically located on the Exchange's Trading Floor.

### **Registration**

In order for a Participant to be admitted to the Trading Floor the Participant will be required to register with the Exchange. Additionally, all Floor Participants must be registered as a Participant<sup>80</sup> on BOX prior to registering as either a Floor Broker or Floor Market Maker.

The Exchange is proposing to adopt Rule 2020(h) Trading Floor Registration, which codifies that each Floor Broker, Floor Market Maker and registered representative on the Exchange Trading Floor must be registered as "Member Exchange" ("ME") under "BOX" on Form U4. Each Floor Market Maker and registered representative on the Exchange Trading Floor must successfully complete the appropriate floor trading examination(s), if prescribed by the Exchange, in addition to requirements imposed by other Exchange Rules.<sup>81</sup> Each Floor Broker on the Exchange Trading Floor is required to successfully complete the appropriate floor trading examination, in addition to the requirements imposed by other Exchange Rules. The Exchange is also proposing to adopt procedures and a timeframe for submitting changes of registration status to the Exchange. Specifically, following the termination of or the initiation of

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<sup>80</sup> The term "Participant" means a firm or organization that is registered with the Exchange pursuant to the Rule 2000 Series for purposes of participating in options trading on BOX as an "Order Flow Provider" or "Market Maker". See Rule 100(a)(40).

<sup>81</sup> See proposed Rule 2020(h). Proposed Rule 2020(h) is based on PHLX Rule 620(a).

a change in the trading status of any such Floor Participant who has been issued an Exchange access card and a Trading Floor badge, the appropriate Exchange form must be completed, approved and dated by a firm principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. ET the next business day by the Options Participant employer. Additionally, the Exchange proposes to specify that every effort should be made to obtain the person's access card and Trading Floor badge and to submit these to the appropriate Exchange department.

The Exchange is also proposing to add Rule 2020(i), which details Non-Participant and Clerk Registration. Specifically, all Trading Floor personnel, including clerks, interns, stock execution clerks and any other associated persons, of a Floor Participant not required to register pursuant to proposed Rule 2020(h) must be registered as "Floor Employee" ("FE") under BOX on Form U4. Further, the Exchange may require successful completion of an examination in addition to requirements imposed by other Exchange Rules.<sup>82</sup> The Exchange is also proposing to adopt procedures and a timeframe for submitting changes of Trading Floor personnel registration status to the Exchange. Specifically, following the termination of or the initiation of a change in the status of any such personnel of a Floor Participant who has been issued an Exchange access card and a Trading Floor badge, the appropriate Exchange form must be completed, approved and dated by a Floor Participant principal, officer, or member of the Floor Participant with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. ET the next business day by the Floor Participant employer. Additionally, the Exchange proposes to specify that every effort should be made to obtain the

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<sup>82</sup> See proposed Rule 2020(i). Proposed Rule 2020(i) is based on PHLX Rule 620(b).

person's access card and Trading Floor badge and to submit these to the appropriate Exchange department.

### **Broker's Blanket Bonds**

Currently, Rule 4180 Brokers' Blanket Bond provides that every OFP<sup>83</sup> approved to transact business with the public and every Clearing Participant<sup>84</sup> shall carry Brokers' Blanket Bonds covering officers and employees of the OFP in such form and in such amounts as the Exchange may require. The Exchange is now proposing that any Floor Participant that has registered solely to conduct business as a Floor Market Maker or a Floor Broker who does not conduct business with the public shall be exempt from the provisions of Rule 4180.<sup>85</sup>

### **Doing Business on BOX**

The majority of the proposed rules governing the activity on the Trading Floor will be contained in the 7000 series, Doing Business on BOX, of the Exchange's Rules.

### **Trading on the Exchange Floor**

Dealings on the Trading Floor will be limited to the hours during which the Exchange is open for the transaction of business.<sup>86</sup> Specifically, the Exchange's normal trading hours for equity options are 9:30 a.m. ET to 4:00 p.m. ET and for options on Exchange-Traded Fund Shares and broad-based indexes transactions may be effected until 4:15 p.m. ET. Additionally, to be considered in the determination of the opening price and to participate in the opening trade,

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<sup>83</sup> 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. See Rule 100(a)(45).

<sup>84</sup> The term "Clearing Participant" means an Options Participant that is self-clearing or an Options Participant that clears BOX Transactions for other Options Participants of BOX. See Rule 100(a)(13).

<sup>85</sup> See proposed Rule 4180(g). Proposed Rule 4180(g) is based on PHLX Rule 705(f)(1)(B).

<sup>86</sup> See proposed Rule 7500. Proposed Rule 7500 is based on PHLX Rule 102.

the Floor Broker must submit the order into the BOX Book<sup>87</sup> electronically.<sup>88</sup> The Floor Broker may do so from the Trading Floor using their terminal; however, the order will not receive any special or different treatment from any other pre-opening order submitted from off the Trading Floor. Additionally, a Floor Participant who wishes to place a Limit Order on the BOX Book must submit such a Limit Order electronically.<sup>89</sup>

The Exchange is proposing certain restrictions for dealings on the Trading Floor. Specifically, that no Options Participant shall, while on the Trading Floor, make any transactions with any non-Options Participants in any security admitted to dealing on the Exchange.<sup>90</sup> Additionally, no employee of a Floor Participant shall be admitted to the Trading Floor unless that person is registered with and approved by the Exchange.<sup>91</sup> The Exchange may in its discretion require the payment of a fee with respect to each employee so approved, and may at any time in its discretion withdraw any approval so given. In exercising Exchange discretion in withdrawing approval, the Exchange will follow applicable disciplinary rules and procedures, including the ability to appeal such Exchange determination.<sup>92</sup>

### **Floor Brokers**

As previously mentioned, the Exchange is proposing two categories of Participants on the Trading Floor; Floor Brokers and Floor Market Makers. A Floor Broker is an individual who is registered with the Exchange for the purpose, while on the Trading Floor, of accepting and

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<sup>87</sup> The term “Central Order Book” or “BOX Book” means the electronic book of orders on each single option series maintained by the BOX Trading Host. See Rule 100(a)(10).

<sup>88</sup> See proposed Rule 7070(d). Proposed Rule 7070(d) is based on PHLX Rule 1017(c).

<sup>89</sup> See proposed IM-8510-8. Proposed IM-8510-8 is based on PHLX Rule 1014.18.

<sup>90</sup> See proposed Rule 7510. Proposed Rule 7510 is based on PHLX Rule 104.

<sup>91</sup> See proposed rule 7520. Proposed Rule 7520 is based on PHLX Rule 443.

<sup>92</sup> The applicable disciplinary rules and procedures are located in 13000 Series of the Exchange’s Rules.

handling option orders.<sup>93</sup> A Floor Broker who wishes to conduct business on the Trading Floor must be registered as a Participant on BOX prior to registering as a Floor Broker. A Floor Broker may take into his own account, and subsequently liquidate, any position that results from an error made while attempting to execute, as Floor Broker, an order.

Prior to being admitted to the Trading Floor, a Floor Broker shall file an application in writing with the Exchange staff on such form or forms as the Exchange may prescribe.<sup>94</sup> The applications received from potential Floor Brokers will be reviewed by the Exchange,<sup>95</sup> which shall consider an applicant's ability as demonstrated by his passing a Floor Broker's examination<sup>96</sup> and such other factors as the Exchange deems appropriate.<sup>97</sup> After reviewing the Floor Broker's application, the Exchange shall either approve or disapprove the applicant's registration as a Floor Broker.

#### Responsibilities of Floor Brokers

Floor Brokers will have certain responsibilities while conducting business on the Trading Floor. The proposed rules covering Floor Brokers' responsibilities are based on the rules of

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<sup>93</sup> See proposed Rule 7540. Proposed Rule 7540 is based on PHLX Rule 1060. In addition to the definition in the PHLX Rule, the Exchange is proposing that Floor Brokers must register as Options Participants on BOX prior to registering as a Floor Broker on the Trading Floor. The Exchange believes that this additional requirement is reasonable as it will allow the Exchange to adequately monitor Participants and have uniform registration requirements for all Participants.

<sup>94</sup> See proposed Rule 7550. Proposed Rule 7550 is based on PHLX Rule 1061.

<sup>95</sup> The Trading Floor application for Floor Participants is attached as Exhibit 3.

<sup>96</sup> The Floor Broker's examination will cover Exchange-specific rules dealing with the Trading Floor.

<sup>97</sup> A potential Floor Broker must follow the same application process as all Options Participants today. Rule 2040 provides restrictions and requirements on persons applying to become an Options Participant.

another exchange<sup>98</sup> with certain differences due to the design and functionality of the Exchange's Trading Floor. Specifically, a Floor Broker handling an order must use due diligence to cause the order to be executed at the best price or prices available to him in accordance with the Rules of the Exchange.<sup>99</sup> In addition to the Floor Broker requirements of proposed Rule 7570 concerning due diligence, a Floor Broker shall ascertain that at least one Floor Market Maker is present in the Crowd Area prior to announcing an order for execution.<sup>100</sup>

Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a Public Customer or broker-dealer.<sup>101</sup> If it is determined the order is for the account of a broker-dealer, the responsible Floor Broker must advise the trading crowd of that fact while announcing the order via public outcry and make the appropriate notation in his order entry mechanism.

The Exchange is also proposing rules for how a Floor Broker must handle contingency orders that are dependent upon the price of the underlying security and for how a Floor Broker must handle orders he is representing when they are for the account of a Market Maker.<sup>102</sup> Specifically, for contingency orders, the Exchange is proposing that the Floor Broker shall be responsible for satisfying the dependency requirement on the basis of the last reported price of

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<sup>98</sup> See PHLX Rule 1063.

<sup>99</sup> See proposed Rule 7570. Proposed Rule 7570 is based on PHLX Rule 155.

<sup>100</sup> See proposed Rule 7580(a). Proposed Rule 7580(a) is based on PHLX Rule 1063(a). The Exchange notes that it is not copying the provisions of PHLX Rule 1063(a) that cover foreign currency options because the Exchange does not list for trading foreign currency options.

<sup>101</sup> See proposed IM-7580-2. Proposed IM-7580-2 is based on PHLX Rule 1063.02.

<sup>102</sup> See proposed Rules 7580(b) and (d). Proposed Rule 7580(b) is based on CBOE Rule 6.73(b). The Exchange notes that CBOE's Rule provides for "one-cancels-the-other orders," which BOX is not including because the Exchange does not offer these types of orders.

the underlying security in the primary market that is generally available on the Trading Floor at any given time. Unless mutually agreed by the Participants involved, an execution or non-execution that results shall not be altered by the fact that such reported price is subsequently found to have been erroneous. For orders from the account of a Market Maker, the Floor Broker must inform the crowd that he is handling an order for the account of a Market Maker and comply with proposed IM-8510-6 and IM-8510-9.<sup>103</sup> The purpose of requiring a Floor Broker, who is handling a Market Maker's order, to comply with Proposed IM-8510-6 and IM-8510-9 is to prevent a Floor Market Maker from employing a Floor Broker in an effort to circumvent the restrictions in proposed IM-8510-6 and IM-8510-9.<sup>104</sup> Lastly, the Exchange is proposing that a Floor Broker shall not be held responsible for the execution of a Complex Order based upon transaction prices that are established at the opening or close of trading or during any trading rotation.<sup>105</sup>

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<sup>103</sup> See proposed Rule 7580(d). Proposed Rule 7580(d) is based on PHLX Rule 1063(d). PHLX's Rule provides for additional rules to which the Floor Broker must comply than what the Exchange is proposing. Specifically, PHLX Rule 1063(d) cites commentary .10, .11, .12, and .13 to PHLX Rule 1014; however, the Exchange is only proposing to copy commentary .11 and .12 to PHLX Rule 1014, see proposed IM-8510-6 and IM-8510-9. The Exchange is not copying PHLX 1014.10 because it deals with specialists, which the Exchange is not proposing to have on the Trading Floor. Next, the Exchange is not copying PHLX Rule 1014.13, which deals with minimum quantity that a Floor Market Maker must execute in person per quarter, because the Exchange believes that having an in person requirement is an unnecessary restriction and does not fit the Exchange's Trading Floor.

<sup>104</sup> Proposed IM-8510-6 provides that an Options Exchange Official may temporarily limit the number of Floor Market Makers in the trading crowd who are establishing or increasing a position in the interest of a fair and orderly market. Proposed IM-8510-9 prohibits a Floor Market Maker from acquiring a "long" position by pairing off with a sell order before the opening, unless all off-Floor bids at the price are filled.

<sup>105</sup> See proposed Rule 7580(c).

The Exchange is proposing requirements for Floor Brokers representing orders on the Trading Floor.<sup>106</sup> These requirements are in addition to those in proposed Rule 7600. Specifically, in order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Trading Floor, a Floor Broker or such Floor Broker's employee shall, contemporaneously upon receipt of an order, including single-sided and double-sided orders, and prior to announcement of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the Floor Broker's order entry mechanism.<sup>107</sup> The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., Public Customer, Professional, broker-dealer, Market Maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order.<sup>108</sup> Additionally, a Floor Broker must enter complete identification for all orders entered on behalf of Market Makers. Any additional information with respect to the order shall be input contemporaneously upon receipt, which may occur after

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<sup>106</sup> See proposed Rule 7580(e).

<sup>107</sup> See proposed Rule 7580(e)(1). Proposed Rule 7580(e)(1) is based on PHLX Rule 1063(e)(i). PHLX's Rule provides for procedures for submitting orders on the Trading Floor in the event of a malfunction of PHLX's floor order system, which BOX is not including. The Exchange will not allow orders on the Trading Floor in the event that there is a malfunction with the Trading Host or any other related Trading Floor systems, including the BOG. The Exchange believes that providing a trade ticket backup would raise numerous issues with the audit trail.

<sup>108</sup> This information is also required when submitting a QOO Order.

the announcement and execution of the order.<sup>109</sup> In the event of a malfunction in the Trading Host or any other related Trading Floor systems, including the BOG, orders will not be allowed to execute from the Trading Floor.

All orders entrusted to a Floor Broker will be considered Not Held Orders, unless otherwise specified by a Floor Broker's client.<sup>110</sup> A Not Held Order is an order marked "not held", "take time", or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed. An order entrusted to a Floor Broker will be considered a Not Held Order, unless otherwise specified by a Floor Broker's client.<sup>111</sup> Additionally, the Exchange is proposing that it shall be considered conduct inconsistent with just and equitable principles of trade for any Floor Broker or Floor Market Maker to intentionally disrupt the open outcry process.<sup>112</sup>

A Floor Broker must announce an agency order that he is representing to the trading crowd before submitting the order to the BOG for execution.<sup>113</sup> This announcement must take place whether the Floor Broker is representing a single-sided order and soliciting contra-side interest, or the Floor Broker has sufficient interest to match against the agency order already. If a Floor Broker is holding two agency orders, he will choose which order is the initiating side.<sup>114</sup>

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<sup>109</sup> For example this may include information required to properly allocate the QOO Order to Floor Participants that responded when the QOO Order was announced to the trading crowd pursuant to proposed Rules 7580(e)(2) and 7600(b).

<sup>110</sup> See proposed IM-7580-3. Proposed IM-7580-3 is based on CBOE Rule 6.73.06.

<sup>111</sup> See proposed Rule 7600(g). Proposed Rule 7600(g) is based on CBOE Rule 6.53(g).

<sup>112</sup> See proposed IM-7580-4.

<sup>113</sup> See proposed Rule 7580(e)(2).

<sup>114</sup> If only one of the agency orders is for the account of a Public Customer, that order must be the agency order. If both agency orders are for the accounts of Public Customers, it is the Floor Brokers sole decision to determine which order is the agency order. If neither agency order is for the account of a Public Customer, it is the Floor Brokers sole decision

The Exchange is proposing rules with respect to Floor Brokers and discretionary transactions.<sup>115</sup> Specifically, no Floor Broker shall execute or cause to be executed any order on the Exchange with respect to which such Floor Broker is vested with discretion as to: (i) the choice of the class of options to be bought or sold, (ii) the number of contracts to be bought or sold, or (iii) whether any such transaction shall be one of purchase or sale. However, these proposed rules shall not apply to any discretionary transactions executed by a Floor Market Maker for an account in which he has an interest. Additionally, no Floor Broker shall hold a Not Held Market Order to buy and a Not Held Market Order to sell the same series of options for the same account or for accounts of the same beneficial owner.<sup>116</sup> Also, no Floor Broker shall leg a Complex Order for a Market Maker or accept opening or discretionary orders for a Market Maker who is associated with the same Options Participant as such Floor Broker or who is associated with another Options Participant which is affiliated with the same Options Participant as such Floor Broker. A Floor Broker may not exercise any discretion with respect to the order of a Market Maker or the order of an options market maker registered on another exchange.<sup>117</sup>

Floor Brokers may use any communication device on the Trading Floor and in the Crowd Area to receive orders, provided that audit trail and record retention requirements of the Exchange are met.<sup>118</sup> However, no person in the Crowd Area or on the Trading Floor may use any communication device for the purpose of recording activities on the Trading Floor or maintaining an open line of continuous communication whereby a non-associated person not

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to determine which order is the agency order.

<sup>115</sup> See proposed Rule 7590. Proposed Rule 7590 is based on PHLX Rule 1065.

<sup>116</sup> See proposed IM-7590-1.

<sup>117</sup> See proposed IM-7590-2.

<sup>118</sup> See proposed Rule 7660(i).

located in the Crowd Area may continuously monitor the activities in the Crowd Area. The ability for Floor Brokers to receive orders while in the Crowd Area is based on the rules of another exchange.<sup>119</sup>

The Exchange is not including certain PHLX rules related to Floor Broker duties to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to the exchange.<sup>120</sup> BOX does not believe that these rules are necessary because all orders on the Trading Floor are only executed when they are received by the Trading Host, which will allow the Exchange to capture the required audit trail information.

### **Qualified Open Outcry Orders – Floor Crossing**

After an order has been announced to the trading crowd as provided in Rule 7580(e)(2), the Floor Broker must submit the agency order as part of a two-sided order (“Qualified Open Outcry Order” or “QOO Order”) to the Trading Host for execution.<sup>121</sup> When a Floor Broker submits a QOO Order for execution, the order will be executed based on the market conditions of when the order is received by the Trading Host and in accordance with Exchange rules.<sup>122</sup> A

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<sup>119</sup> See CBOE Rule 6.23(c).

<sup>120</sup> See PHLX Rule 1014(g)(vi).

<sup>121</sup> See proposed Rule 7600(a). Proposed Rule 7600(a) is based on PHLX Rule 1063(e)(iv). The Exchange notes that the Trading Host does not include all the same functionality as PHLX’s trading floor systems; the Trading Host will not attempt to execute an order multiple times if at first it cannot be executed. The Exchange also notes that Complex Orders are limited to four (4) legs on BOX. Additionally, the Exchange is not including specific functionality that will assist a Floor Broker in clearing the electronic book as PHLX does. The Exchange is not including this functionality because the QOO Order will assist Floor Brokers in respecting the BOX Book. Proposed Rule 7600(a) also includes additional information to cover the specific aspects of the QOO Order.

<sup>122</sup> For example, a Floor Broker wishes to execute 1000 ABC at 1.03. At the time the QOO Order is announced to the trading crowd the NBBO for ABC is 1.00 – 1.08. When the Trading Host receives the QOO Order the NBBO is now 1.04 – 1.09. In this situation, the Trading Host would reject the QOO Order to avoid trading through the NBBO. Similarly, assume when the Floor Broker announced the QOO Order there were no orders

QOO Order on the Exchange is not deemed executed until it is processed by the Trading Host. All transactions occurring from the Trading Floor must be processed by the Trading Host. Floor Brokers are responsible for handling all orders in accordance with Exchange priority and trade-through rules.<sup>123</sup> QOO Order functionality will assist the Floor Broker in respecting the BOX Book, consistent with Exchange priority rules, as described in proposed Rules 7600(c) and (d). The proposed QOO Order will only be allowed on the Trading Floor and only Floor Brokers may use the QOO Order. QOO Orders may be multi-leg orders up to four (4) legs, including Complex Orders, as defined in Rule 7240(a)(5)<sup>124</sup> and tied to hedge orders as defined in proposed IM-7600-2. Such hedging position is comprised of a position designated as eligible for a tied hedge transaction as determined by the Exchange and may include the same underlying stock applicable to the option order, a security future overlying the same stock applicable to the option order or, in reference to an index or Exchange-Traded Fund Shares (“ETF”), a related instrument. A “related instrument” means, in reference to an index option, securities comprising ten percent or more of the component securities in the index or a futures contract on any economically equivalent index applicable to the option order. A “related instrument” means, in reference to an ETF option, a futures contract on any economically equivalent index applicable

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on the BOX Book, the QOO Order had a book sweep size of 10, and the initiating side is to sell. When the Trading Host receives the QOO Order there is now a Public Customer Order on the BOX Book to buy 20 ABC at 1.03 and the NBBO is still 1.00 – 1.08. In this situation, the Trading Host would reject the QOO Order to avoid violating the priority provisions of the Exchange.

<sup>123</sup> In addition to the Trading Host preventing trade-through and priority violations of the BOX Book, the Exchange has robust surveillance procedures in place to monitor for these violations.

<sup>124</sup> 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.

to the ETF underlying the option order. Also, such hedging position is offered, at the execution price received by the Floor Broker introducing the option, to any in-crowd Floor Participant who has established parity or priority for the related options.

There will be an initiating side and a contra-side to the QOO Order.<sup>125</sup> The initiating side is the order which must be filled in its entirety. The contra-side must guarantee the full size of the initiating side of the QOO Order and the Floor Broker may provide a book sweep size as provided in proposed Rule 7600(h). If the Floor Broker was soliciting interest from the trading crowd when the initiating side was announced or to the extent the trading crowd offers a better price, the contra-side will be the solicited interest from the trading crowd. If the Floor Broker had sufficient interest to match against the initiating side when the agency order was announced, such Floor Broker interest will be the contra-side to the initiating side. If Floor Participants responded with interest to the initiating side where the Floor Broker provided sufficient interest to match against the initiating side, the Floor Broker will allocate the initiating side of the QOO Order(s) pursuant to Rule 7600(d).

A QOO Order will be rejected if there is an ongoing auction in the option series when the QOO Order is received by the Trading Host.<sup>126</sup> A Complex QOO Order<sup>127</sup> will not be rejected if there is an ongoing auction in the options series of some, but not all, of the components of the Complex QOO Order.

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<sup>125</sup> See proposed Rule 7600(a)(1). This does not prevent a Floor Broker from representing a single-sided order on the Trading Floor. Floor Brokers are permitted to bring single-sided orders to the Trading Floor in order to find contra-side liquidity. Once a contra-side is sourced pursuant to proposed Rule 7580(e)(2), the Floor Broker shall submit the two-sided QOO Order to the BOG.

<sup>126</sup> See proposed Rule 7600(a)(5).

<sup>127</sup> A Complex QOO Order is a Complex Order, as defined in Rule 7240(a)(5), submitted as a QOO Order.

A Floor Broker is welcome to bring an unmatched order to the Trading Floor in order to seek liquidity. The Floor Broker may announce the unmatched order (i.e., the initiating side of a QOO Order) to the trading crowd in an attempt to source the contra-side. After finding sufficient quantity to match the initiating side pursuant to proposed Rule 7580(e)(2) and proposed Rule 7600(b), the Floor Broker would now be able to submit a two-sided QOO Order to the BOG as required.<sup>128</sup> Floor Brokers may also enter single sided orders into the BOX Book using BOX's electronic interface. Specifically, a Floor Broker may receive a matched or unmatched order via a telephone call on the Trading Floor<sup>129</sup> or may have the matched or unmatched order sent electronically to the Floor Broker's order entry mechanism on the Trading Floor prior to submitting the QOO Order to the BOG.

The Exchange is proposing that the execution price of the QOO Order must be equal to or better than the NBBO.<sup>130</sup> Additionally, the QOO Order (1) may not trade through any equal or better priced Public Customer bids or offers on the BOX Book or any non-Public Customer bids or offers on the BOX Book that are ranked ahead of such equal or better priced Public Customer bids or offers, and (2) may not trade through any non-Public Customer bids or offers on the BOX Book that are priced better than the proposed execution price. The Exchange notes this proposed Rule is based on the rules of NYSE Arca.<sup>131</sup>

The Floor Broker must submit the QOO Order to the BOG for processing by the Trading Host, as provided in proposed Rule 7600. The Exchange is proposing that the QOO Order is not

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<sup>128</sup> See proposed IM-7600-4.

<sup>129</sup> When a Floor Broker receives an order, matched or unmatched, via telephone, the Floor Broker must enter the order electronically into the Floor Broker's order entry mechanism.

<sup>130</sup> See proposed Rule 7600(c).

<sup>131</sup> See NYSE Arca Rules 6.47 and 6.75. The Exchange notes that it is providing an additional provision that NYSE Arca does not have in its Rule. Specifically, the Exchange is providing for a book sweep size as provided in proposed Rule 7600(h).

deemed executed until the QOO Order is processed by the Trading Host.<sup>132</sup> Once the Floor Broker submits the QOO Order to the BOG there will be no opportunity for the submitting Floor Broker, or anyone else, to alter the terms of the QOO Order.<sup>133</sup> After announcing the QOO Order to the trading crowd, the Floor Broker must submit the QOO Order to the BOG without undue delay, provided that the executing Floor Broker allows adequate time for Floor Participants to participate in the transaction as provided in proposed Rule 100(b)(5).

The Exchange is additionally proposing that when a Floor Broker executes a Complex QOO Order, the priority and rules for Complex Orders contained in Rule 7240(b)(2) and (3) will continue to apply, except that the Floor Broker may disable the NBBO aspect of the Complex Order Filter under Rule 7240(b)(3)(iii). For Complex QOO Orders, the Complex QOO Orders (1) may not trade through any equal or better priced Public Customer Complex bids or offers on the Complex Order Book<sup>134</sup> or any non-Public Customer Complex bids or offers on the Complex Order Book that are ranked ahead of such equal or better priced Public Customer Complex bids or offers, and (2) may not trade through any non-Public Customer bids or offers on the Complex Order Book that are priced better than the proposed execution price. Additionally, the Complex QOO Order may be executed at a price without giving priority to equivalent bids or offers in the individual series legs on the initiating side, provided at least one options leg betters the corresponding bid or offer on the BOX Book by at least one minimum trading increment as set forth in Rule 7240(b)(1).

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<sup>132</sup> The execution of the QOO Order will be reported after it is processed by the Trading Host in the same manner as all other orders on BOX.

<sup>133</sup> The Exchange notes that the processing of an incoming QOO Order by the Exchange is instantaneous.

<sup>134</sup> The term “Complex Order Book” means the electronic book of Complex Orders maintained by the BOX Trading Host. See Rule 7240(a)(6).

As mentioned above, the Exchange is also proposing to amend the current rules related to Complex Orders on the Exchange in order to incorporate the trading of Complex Orders on the Trading Floor. Currently, incoming Complex Orders to the Exchange are filtered to ensure that each leg of a Complex Order will be executed at a price that is equal to or better than the NBBO and BOX BBO.<sup>135</sup> The Exchange is now proposing that Floor Brokers may disable, on an order by order basis, the NBBO aspect of this protection for Complex QOO Orders. The Exchange notes that other options exchanges do not require the legs of a Complex Order to be executed at a price that is equal to or better than the NBBO and exchange BBO.<sup>136</sup>

All QOO Orders must be announced to the trading crowd, as provided in proposed Rule 7580(e)(2), prior to the QOO Order being submitted to the BOG.<sup>137</sup> This negotiation and agreement that occurs in the trading crowd does not result in a final trade, but rather a “meeting of the minds” that is then submitted through the BOG for processing by the Trading Host. The submitting Floor Broker must announce the order to the trading crowd and give Floor Participants a reasonable opportunity to respond to trade against the initiating side of the QOO Order. An Options Exchange Official will certify that the Floor Broker adequately announced the QOO Order to the trading crowd.<sup>138</sup> When a Complex QOO Order is announced on the Trading Floor, Floor Participants wishing to participate must respond to all legs of the unique Complex QOO Order. For example, if a Floor Broker is executing a Complex QOO Order in A+B, a Floor Participant may respond with interest in A+B, but may not respond to only Leg A

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<sup>135</sup> See Rule 7240(b)(3)(iii).

<sup>136</sup> See ISE Rule 722(b)(3).

<sup>137</sup> See proposed Rule 7600(b). Proposed Rule 7600(b) is based on NYSE Arca Rule 6.47(a)(1).

<sup>138</sup> The Options Exchange Official will have a terminal that will allow him to certify that the Floor Broker adequately represented the QOO Order to the trading crowd.

or Leg B. The executing Floor Broker's allocation process is identical to the process for non-Complex QOO Orders in proposed Rule 7600(d).

The Exchange believes that by having the QOO Order execute when it is processed by the Trading Host, the Exchange is providing a system that will prevent executions that appear to be at prices that are worse than the NBBO due to the fact that on traditional open-outcry floors the time that the execution is printed may be substantially after the time an execution actually occurred on the trading floor. The Exchange believes that having the QOO Order execute when it is processed by the Trading Host will minimize trade-through violations and provide an accurate and sequential audit trail. The Exchange notes that this is similar to the way executions on PHLX occur.<sup>139</sup>

#### Priority in the Trading Crowd

The Exchange is proposing rules for determining priority of bids and offers on the Trading Floor.<sup>140</sup> Specifically, the highest (lowest) bid (offer) shall have priority; when two or

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<sup>139</sup> See PHLX Rule 1063(e)(iv). The Exchange is not including functionality that allows a Floor Broker to attempt to execute an order multiple times if it cannot be executed when the order is first submitted as PHLX does.

<sup>140</sup> See proposed Rule 7610. Proposed Rule 7610 is based on NYSE Arca Rule 6.75. The Exchange notes that it is not including certain sections of the NYSE Arca rule that apply to Lead Market Maker guarantee participation because the Exchange will not have Lead Market Makers on the Trading Floor. Specifically, a Lead Market Maker on NYSE Arca that establishes first priority during the vocalization process is entitled to buy or sell as many contracts as the Floor Broker may have available to trade. Additionally, on NYSE Arca, if the Lead Market Maker establishes some other priority other than first, the Lead Market Maker is entitled to buy or sell the number of contracts equal to the Lead Market Maker's guaranteed participation level. The Exchange is also omitting sections of the NYSE Arca rule that cover manual executions on the trading floor because the Exchange is requiring that all orders on the Trading Floor will not execute until they are processed by the Trading Host. The Exchange is not including provisions of NYSE Arca's rule that apply to stock-option orders because the Exchange does not offer this type of order. Additionally, the Exchange is not including the same level of detail as NYSE Arca does when referring to the actions that an Options Exchange Official can take when there is a dispute regarding a Floor Broker's determination of time priority on the Trading Floor.

more bids (offers) represent the highest (lowest) price, priority shall be afforded to such bids (offers) in the sequence in which they were made. If, however, the bids (offers) of two or more Floor Participants are made simultaneously, or if it is impossible to determine clearly the order of time in which they are made, such bids (offers) will be deemed to be on parity and priority will be afforded to them, insofar as practicable, on an equal basis. BOX is proposing that the Floor Broker will be responsible for determining the sequence in which bids or offers are vocalized on the Trading Floor from Floor Participants in response to the Floor Broker's bid, offer, or call for a market. A Floor Participant that established priority pursuant to IM-7600-1(c) must inform the Floor Broker of such priority when the Floor Broker announces the order. Any disputes regarding a Floor Broker's determination of time priority sequence will be resolved by the Options Exchange Official. An Options Exchange Official may nullify a transaction or adjust its terms if they determine the transaction to have been in violation of Exchange Rules.

The Exchange is proposing that the Floor Participant with first priority is entitled to buy or sell as many contracts as the Floor Broker may have available to trade. If there are any contracts remaining, the Floor Participant with second priority will be entitled to buy or sell as many contracts as there are remaining in the Floor Broker's order, and so on, until the Floor Broker's order has been filled entirely. An Options Exchange Official has the same responsibilities as a Floor Broker when the Options Exchange Official calls for a market.

The Exchange's proposed rules will also cover the situation where a Floor Broker requests a market in order to fill a large order and the Floor Participants provide a collective

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The Exchange believes that by allowing an Options Exchange Official the ability to nullify a transaction or adjust its terms when the transaction has violated the Exchange's Rules will provide the Exchange with the ability to better monitor and enforce the Exchange's Rules on the Trading Floor.

response.<sup>141</sup> In such situation, if the size of the response, in the aggregate, is less than or equal to the size of the order to be filled, the Floor Participants will each receive a share of the order that is equal to the size of their respective bids or offers. If, however, the size of the response exceeds the size of the order to be filled, that order will be allocated on a size pro rata basis. Specifically, in such circumstances, the size of the order to be allocated is multiplied by the size of an individual Floor Participant's quote divided by the aggregate size of all Floor Participants' quotes. For example, assume there are 200 contracts to be allocated, Floor Market Maker #1 is bidding for 100, Floor Market Maker #2 is bidding for 200 and Floor Market Maker #3 is bidding for 500. Under the "size pro rata" allocation formula, Floor Market Maker #1 will be allocated 25 contracts ( $200 \times 100 \div 800$ ); Floor Market Maker #2 will be allocated 50 contracts ( $200 \times 200 \div 800$ ); and Floor Market Maker #3 will be allocated 125 contracts ( $200 \times 500 \div 800$ ).

#### Allocation

The following describes how the initiating side of a QOO Order is allocated.<sup>142</sup> First, the initiating side of the QOO Order will match against any bids or offers on the BOX Book priced better than the contra-side, provided that an adequate book sweep size was provided by the Floor Broker pursuant to paragraph (h).<sup>143</sup> Multiple orders at the same price are matched based on time priority.

Next, at the same price as the contra-side of the QOO Order, if any contracts of the initiating side remain, the initiating side of the QOO Order will match against Public Customer Orders on the BOX Book, along with bids or offers of non-Public Customers ranked ahead of

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<sup>141</sup> See proposed Rule 7610(d)(5).

<sup>142</sup> See proposed Rule 7600(d).

<sup>143</sup> See proposed Rule 7600(d)(1).

such Public Customer Orders on the BOX Book, provided that an adequate book sweep size was provided by the Floor Broker pursuant to paragraph (h).<sup>144</sup> Multiple bids or offers at the same price are matched based on time priority.

The remaining balance of the initiating side of the QOO Order, if any, will then be matched by the Trading Host against the contra-side of the QOO Order,<sup>145</sup> regardless of whether the contra-side order submitted by the Floor Broker is ultimately entitled to receive an allocation,<sup>146</sup> pursuant to proposed Rules 7600(d)(3)(i) or (iii). If no Floor Participant, other than the executing Floor Broker, is entitled to an allocation, then no further steps are necessary. If however, Floor Participants are entitled to an allocation, the remaining balance of the initiating side of the QOO Order will be allocated as described below.

First, if the QOO Order satisfies the provisions of proposed Rule 7600(f), the executing Floor Broker is entitled to 40% of the remaining quantity of the initiating side of the QOO Order.<sup>147</sup> Next, Floor Participants that responded with interest when the executing Floor Broker announced the QOO Order to the trading crowd, as outlined in proposed Rules 7580(e)(2) and 7600(b), are allocated.<sup>148</sup> When multiple Floor Participants respond with interest, priority is established pursuant to proposed Rule 7610.<sup>149</sup> Finally, if interest remains after Floor Participants

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<sup>144</sup> See proposed Rule 7600(d)(2).

<sup>145</sup> See proposed Rule 7600(d)(3).

<sup>146</sup> For the avoidance of doubt, the Exchange would like to make clear that the matching of the initiating side of the QOO Order against interest on the BOX Book and the matching of the remaining portion of initiating side of the QOO Order against the contra-side order provided by the Floor Broker will be completed automatically by the Trading Host.

<sup>147</sup> See proposed Rule 7600(d)(3)(i).

<sup>148</sup> See Proposed Rule 7600(d)(3)(ii).

<sup>149</sup> Proposed Rule 7610 provides that the highest bid or lowest offer shall have priority. Where two or more offers or bids are at the same price, priority shall be afforded in the sequence in which the offers or bids were made. If the bids or offers of more than one

that responded with interest receive their allocation, the remaining quantity of the initiating side of the QOO Order will be allocated to the executing Floor Broker.<sup>150</sup> After execution of the QOO Order, the executing Floor Broker is responsible for providing the correct allocations of the initiating side of the QOO Order to an Options Exchange Official or his or her designee, if necessary, who will properly record the order in the Exchange's system.<sup>151</sup> The executing Floor Broker must provide the correct allocations to an Options Exchange Official or his or her designee, in writing, without unreasonable delay.

The below examples are designed to illustrate the allocation of the initiating side of a QOO Order(s).

Example 1<sup>152</sup> – Assume there is no priority interest on the contra-side of the QOO Order, as provided in proposed Rule 7600(d)(2), on the BOX Book at the execution price of the QOO Order and a Floor Broker wishes to execute a QOO Order for 500 contracts. When he announces the order, Floor Market Maker 1 and Floor Market Maker 2 both respond to the QOO Order for 250 contracts each. Floor Market Maker 1 responded first so he will have time priority over

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Floor Participant are made simultaneously, such bids or offers will be deemed to be on parity and priority will be afforded to them, insofar as practicable, on an equal basis. Accordingly, efforts will be made to assure that each Floor Participant on parity receives an equal number of contracts, to the extent mathematically possible. If the Floor Participants provide a collective response to a Floor Broker's request for a market in order to fill a large order, then the allocation will be size pro rata, if necessary.

<sup>150</sup> See Proposed Rule 7600(d)(3)(iii).

<sup>151</sup> See Proposed Rule 7600(d)(4). The Options Exchange Official or his or her designee is not responsible for confirming the accuracy of the allocations provided by the executing Floor Broker.

<sup>152</sup> For the following three examples, assume the execution price of the QOO Order satisfies the submission requirements of proposed Rule 7000(c). Specifically, the execution price must be at a price (1) better than any Public Customer bids or offers on the BOX Book, and (2) no worse than any non-Public Customer bids or offers on the BOX Book, on the initiating side.

Floor Market Maker 2. Since the QOO Order is for at least 500 contracts, the Floor Broker is entitled to match at least 40% of the initiating side with the Floor Broker's contra-side.<sup>153</sup>

**Result:** The initiating side of the QOO Order will match against the Floor Broker's contra-side order for the full 500 contracts. After the execution of the QOO Order, the executing Floor Broker is then responsible for providing an Options Exchange Official or his or her designee the following allocation of the initiating side of the QOO Order:

1. 200 contracts ( $500 * .40$ ) for the contra-side order submitted by the Floor Broker
2. 250 for Floor Market Maker 1 with time priority
3. Remaining 50 contracts to Floor Market Maker 2.

**Example 2** – Assume there is no priority interest on the contra-side of the QOO Order, as provided in proposed Rule 7600(d)(2), on the BOX Book at the execution price of the QOO Order and a Floor Broker wishes to execute a QOO Order for 400 contracts. When he announces the order, Floor Market Maker 1 and Floor Market Maker 2 both respond to the QOO Order for 200 contracts each. Floor Market Maker 1 responded first so he will have time priority over Floor Market Maker 2. Since the QOO Order is for less than 500 contracts, the Floor Broker is not entitled to a 40% guarantee.

**Result:** The initiating side QOO Order will match against the Floor Broker's contra-side for the full 400 contracts. After execution of the QOO Order, the executing Floor Broker is then responsible for providing an Options Exchange Official or his or her designee with the following allocation of the initiating side of the QOO Order:

1. 200 contracts for Floor Market Maker 1 with time priority.
2. 200 contracts for Floor Market Maker 2.
3. The executing Floor Broker will receive no allocation.

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<sup>153</sup> The Floor Broker's 40% guarantee is outlined in proposed Rule 7600(f).

Example 3 – Assume there is no priority interest on the contra-side of the QOO Order, as provided in proposed Rule 7600(d)(2), on the BOX Book at the execution price of the QOO Order and a Floor Broker wishes to execute a QOO Order for 400 contracts in ABC at 1.05 (initiating side is to sell). The NBBO for ABC is 1.00 – 1.10. When he announces the order, Floor Market Maker 1 and Floor Market Maker 2 both respond to the QOO Order for 200 contracts each. Floor Market Maker 1 responded first at an improved price to buy 200 at 1.06 so he will have price priority over Floor Market Maker 2. Since the QOO Order is for less than 500 contracts, the Floor Broker is not entitled to a 40% guarantee.

**Result:** The Floor Broker will submit two QOO Orders for 200 contracts each. A QOO Order at 1.06 for 200 contracts and a QOO Order at 1.05 for 200 contracts. The initiating side of the QOO Orders will match against the Floor Broker's contra-side orders for the full 200 contracts. After execution of the QOO Orders, the executing Floor Broker is then responsible for providing an Options Exchange Official or his or her designee with the following allocation of the initiating side of the QOO Orders:

1. QOO Order at 1.06 – 200 contracts for Floor Market Maker 1.
2. QOO Order at 1.05 – 200 contracts for Floor Market Maker 2.
3. The executing Floor Broker will receive no allocation of either QOO Order.

Example 4 – Assume there is no priority interest on the contra-side of the QOO Order, as provided in proposed Rule 7600(d)(2), on the BOX Book at the execution price of the QOO Order and a Floor Broker wishes to execute a QOO Order for 600 contracts in ABC at 1.05 (initiating side is to sell). The NBBO for ABC is 1.00 – 1.10. When he announces the order, Floor Market Maker 1 and Floor Market Maker 2 both respond to the QOO Order for 300 contracts each. Floor Market Maker 1 responded first at an improved price to buy 300 at 1.06 so

he will have price priority over Floor Market Maker 2. Since the QOO Order is more than 500 contracts, the Floor Broker is entitled to a 40% guarantee.

**Result:** The Floor Broker will submit two QOO Orders for 300 contracts each. A QOO Order at 1.06 for 300 contracts and a QOO Order at 1.05 for 300 contracts. The initiating side of the QOO Orders will match against the Floor Broker's contra-side orders for the full 300 contracts. After execution of the QOO Orders, the executing Floor Broker is then responsible for providing an Options Exchange Official or his or her designee with the following allocation of the initiating side of the QOO Orders:

1. QOO Order at 1.05 – 120 (300 \*.40) contracts for the contra-side order submitted by the Floor Broker.<sup>154</sup>
2. QOO Order at 1.06 – 300 contracts for Floor Market Maker 1.
3. QOO Order at 1.05 – 180 contracts for Floor Market Maker 2.

**Example 5** – In the same scenario as above, but there is priority interest of 100 contracts on the BOX Book, as provided in proposed Rule 7600(d)(2), at the execution price of the QOO Order and a Floor Broker elects to have a book sweep size of 100 contracts.

**Result:**

1. The initiating side of the QOO Order will first match against the priority interest on the BOX Book for 100 contracts.
2. Then the remaining 300 contracts of the initiating side of the QOO Order will match against the executing Floor Broker's contra-side order. After execution of the QOO Order, the executing Floor Broker is then responsible for providing an Options Exchange Official or his or her designee with the following allocation of the initiating side of the QOO Order:
  - a. 250 contracts for Floor Market Maker 1 with time priority.
  - b. 50 contracts to Floor Market Maker 2.
  - c. The executing Floor Broker will receive no allocation.

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<sup>154</sup> The Floor Broker's guarantee only applies to 40% of the contracts at the given price level.

The Exchange is also proposing that the QOO Order will not route to an away exchange and the QOO Order will not trade through any away exchange displaying a better price than the proposed execution price for the QOO Order.<sup>155</sup>

### Book Sweep Size

The Exchange is proposing to provide a book sweep size to help Floor Brokers execute orders when there are bids or offers on the BOX Book that have priority over the contra- side of the QOO Order.<sup>156</sup> Specifically, a Floor Broker may, but is not required to, provide a book sweep size. The book sweep size is the number of contracts, if any, of the initiating side of the QOO Order that the Floor Broker is willing to relinquish to interest on the BOX Book that has priority pursuant to proposed Rule 7600(d)(1) and (2). Specifically, any equal or better priced Public Customer Orders on the BOX Book or any non-Public Customer bids or offers on the BOX Book that are ranked ahead of such equal or better priced Public Customer Orders, and any non-Public Customer bids or offers on the BOX Book that are priced better than the proposed execution price. If the number of contracts on the BOX Book that have priority over the contra-side order is greater than the book sweep size, then the QOO Order will be rejected by the Trading Host. If the number of contracts on the BOX Book that have priority over the contra-side order is less than or equal to the book sweep size, then the QOO Order will be allowed to execute. In such case, the initiating side will execute against interest on the BOX Book with priority and then the remaining quantity, if any, will execute against the contra-side order. The Exchange believes that this proposed feature will aid Floor Brokers in having more of their executions accepted by the Trading Host and will benefit the market as a whole by providing a tool to assist Floor Brokers in executing orders when there is priority interest on the BOX Book. Additionally, the

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<sup>155</sup> See proposed Rule 7600(e).

<sup>156</sup> See proposed Rule 7600(h).

book sweep size will provide increased opportunity for orders on the BOX Book to be executed. The Exchange notes, however, that it shall be considered conduct inconsistent with just and equitable principles of trade for any Floor Broker to use the book sweep size for the purpose of violating the Floor Broker's duties and obligations.<sup>157</sup>

The Exchange notes that another exchange provides functionality to help Floor Brokers clear the electronic book.<sup>158</sup> PHLX's system has functionality that will return the order to the Floor Broker if, after attempting to execute the order multiple times, the order cannot be executed. The Exchange believes this is similar to the proposed book sweep size that may result in a Floor Broker's order not executing once it is submitted.<sup>159</sup>

### **Examples**

The following are examples of how the QOO Order will operate.

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<sup>157</sup> See proposed IM-7600-3.

<sup>158</sup> PHLX's Floor Broker Management System ("FBMS") provides execution functionality that will assist the Floor Broker in clearing the exchange book, consistent with exchange priority rules. See PHLX Rule 1063(e)(iv). Additionally, if a Floor Broker on PHLX enters a two-sided order through the FBMS, and there is interest on the PHLX electronic book at a price that would prevent the Floor Broker's order from executing, the FBMS will provide the Floor Broker with the quantity of contracts on the electronic book that have priority and need to be satisfied before the Floor Broker's order can execute at the agreed upon price. If the Floor Broker wishes to still execute his order, he can cause a portion of the floor based order to trade against this priority interest on the electronic book, thereby clearing the interest and permitting the remainder of the Floor Broker's order to trade at the desired price. The PHLX FBMS functionality is optional, and a Floor Broker can decide not to trade against the electronic book and therefore not execute his two-sided order at the particular price. See Securities Exchange Act Release No. 68960 (February 20, 2013), 78 FR 13132 (February 26, 2013) (SR- Phlx-2013-09).

<sup>159</sup> The Exchange notes that the proposed functionality of the Trading Host on BOX will not attempt to execute an order multiple times. Instead, if, due to the book sweep size provided by the Floor Broker, the order cannot be executed by the Trading Host immediately, it will be rejected back to the Floor Broker. The similarity is in the fact that in both situations an order will not execute and will be rejected back to the Floor Broker. The Exchange believes that this difference between the Exchange and PHLX will incentivize Floor Brokers on BOX to provide an adequate book sweep size if they want the order to immediately execute.

### **Example #1 – Execution of a QOO Order**

The following example is designed to illustrate a QOO Order executing.

- NBBO 3.09 – 3.13
- QOO Order for 100 at 3.10 (initiating side is sell)
- Book sweep size = 0.

<b>BOX Book</b>					
<b>Account</b>	<b>Quantity</b>	<b>Buy</b>	<b>Sell</b>	<b>Quantity</b>	<b>Account</b>
<b>MM1</b>	<b>150</b>	<b>3.09</b>	<b>3.15</b>	<b>10</b>	<b>MM2</b>
<b>BD1</b>	<b>15</b>	<b>3.08</b>	<b>3.16</b>	<b>10</b>	<b>MM3</b>

**Result:** QOO Order is accepted because the price of the QOO Order (\$3.10) is better than the NBBO on both the initiating side (\$3.13) and the contra-side (\$3.09).

### **Example #2 – Capping of the Book Sweep Size**

The following example illustrates how the Exchange will handle a QOO Order that is submitted with a book sweep size that is greater than the size of the QOO Order.

- NBBO 3.09 – 3.13
- QOO Order for 100 at 3.10 (initiating side is sell)
- Book sweep size = 200 (will be capped at the size of the QOO Order (100)).

<b>BOX Book</b>					
<b>Account</b>	<b>Quantity</b>	<b>Buy</b>	<b>Sell</b>	<b>Quantity</b>	<b>Account</b>
<b>MM1</b>	<b>150</b>	<b>3.09</b>	<b>3.15</b>	<b>10</b>	<b>MM2</b>
<b>BD1</b>	<b>15</b>	<b>3.08</b>	<b>3.16</b>	<b>10</b>	<b>MM3</b>

**Result:** QOO Order is accepted because the price of the QOO Order (\$3.10) is better than the NBBO on both the initiating side (\$3.13) and the contra-side (\$3.09).

### **Example #3 – Rejecting a QOO Order based on the NBBO**

The following example illustrates how the Exchange will handle a QOO Order that is priced outside of the NBBO.

- NBBO 3.09 – 3.15
- QOO Order for 100 at 3.17 (initiating side is sell)
- Book sweep size = 100.

<b>BOX Book</b>					
<b>Account</b>	<b>Quantity</b>	<b>Buy</b>	<b>Sell</b>	<b>Quantity</b>	<b>Account</b>
<b>MM1</b>	<b>50</b>	<b>3.09</b>	<b>3.15</b>	<b>10</b>	<b>MM2</b>

<b>BD1</b>	<b>20</b>	<b>3.08</b>	<b>3.16</b>	<b>10</b>	<b>MM3</b>
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**Result:** QOO Order is rejected because the price of the QOO Order (3.17) is worse than the NBBO (3.15) on the initiating side of the QOO Order.

**Example #4 – Executing of a QOO Order utilizing the Book Sweep Size**

The following example illustrates a QOO Order that utilizes the book sweep size and therefore executes against interest on the BOX Book.

- NBBO 3.09 – 3.15
- QOO Order for 100 at 3.09 (initiating side is sell)
- Book sweep size = 100.

<b>BOX Book</b>					
<b>Account</b>	<b>Quantity</b>	<b>Buy</b>	<b>Sell</b>	<b>Quantity</b>	<b>Account</b>
<b>PC1</b>	<b>50</b>	<b>3.09</b>	<b>3.15</b>	<b>10</b>	<b>MM2</b>
<b>PC2</b>	<b>50</b>	<b>3.08</b>	<b>3.16</b>	<b>10</b>	<b>MM3</b>

**Result:** QOO Order is accepted, as the Floor Broker is willing to relinquish the full quantity of the initiating side to orders and quotes on the BOX Book. The initiating side will trade 50 contracts against PC1 at 3.09, and then the remaining 50 contracts will trade at 3.09 against the contra-side.

**Example #5 – Insufficient Book Sweep Quantity**

The following example is designed to illustrate the situation where an executing Floor Broker did not provide an adequate book sweep size to have the QOO Order execute immediately when it was submitted to the Trading Host.

- NBBO 3.09 – 3.15
- QOO Order for 100 at 3.09 (initiating side is sell)
- Book sweep size = 40.

<b>BOX Book</b>					
<b>Account</b>	<b>Quantity</b>	<b>Buy</b>	<b>Sell</b>	<b>Quantity</b>	<b>Account</b>
<b>PC1</b>	<b>50</b>	<b>3.09</b>	<b>3.15</b>	<b>10</b>	<b>MM2</b>
<b>PC2</b>	<b>50</b>	<b>3.08</b>	<b>3.16</b>	<b>10</b>	<b>MM3</b>

**Result:** QOO Order is rejected, as the Floor Broker is not willing to relinquish adequate quantity of the initiating side. Specifically, the book sweep size of 40 is not sufficient to satisfy PC1’s 50 contracts which have priority. Upon rejection, the Floor Broker may: (i) increase the book sweep size and resubmit the order; or (ii) not trade the order on BOX.

**Example #6 – Trading Through an Away Exchange**

The following example is designed to illustrate how the Trading Host will handle a QOO Order that is submitted at a price that would trade-through an away exchange.

- NBBO 3.09 – 3.13
- QOO Order for 100 at 3.14 (initiating side is buy)
- Book sweep size = 100.

BOX Book					
Account	Quantity	Buy	Sell	Quantity	Account
MM1	50	3.09	3.15	10	MM2
BD1	20	3.08	3.16	10	MM3

**Result:** QOO Order is rejected because the price of the QOO Order (3.14) is worse than the NBBO (3.13) on the contra-side of the QOO Order. The QOO Order is rejected even though the price of the QOO is better than the BOX Book on the initiating side (3.09) and the contra-side (3.15). A QOO Order will not route to an away exchange and the QOO will not trade through any away exchange displaying a better price.

**Example #7 – Complex QOO Order on the Trading Floor**

The following is an example of an execution of a Complex QOO Order.

- Complex QOO Order for 100 of A+B at 2.01 (initiating side is buy)
- Floor Broker has disabled the away NBBO filter for the Complex QOO Order
- Book sweep size = 100
- NBBO for Complex Order<sup>160</sup> A+B is 3.06 – 3.20
- BOX BBO for Complex Order<sup>161</sup> A+B is 2.00 – 3.20

BOX Book For Complex Order A+B					
Account	Quantity	Buy	Sell	Quantity	Account

BOX Book Instrument A					
Account	Quantity	Buy	Sell	Quantity	Account
PC1	10	1.00	1.10	10	PC2

<sup>160</sup> The NBBO for Complex Orders is based on the NBBO for the individual options components of such Complex Order.

<sup>161</sup> The BOX BBO for Complex Orders is the best net bid and offer price based on the best bid and offer on the BOX Book for the individual option's components of the Complex Order.

BOX Book Instrument B					
Account	Quantity	Buy	Sell	Quantity	Account
BD1	10	1.00	2.10	10	BD2

**Result:** Complex QOO Order is accepted because the price of the Complex QOO Order (2.01) is better than the BOX BBO on the initiating side (2.00) and the contra-side (3.20). Additionally, since the NBBO filter has been disabled by the Floor Broker, the Complex QOO Order will ignore the NBBO for Complex Order A+B (3.06 – 3.20). Even when the Complex QOO Order ignores the away NBBO, it must still respect interest on BOX.

### Example #8 – Complex QOO Order Rejected Due to the Book Sweep Size

The following is an example of a Complex QOO Order that is rejected by the Trading Host because the Floor Broker did not provide an adequate book sweep size to satisfy the resting interest on the Complex Order Book.

- Complex QOO Order for 100 of A+B at 3.07 (initiating side is sell)
- Book sweep size = 25
- NBBO for Complex Order A+B is 3.06 – 3.20

BOX Book for Complex Order A+B					
Account	Quantity	Buy	Sell	Quantity	Account
MM1	50	3.10			

BOX Book Instrument A					
Account	Quantity	Buy	Sell	Quantity	Account
PC1	10	1.06	1.10	10	PC2

BOX Book Instrument B					
Account	Quantity	Buy	Sell	Quantity	Account
BD1	100	2.00	2.10	100	BD2

**Result:** Complex QOO Order is rejected because the book sweep size is not adequate to satisfy the resting A+B Complex Orders on the Complex Order Book at 3.10 (50). If, however, the book sweep size was for at least 50 A+B, the Complex QOO Order would execute by having 50 A+B execute against the resting Complex Orders on the Complex

Order Book at 3.10. The remaining 50 A+B would execute against the contra-side order at 3.07.

**Example #9 – Complex QOO Order Executing Against BOX Book Interest**

The following example is designed to illustrate the situation where the Complex QOO Order executes against Implied Orders<sup>162</sup> and resting Complex Orders on the Complex Order Book.

- Complex QOO Order for 100 of A+B at 3.04 (initiating side is sell)
- Book sweep size = 100
- NBBO for Complex Order A+B is 3.06 – 3.20

BOX Book For Complex Order A+B					
Account	Quantity	Buy	Sell	Quantity	Account
MM1	60	3.06			

BOX Book Instrument A					
Account	Quantity	Buy	Sell	Quantity	Account
PC1	10	1.06	1.10	10	PC2
MM2	90	1.05			

BOX Book Instrument B					
Account	Quantity	Buy	Sell	Quantity	Account
BD1	100	2.00	2.10	100	BD2

**Result:** Complex QOO Order is accepted because the Floor Broker is willing to relinquish the full quantity of the initiating side to bids and offers on the BOX Book. The initiating side will execute against resting orders of the individual legs and resting A+B Complex Orders. Specifically, 10 A+B of the initiating side will execute against an Implied Order at 3.06 (leg A at 1.06 and leg B at 2.00), 60 A+B will execute at 3.06 against resting A+B Complex Order and 30 A+B against an Implied Order at 3.05 (leg A at 1.05 and leg B at 2.00).

<sup>162</sup> An “Implied Order” is a Complex Order at the cNBBO, derived from the orders at the BBO on the BOX Book for each component leg of a Strategy, provided each component leg is at a price equal to NBBO for that series. See Rule 7240(d)(1).

**Example #10 – Complex QOO Order Executing Against BOX Book Interest with Remaining Interest**

The following example illustrates how the Exchange will handle a Complex QOO Order that executes against BOX Book interest first but leaves interest on the BOX Book.

- Complex QOO Order for 100 of A+B at 3.04 (initiating side is sell)
- Book sweep size = 100
- NBBO for Complex Order A+B is 3.06 – 3.20

BOX Book For Complex Order A+B					
Account	Quantity	Buy	Sell	Quantity	Account

BOX Book Instrument A					
Account	Quantity	Buy	Sell	Quantity	Account
PC1	10	1.06	1.10	10	PC2

BOX Book Instrument B					
Account	Quantity	Buy	Sell	Quantity	Account
PC3	20	2.00	2.10	100	BD2

**Result:** Complex QOO Order is accepted. The initiating side will execute against resting orders of the individual legs and then against the contra-side. Specifically, 10 A+B of the initiating side will execute against an Implied Order at 3.06 (leg A at 1.06 and leg B at 2.00), and 90 will execute against the contra-side at 3.04. The unexecuted interest on the BOX Book remains after the execution of the Complex QOO Order.

**Example #11 – Multiple Public Customer and non-Public Customer Orders on the BOX Book**

Under Proposed Rule 7600(d), multiple Public Customer and non-Public Customer Orders on the BOX Book that have priority at the execution price of the QOO Order will be filled in the order they are ranked. The following example illustrates this situation.

- NBBO 3.10 – 3.13

- QOO Order for 100 at 3.10 (initiating side is sell)
- Surrender quantity = 100

<b>BOX Book</b>					
<b>Account</b> <sup>163</sup>	<b>Quantity</b>	<b>Buy</b>	<b>Sell</b>	<b>Quantity</b>	<b>Account</b>
<b>MM1</b>	<b>50</b>	<b>3.10</b>	<b>3.15</b>	<b>10</b>	<b>MM2</b>
<b>PC1</b>	<b>20</b>	<b>3.10</b>			
<b>BD1</b>	<b>50</b>	<b>3.10</b>			
<b>PC2</b>	<b>20</b>	<b>3.10</b>			

**Result:** QOO Order is accepted because the price of the QOO Order (\$3.10) is better than or equal to the NBBO on both the initiating side (\$3.13) and the contra-side (\$3.10). The initiating side will trade 50 contracts against MM1 at \$3.10, then 20 against PC1 at \$3.10, and then 30 against BD1 at \$3.10. The remaining quantity of BD1 (20 contracts) and PC2's order for 20 contracts will remain on the BOX Book.

### Guarantee

The Exchange is proposing to allow for a participation guarantee for certain orders executed by Floor Brokers.<sup>164</sup> Specifically, when a Floor Broker holds an order of the eligible order size or greater, the Floor Broker is entitled to cross a certain percentage of the order with other orders that the Floor Broker is holding. The Exchange may determine, on an option by option basis, the eligible size for an order on the Trading Floor to be subject to this guarantee; however, the eligible order size may not be less than 500 contracts.<sup>165</sup> In determining whether an order satisfies the eligible order size requirement, any multi-part or Complex Order must contain one leg alone which is for the eligible order size or greater. The percentage of the order which a Floor Broker is entitled to cross, after all equal or better priced Public Customer bids or offers on

<sup>163</sup> This is the time sequence that the orders were received by BOX (i.e., MM1 was received first).

<sup>164</sup> See proposed Rule 7600(f). Proposed Rule 7600(f) is based on PHLX Rule 1064.02. The Exchange notes that there are certain differences from the PHLX rule due to the fact that the Exchange will not have specialists on the Trading Floor and the Exchange has different rules than PHLX when it comes to orders on the Trading Floor executing against interest on the electronic book.

<sup>165</sup> Any changes to the eligible order size shall be communicated to Participants via circular.

the BOX Book and any non-Public Customer bids or offers that are ranked ahead of such Public Customer bids or offers are filled, is 40% of the remaining contracts in the order. However, nothing in this proposed Rule is intended to prohibit a Floor Broker from trading more than his percentage entitlement if the other Participants of the trading crowd do not choose to trade the remaining portion of the order.

#### Additional Requirements

The Exchange is proposing additional requirements for Floor Participants while present on the Trading Floor.<sup>166</sup> First, BOX is proposing that a Floor Broker must disclose all securities that are components of the Public Customer Order before requesting bids and offers for the execution of all components of the order. Next, the Exchange is proposing rules pertaining to treatment of quotes provided by Floor Participants. Specifically, a quote provided by a Floor Participant will remain in effect until: (1) a reasonable amount of time has passed; or (2) there is a significant change in the price of the underlying security;<sup>167</sup> or (3) the market given in response to the request has been improved.<sup>168</sup> BOX is proposing that the Floor Participant who established the market will, at the given price, have priority over all other orders that were not announced in the trading crowd at the time that the market was established (but not over Public Customer orders on the BOX Book or any non-Public Customer orders that have priority over

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<sup>166</sup> See proposed IM-7600-1. Proposed IM-7600-1 is based on PHLX Rule 1064.02. The Exchange notes that there are certain differences from the PHLX rule in order to account for the fact that BOX will not have specialists on the Trading Floor. Additionally, the Exchange is proposing additional language to clarify it is the responsibility of the Floor Participant who established the market to alert the executing Floor Broker of such information.

<sup>167</sup> In the case of a dispute, the term “significant change” will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of recent trading in the option and in the underlying security, and any other relevant factors.

<sup>168</sup> See proposed IM-7600-1(b).

such Public Customer orders on the BOX Book) and will maintain priority over such orders except for orders that improve upon the market. Additionally, when a Floor Broker announces an order to the trading crowd pursuant to Rule 7580(e)(2), it shall be the responsibility of the Floor Participant who established the market to alert the Floor Broker of the fact that the Floor Participant has priority.

The Exchange is proposing that Floor Participants may not prevent a Complex Order from being completed by giving a competing bid or offer for one component of such order. Lastly, the Exchange is proposing that if a Floor Broker is crossing a Public Customer Order with an order that is not a Public Customer Order, when providing an opportunity for the trading crowd to participate in the transaction, the Floor Broker shall disclose the Public Customer Order that is subject to crossing.

#### Tied Hedge

BOX is proposing the adoption of rules that will allow for tied hedge transactions. Tied hedge transactions are transactions that involve an option transaction and a hedging transaction occurring on a non-option market, as described in greater detail below.<sup>169</sup> Specifically, the Exchange is proposing that nothing prohibits a Floor Broker from buying or selling a stock, security futures, or futures position following receipt of an option order, including a Complex Order, provided that prior to announcing such order to the trading crowd certain conditions are met. The option order must be in a class designated as eligible for tied hedge transactions as determined by the Exchange and is within the designated tied hedge eligibility size parameters, which parameters shall be determined by the Exchange and may not be smaller than 500 contracts per order. Additionally, there shall be no aggregation of multiple orders to satisfy the

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<sup>169</sup> See proposed IM-7600-2. Proposed IM-7600-2 is based on NYSE Arca Rule 6.47.01.

size parameter, and for Complex Orders involved in a tied hedge transaction at least one leg must meet the minimum size requirement. The Floor Broker must create an electronic record that it is engaged in a tied hedge transaction in a form and manner prescribed by the Exchange. The hedging position is comprised of a position designated as eligible for a tied hedge transaction as determined by the Exchange and may include the same underlying stock applicable to the option order, a security future overlying the same stock applicable to the option order or, in reference to an index or Exchange-Traded Fund Shares (“ETF”), a related instrument.<sup>170</sup> Additionally, the hedging position must be brought without undue delay to the trading crowd and announced concurrently with the option order; offered to the trading crowd in its entirety; and offered, at the execution price received by the Floor Broker introducing the option, to any in-crowd Floor Participant who has established parity or priority for the related options. The hedging position must not exceed the option order on a delta basis to be eligible for treatment as a tied hedge order.

The Exchange is further proposing that all tied hedge transactions (regardless of whether the option order is a simple or Complex Order) are treated the same as Complex Orders for purposes of the Exchange’s open outcry allocation and reporting procedures. Tied hedge transactions are subject to the existing NBBO trade-through requirements for options and stock, as applicable, and may qualify for various exceptions; however, when the option order is a simple order, the execution of the option leg of a tied hedge transaction does not qualify for the NBBO trade-through exception for a Complex Trade (defined in proposed Rule 7610(e)). Floor

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<sup>170</sup> A “related instrument” means, in reference to an index option, securities comprising ten percent or more of the component securities in the index or a futures contract on any economically equivalent index applicable to the option order. A “related instrument” means, in reference to an ETF option, a futures contract on any economically equivalent index applicable to the ETF underlying the option order

Participants that participate in the option transaction must also participate in the hedging position and may not prevent the option transaction from occurring by giving a competing bid or offer for one component of such order. In the event the conditions in the non-options market prevent the execution of the non-option leg(s) at the agreed prices, the trade representing the options leg(s) may be cancelled. BOX is proposing that prior to entering tied hedge orders on behalf of Public Customers, the Floor Broker must deliver to the Public Customer a written notification informing the Public Customer that his order may be executed using the Exchange's tied hedge procedures. The proposed Rule dealing with tied hedge orders is based on the rules of another options exchange.<sup>171</sup>

The Exchange is also proposing language related to Section 11(a)(1)(G) of the Exchange Act.<sup>172</sup> Specifically, a BOX Participant shall not utilize the Trading Floor to effect any transaction for its own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion by relying on an exemption under Section 11(a)(1)(G) of the Exchange Act.

### Clerks

The Exchange is proposing to adopt Rule 7630 Clerks, which provides requirements for Clerks on the Trading Floor.<sup>173</sup> The proposal defines "Clerk" as any registered on-floor person employed by or associated with a Floor Broker or Floor Market Maker and who is not eligible to effect transactions on the Trading Floor as a Floor Market Maker or Floor Broker. The proposed Rule codifies that Clerks must display the badge(s) supplied by the Exchange while on the Trading Floor. Further, Proposed Rule 7630(c) codifies that a Clerk shall be primarily located at

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<sup>171</sup> See NYSE Arca Rule 6.47.01.

<sup>172</sup> See proposed IM-7600-5.

<sup>173</sup> Proposed Rule 7630 is based on PHLX Rule 1090.

a workstation assigned to his employer or assigned to his employer's clearing firm unless such Clerk is (1) entering or leaving the Trading Floor, (2) transmitting, correcting or checking the status of an order or reporting or correcting an executed trade or (3) supervising other Clerks if he is identified as a supervisor on the registration form submitted to the Exchange's Membership Department.

The Exchange is also proposing Rule 7630(d), which details the registration requirements for a Floor Broker who employs a Clerk that performs any function other than a solely clerical or ministerial function. On the Trading Floor, a Clerk may enter an order under the direction of a Floor Broker by way of any order handling entry device.<sup>174</sup> Proposed Rule 7630(f) defines a Floor Market Maker Clerk as any on-floor Clerk employed by or associated with a Floor Market Maker, and details the registration requirements and conduct on the Trading Floor for Floor Market Maker Clerks. A Floor Market Maker Clerk is permitted to communicate verbal market information (i.e., bid, offer, and size) in response to requests for such information, provided that such information is communicated under the direct supervision of his or her Floor Market Maker employer. A Floor Market Maker Clerk may consummate electronic transactions under the express direction of his or her Floor Market Maker employer by matching bids and offers. Such bids and offers and transactions effected under the supervision of a Floor Market Maker are binding as if made by the Floor Market Maker employer.

#### Disputes on the Trading Floor

The Exchange is proposing to adopt Rule 7640 to codify the process for the resolution of trading disputes on the Trading Floor.<sup>175</sup> Specifically, disputes occurring on and relating to the

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<sup>174</sup> See proposed Rule 7630(e).

<sup>175</sup> Proposed Rule 7640 is based on PHLX Rule 124. The Exchange notes that there are certain differences from the PHLX rule because the Exchange desires to have consistency

Trading Floor, if not settled by agreement between the Floor Participants interested, shall be settled by an Options Exchange Official.

The Exchange is proposing that an Options Exchange Official shall institute the course of action deemed to be most fair to all parties under the circumstances at the time when issuing decisions for the resolution of trading disputes. An Options Official may direct the execution of an order or adjust the transaction terms or Participants to an executed order, and may also nullify a transaction if the transaction is determined to have been in violation of Exchange Rules.

Options transactions that are the result of an Obvious Error or Catastrophic Error shall be subject to the provisions and procedures set forth in Rule 7170. The proposed Rule also states that all rulings rendered by an Options Exchange Official are effective immediately and must be complied with promptly; failure to do so may result in an additional violation.

Proposed Rule 7640(e) states that all Options Exchange Official rulings are reviewable by the CRO or his or her designee, and sets forth the process for such review. Regulatory staff must be advised within 15 minutes of an Options Exchange Official's ruling that a party to such ruling has determined to appeal from such ruling to the CRO or his or her designee. The Exchange may establish the procedures for the submission of a request for a review of an Options Exchange Official ruling. Options Exchange Official rulings (including those concerning the nullification or adjustment of transactions) may be sustained, overturned, or modified by the CRO or his or her designee. In making a determination, the CRO or his or her designee may consider facts and circumstances not available to the ruling Options Exchange Official, as well as action taken by the parties in reliance on the Options Exchange Official's ruling (e.g., cover, hedge, and related trading activity). Further, all decisions made by the CRO

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with its existing rules related to reviewing an Exchange ruling.

or his or her designee in connection with initial rulings on requests for relief and with the review of an Options Exchange Official ruling pursuant to this proposed Rule 7640(e) shall be documented in writing and maintained by the Exchange in accordance with the record keeping requirements set forth in the Securities Exchange Act of 1934, as amended, and the rules thereunder. A Floor Participant seeking review of an Options Exchange Official ruling shall be assessed a fee of \$250.00 for each Options Exchange Official ruling to be reviewed that is sustained and not overturned or modified by the CRO or his or her designee.<sup>176</sup> All decisions of the CRO or his or her designee shall be final and may not be appealed to the Exchange's Board of Directors. Additionally, all decisions of the CRO or his or her designee are effective immediately and must be complied with promptly. Failure to promptly comply with a decision of the Exchange may result in an additional violation.

Lastly, as discussed in proposed IM-7640-1, the Exchange may determine that an Options Exchange Official is ineligible to participate in a particular ruling where it appears that such Options Exchange Official has a conflict of interest. The Exchange also sets forth when a conflict of interest exists, and allows that Exchange staff may consider other circumstances, on a case-by-case basis, in determining the eligibility or ineligibility of a particular Options Exchange Official to participate in a particular ruling due to a conflict of interest.<sup>177</sup>

#### Trading for Joint Account

The Exchange is proposing Rule 7650, which will govern Trading for Joint Accounts.<sup>178</sup> Specifically, it stipulates that while on the Trading Floor, no Options Participant shall initiate the

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<sup>176</sup> In addition, in instances where the Exchange, on behalf of an Options Participant, requests a review by another options exchange, the Exchange will pass any resulting charges through to the relevant Options Participant.

<sup>177</sup> See proposed IM-7640-1.

<sup>178</sup> Proposed Rule 7650 is based on PHLX Rule 772.

purchase or sale on the Exchange of any security for any account in which he, his Options Participant organization or a participant therein, is directly or indirectly interested with any person other than such Options Participant or participant therein. The Exchange further clarifies that these provisions shall not apply to any purchase or sale by any Options Participant for any joint account maintained solely for effecting bona fide domestic or foreign arbitrage transactions.

### Communications and Equipment

The Exchange is proposing Rule 7660 Communications and Equipment, which deals with communication and equipment on the Trading Floor. Specifically, the proposed Rule details which communication devices are prohibited; provides the Exchange with the ability to remove any communication device that is in violation; sets forth the registration requirement and process; specifies the capacity and functionality of communication devices; outlines the communication devices allowed to Floor Market Makers, Floor Brokers, and Clerks; requires the maintenance of telephone records, and excludes the Exchange from liability due to conflicts between communication devices or due to electronic interference. Additionally, the Exchange will establish a communication device policy and violations of such policy may result in disciplinary action by the Exchange.<sup>179</sup> Proposed IM-7660-2 clarifies that proposed Rule 7660 and any relevant Exchange policy are intended to apply to all communication and other electronic devices on the Floor of the Exchange, including, but not limited to, wireless, wired, tethered, voice, and data. The Exchange notes that the proposed rules applicable to communication and equipment on the Trading Floor are based on the rules of another exchange.<sup>180</sup> Lastly, Proposed IM-7660-3 provides the Exchange with the ability to limit or

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<sup>179</sup> See proposed IM-7660-1.

<sup>180</sup> See PHLX Rule 606. The Exchange notes that it is not copying PHLX Rule 606(b)(2)(i), which prohibits any member from establishing communication devices on the floor. The

revoke the use of any communication device on the Trading Floor whenever the Exchange determines that use of such communication device: (1) interferes with the normal operation of the Exchange's own systems or facilities or with the Exchange's regulatory duties, (2) is inconsistent with the public interest, the protection of investors or just and equitable principles of trade, or (3) interferes with the obligations of a Floor Participant to fulfill its duties under, or is used to facilitate any violation of, the Act or rules thereunder, or Exchange rules. The Exchange notes that proposed IM-7660-3 is based on the rules of another exchange.<sup>181</sup>

### **Floor Market Makers**

The Exchange is proposing Rule 8500 Floor Market Maker, which details the rules surrounding Floor Market Makers, including registration as a Market Maker and suspension and termination of a Floor Market Maker.<sup>182</sup> Specifically, with regard to suspension or termination, the registration of any Options Participant as a Floor Market Maker may be suspended or

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Exchange believes that this provision is not necessary and would be contrary to the Exchange's proposed Trading Floor design. Specifically, the Exchange will not be providing communication devices for Floor Participants; Floor Participants will be responsible for providing their own communication devices. Therefore, the inclusion of this provision would directly conflict with the Exchange's plan. Additionally, proposed Rule 7660(g) contains a provision not included in PHLX's rule that requires wireless telephone and other communication devices on the Options Floor to comply with applicable floor policies. The Exchange believes this provision is important as to make clear the restrictions and requirements applicable to communication devices on the Trading Floor.

<sup>181</sup> See CBOE Rule 6.23(b). The Exchange notes that although other provisions of proposed Rule 7660 are based on PHLX, PHLX does not allow Floor Brokers to receive orders while in the trading crowd; therefore, the Exchange is proposing to follow CBOE, which allows Floor Brokers to receive orders in the trading crowd.

<sup>182</sup> See proposed Rules 8500 (a) and (b). Proposed Rules 8500 (a) and (b) are based on PHLX Rule 1020. There are certain differences with PHLX's rule due to the fact that PHLX has additional categories of Participants that the Exchange does not.

terminated by the Exchange upon a determination that such Options Participant has failed to properly perform as a Floor Market Maker.<sup>183</sup>

The Exchange proposes that a Floor Market Maker shall not effect on the Exchange purchases or sales of any option in which such Floor Market Maker is registered, for any account in which he or his Options Participant is directly or indirectly interested, unless such dealings are reasonably necessary to permit such Floor Market Maker to maintain a fair and orderly market.<sup>184</sup>

Also, the Exchange proposes certain expectations of Floor Market Makers. Specifically, proposed Rule 8500(d) details that it is ordinarily expected that a Floor Market Maker will engage, to a reasonable degree under the existing circumstances, in dealings for his own account in options when lack of price continuity or lack of depth in the options market or temporary disparity between supply and demand in the options market exists or is reasonably to be anticipated. The Exchange is proposing that transactions effected on the Exchange by a Floor Market Maker for his own account, and in the options in which he is registered, are to constitute a course of dealings reasonably calculated to contribute to the maintenance of price continuity with reasonable depth, and to the minimizing of the effects of temporary disparity between supply and demand, immediate or reasonably to be anticipated. Transactions in such options not part of such a course of dealings are not to be effected by a Floor Market Maker for his own account.<sup>185</sup>

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<sup>183</sup> The 13000 Series of the Exchange's Rules provide procedures, including appealing, for Participants aggrieved by Exchange action, including suspension and termination.

<sup>184</sup> See proposed Rule 8500(c).

<sup>185</sup> See proposed Rule 8500(d).

The Exchange is proposing Rule 8510 which will govern the obligations and restrictions applicable to Floor Market Makers.<sup>186</sup> Generally, transactions of a Floor Market Maker should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those Participants should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings.<sup>187</sup> Additionally, the Exchange is proposing to define a Floor Market Maker as an Options Participant on the Exchange located on the Trading Floor who has received permission from the Exchange to trade in options for his own account.<sup>188</sup>

The Exchange is proposing a Continuous Open Outcry Quoting Obligation for Floor Market Makers.<sup>189</sup> The Continuous Open Outcry Quoting Obligation requires Floor Market Makers to provide a two-sided market on the Trading Floor complying with the quote spread parameter requirements contained in proposed Rule 8510(d)(1).<sup>190</sup> As part of the Continuous

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<sup>186</sup> Proposed Rule 8510 is based on PHLX Rule 1014. PHLX Rule 1014 includes numerous sections that the Exchange is not including in proposed Rule 8510. The majority of the sections that the Exchange is omitting are not relevant to BOX. Specifically, they involve rules related to Participant categories that the Exchange does not and will not have on BOX. These include Streaming Quote Trader, which is a Registered Option Trader who has received permission from PHLX to submit electronic quotes only while they are present on the floor, and specialists. Additionally, the Exchange is not copying PHLX Rule 1014.06, which covers information barriers, because the Exchange already has rules covering misuse of material information. See Securities Exchange Act Release No. 75916 (September 14, 2015), 80 FR 56503 (September 18, 2015) (SR- BOX-2015-31). The Exchange is not copying PHLX Rules 1014.13 and 1014.14 because the PHLX Rules deal with types of activities and members that will not be present on BOX's Trading Floor. As previously mentioned, PHLX Rule 1014.13 requires an in person minimum that the Exchange does not believe is necessary on the Trading Floor.

<sup>187</sup> See proposed Rule 8510(a).

<sup>188</sup> See proposed Rule 8510(b).

<sup>189</sup> See proposed Rule 8510(c).

<sup>190</sup> See proposed Rule 8510(c)(2).

Open Outcry Quoting Obligation, such Floor Market Makers shall provide such quotations with a size of not less than 10 contracts.

The Exchange also proposes affirmative obligations for Floor Market Makers in classes of option contracts to which they are assigned. Specifically, whenever a Floor Market Maker is called upon by an Options Exchange Official or a Floor Broker to make a market, the Floor Market Maker is expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.<sup>191</sup> Additionally, the Exchange proposes the following obligations on Floor Market Makers while performing their market making activities on the Trading Floor: (1) Quote Spread Parameters (Bid/Ask Differentials)<sup>192</sup> and (2) Maximum Option Price Change.<sup>193</sup> Specifically, Floor Market Makers shall provide a bid/ask differential on the Trading Floor for options on equities and index options by bidding and/or offering so as to create differences of no more than \$0.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$0.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$0.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$0.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the

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<sup>191</sup> See proposed Rule 8510(d).

<sup>192</sup> See proposed Rule 8510(d)(1).

<sup>193</sup> On the Trading Floor, a Floor Market Maker shall not be bidding more than \$1 lower and/or offering no more than \$1 higher than the last preceding transaction price for the particular option contract. However, this standard shall not ordinarily apply if the price per share of the underlying stock or Exchange-Traded Fund Share has changed by more than \$1 since the last preceding transaction for the particular option contract. See proposed Rule 8510(d)(2).

prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.<sup>194</sup> Quotations provided in open outcry may not be made with \$5 bid/ask differentials provided in Rule 8040(a)(7) and instead must comply with the legal bid/ask differential requirements described in this subparagraph. These proposed obligations for Floor Market Maker are based on the rules of another exchange.<sup>195</sup>

The Exchange is also proposing restrictions for Floor Market Makers in classes of option contracts other than those to which they are appointed. Specifically, with respect to classes in which Floor Market Makers are not appointed, Floor Market Makers should not (1) individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; or (2) effect purchases or sales on the Trading Floor of the Exchange except in a reasonable and orderly manner; (3) be conspicuous in the general market or in the market in a particular option.<sup>196</sup> Further, the Exchange proposes additional restrictions on Floor Market

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<sup>194</sup> The Exchange notes that the ability to provide different quoting requirements is not novel and the Exchange already has this ability when it comes to electronic quoting requirements. See Rule 8040(a)(7). Additionally, another Exchange allows for the same on their floor. See PHLX Rule 1014(c)(i)(A)(1)(a).

<sup>195</sup> See PHLX Rule 1014(c)(i)(A). The Exchange is not including all of the PHLX rules related to Floor Market Maker quoting obligations. Specifically, the Exchange is not including PHLX rules applicable to foreign currency options because BOX does not list for trading foreign currency options.

<sup>196</sup> See proposed Rule 8510(e).

Makers.<sup>197</sup> Specifically, except as otherwise provided, no Floor Market Maker shall (1) initiate a transaction while on the Trading Floor for any account in which he has an interest and execute as Floor Broker an off-floor order in options on the same underlying interest during the same trading session, or (2) retain priority over an off-floor order while establishing or increasing a position for an account in which he has an interest while on the Trading Floor of the Exchange.<sup>198</sup>

Proposed Rule 8510(h) discusses option priority and parity on the Trading Floor.<sup>199</sup> Specifically, it references proposed Rule 7610, which directs Floor Participants in the establishment of priority of orders on the Trading Floor. The Exchange is proposing to clarify that in situations where the allocation of contracts result in fractional amounts of contracts to be allocated to Floor Participants, the number of contracts to be allocated shall be rounded in a fair and equitable manner.

The Exchange is also clarifying that Floor Participants must follow just and equitable principles of trade when dealing on the Trading Floor.<sup>200</sup> Specifically, it shall be considered conduct inconsistent with just and equitable principles of trade for: (a) a Floor Broker to allocate orders other than in accordance with the Exchange's priority rules applicable to floor trades; (b)

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<sup>197</sup> See proposed Rule 8510(f).

<sup>198</sup> This provision shall not apply to (1) any transaction by a registered Floor Market Maker in an option in which he is so registered; or (2) any transaction, other than a transaction for an account in which a Floor Market Maker has an interest, made with the prior approval of an Options Exchange Official to permit a member to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction; or (3) any transaction to offset a transaction made in error. See proposed Rule 8510(g).

<sup>199</sup> Proposed Rule 8510(h) is based on PHLX Rule 1014(g)(i)(A). The Exchange is not including the provision discussing orders of controlled accounts because the provision is not applicable to the Exchange's Trading Floor. Specifically, the Exchange's Trading Floor does not require a distinction for controlled accounts.

<sup>200</sup> See proposed Rule 8510(h)(4).

a Floor Participant to enter into any agreement with another Floor Participant concerning allocation of trades; or (c) a Floor Participant to harass, intimidate or coerce another Floor Participant to make or refrain from making any complaint or appeal.

The Exchange is proposing substantial Interpretive Material to supplement the Floor Market Maker Rules.<sup>201</sup> Specifically, the Exchange is proposing IM-8510-1, which provides that the obligations of a Floor Market Maker with respect to those classes of options to which he is assigned shall take precedence over his other activities. The Exchange is proposing IM-8510-2, which details non-electronic orders and states that Floor Market Makers participating in a trading crowd may, in response to a verbal request for a market by a Floor Broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or offer is not inferior to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a Floor Broker's solicitation of a single bid or offer as set forth in proposed Rule 7040(d)(2).<sup>202</sup> A Floor Market Maker shall be deemed to be participating in the crowd if such Floor Market Maker is, at the time an order is announced in the crowd, physically located in the specific Crowd Area. A Floor Market Maker who is physically present in such Crowd Area may engage in options transactions in assigned issues as a crowd participant, provided that such Floor Market Maker fulfills the requirements set forth in proposed Rule 8510.

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<sup>201</sup> The proposed Interpretive Material to supplement the Floor Market Maker Rules is based mostly on commentary to PHLX Rule 1014. The Exchange notes that it is not copying all of the commentary to PHLX Rule 1014 as some of the commentary is not applicable because it involves specialists, who the Exchange does not have, or the commentary is covered by different proposed rules.

<sup>202</sup> Proposed IM-8510-2 is based on PHLX Rule 1014.05(c). The Exchange is not including all of PHLX Rule 1014.05(c). Specifically, the Exchange is not including provisions of the PHLX Rule related to specialist because the Exchange does not have specialists and is not proposing to have specialists. The Exchange is also not including PHLX provisions related to priority of orders represented on the floor because the Exchange is copying the floor priority provisions from NYSE Arca and they are covered by proposed Rule 7600(c)

The Exchange is proposing to define the term “on the floor” as meaning the Trading Floor of the Exchange; the rooms, lobbies and other premises immediately adjacent thereto made available by the Exchange for use by Floor Participants generally; other rooms, lobbies and premises made available by the Exchange primarily for use by Floor Participants; and the telephone and other facilities in any such place.<sup>203</sup> The Exchange is also proposing that the provisions of this Proposed Rule 8510 do not apply to transactions initiated by a Floor Market Maker for an account in which he has an interest unless such transactions are either initiated by a Floor Market Maker while on the Floor or unless such transactions, although originated off the Floor, are deemed on-Floor transactions under the provisions of these Rules.<sup>204</sup>

Additionally, the Exchange proposes that an off-Floor order for an account in which a Participant has an interest is to be treated as an on-Floor order if it is executed by the Participant who initiated it.<sup>205</sup> Proposed IM-8510-4 also includes additional transactions that will be considered on-Floor transactions, including any transaction for an account in which a Floor Market Maker has an interest if such transaction is initiated off the Trading Floor by such Floor Market Maker after he has been on the Trading Floor during the same day. Additionally, the following will be treated as on-Floor orders, any transactions for a Participant for an account in which it has an interest: (1) which results in an order entered off the Floor following a conversation relating thereto with a Floor Participant on the Floor who is a partner of or stockholder in such Participant; or (2) which results from an order entered off the Floor following the unsolicited submission from the Floor to the office of a quotation in a stock or Exchange-Traded Fund Share and the size of the market by a Participant on the Floor who is a

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<sup>203</sup> See proposed IM-8510-3(a). Proposed IM-8510-3(a) is based on PHLX Rule 1014.07.

<sup>204</sup> See proposed IM-8510-3(b). Proposed IM-8510-3(b) is based on PHLX Rule 1014.07.

<sup>205</sup> See proposed IM-8510-4. Proposed IM-8510-4 is based on PHLX Rule 1014.08.

partner of or stockholder in such Participant; or (3) which results from an order entered off the Floor which is executed by a Participant on the Floor who is a partner of or stockholder in such Participant and who had handled the order on a “not-held” basis;<sup>206</sup> or (4) which results from an order entered off the Floor which is executed by a Participant on the Floor who is a partner of or stockholder in such Participant and who has changed the terms of the order.

The Exchange is proposing that an on-Floor order given by a Floor Market Maker to a commission broker, for an account in which the Floor Market Maker has an interest, is subject to all the rules restricting Floor Market Makers.<sup>207</sup>

The Exchange is proposing that the number of Floor Market Makers in the trading crowd who are establishing or increasing a position may temporarily be limited when, in the judgment of an Options Exchange Official, the interests of a fair and orderly market are served by such limitation.<sup>208</sup> Additionally, the Exchange is proposing that the Exchange may adopt policies affecting the location of Floor Participants on the Trading Floor in the interest of a fair and orderly market.<sup>209</sup> Lastly, the Exchange is proposing that a Floor Market Maker cannot acquire a

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<sup>206</sup> However, the following are not on-Floor orders and such restrictions shall not apply to an order: (1) to sell an option for an account in which the Participant is directly or indirectly interested if, in facilitating the sale of a large block of stock or Exchange-Traded Fund Shares, the Participant acquired its position because the demand on the Floor was not sufficient to absorb the block at a particular price or prices; or (2) to purchase or sell an option for an account in which the Options Participant is directly or indirectly interested if the Options Participant was invited to participate on the opposite side of a block transaction by another Options Participant or a partner or stockholder therein because the market on the Floor could not readily absorb the block at a particular price or prices; or (3) to purchase or sell an option for an account in which the Participant is directly or indirectly interested if the transaction is on the opposite side of a block order being executed by the Participant for the account of its customer and the transaction is made to facilitate the execution of such order.

<sup>207</sup> See proposed IM-8510-5. Proposed IM-8510-5 is based on PHLX Rule 1014.09.

<sup>208</sup> See proposed IM-8510-6. Proposed IM-8510-6 is based on PHLX Rule 1014.12.

<sup>209</sup> See proposed IM-8510-7. Proposed IM-8510-7 is based on PHLX Rule 1014.17.

“long” position by pairing off with a sell order before the opening, unless all off-Floor bids at that price are filled.<sup>210</sup>

The proposed rules applicable to Floor Market Makers are based predominately on the rules of PHLX. However, BOX omitted certain PHLX rules from the proposed rules due to certain differences with how the Exchange is designing the Trading Floor. The Exchange is not including any of PHLX’s waiver provisions in the proposed rules.<sup>211</sup> The Exchange does not believe that waiver provisions are necessary because the Exchange is not having specialists who have entitlement guarantees that they could waive on the Trading Floor. Additionally, BOX is not including rules related to foreign currency options because the Exchange does not list for trading options on foreign currencies.

The Exchange is not including certain PHLX rules related to participation guarantees, allocation and priority. PHLX participant guarantee rules are designed to provide a guarantee entitlement to specialists on the trading floor. BOX is not proposing to have specialists on the Trading Floor and therefore there is no reason to include these PHLX rules. Additionally, BOX’s proposed allocation and priority rules for orders originating from the Trading Floor are based on the rules of NYSE Arca<sup>212</sup> and not those of PHLX.

The Exchange proposes Rule 8530 which details the resolution of an uncompleted trade.<sup>213</sup> Specifically, when a disagreement between Floor Participants arising from an uncompleted Exchange options transaction cannot be resolved by mutual agreement prior to 10:00 a.m. on the first business day following the trade date, the parties shall promptly, but not

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<sup>210</sup> See proposed IM-8510-9. Proposed IM-8510-9 is based on PHLX Rule 1014.11.

<sup>211</sup> See PHLX Rule 1014(g)(v)(D).

<sup>212</sup> See NYSE Arca Rules 6.47(a) and 6.75.

<sup>213</sup> Proposed Rule 8530 is based on PHLX Rule 1039.

later than 3:30 p.m. on such day close out the transaction in the following manner. The Floor Participant representing the purchaser in the uncompar ed Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to purchase the option contract that was the subject of the uncompar ed Exchange options transaction. The Floor Participant representing the writer in the uncompar ed Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to sell (write) the option contract that was the subject of the uncompar ed Exchange options transaction. Any claims for damages resulting from such transactions must be made promptly for the accounts of the Floor Participants involved and not for the accounts of their respective customers. Notwithstanding the foregoing, if either Floor Participant is acting for a firm account in an uncompar ed Exchange options transaction and not for the account of a Public Customer, such Floor Participant need not enter into a new transaction, in which event money differences will be based solely on the closing transaction of the other party to the uncompar ed transaction. In the event an uncompar ed transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange options transaction can be effected to establish the amount of any loss, the Floor Participant not at fault may claim damages against the other Floor Participant involved in the transaction based on the terms of such transaction. All such claims for damages shall be made promptly.

### **Fees**

The Exchange has not yet determined the fees for transactions originating from the Trading Floor. Prior to commencing trading on the Trading Floor, the Exchange will file proposed fees with the Commission.

### **Additional Changes**

The Exchange is also proposing minor edits to other sections of the Exchange's Rulebook in order to accommodate the various changes. Specifically, the Exchange is proposing several new definitions which results in the renumbering of numerous other definitions. Therefore, the Exchange is amending various references to definitions in the Rulebook.<sup>214</sup>

The Exchange notes that BOX Rule 3090 (Prevention of the Misuse of Material Nonpublic Information) will apply to Floor Participants. Specifically, Floor Brokers and Floor Market Makers will be required to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material, non-public information by such Participant or persons associated with such Participant.<sup>215</sup> The Exchange does not believe more prescriptive information barriers are necessary for these Participants, as neither Floor Brokers nor Floor Market Makers will have different or greater access to nonpublic information when compared to any other Options Participant on the Exchange.<sup>216</sup> Accordingly, because these Floor Participants do not have any trading advantages at the Exchange due to their market role, the Exchange believes that they should be subject to the same rules as other Participants

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<sup>214</sup> See proposed changes to Rules 7130, 7150, and 7245.

<sup>215</sup> As is the case today, information barriers of new entrants would be subject to review as part of a new firm application. Moreover, the policies and procedures of Market Makers, including those relating to information barriers, would be subject to review by the Exchange.

<sup>216</sup> A principles based approach to protect against the misuse of material non-public information for all of its registered Options Participants is consistent with the rules of other options and equities exchanges, except for prescribed rules relating to floor-based designated market makers on the NYSE, who have access to specified non-public trading information. Further, the Exchange believes that the principles-based approach is appropriate with regard to BOX's market structure because it provides greater flexibility for how BOX Option Participants modify their internal policies and procedures in order to reflect their business model, business activities, or to their securities market itself. The Exchange also believes that the principles-based approach will provide for broader protections rather than a more prescriptive approach which would only protect certain defined non-public information.

regarding the protection against the misuse of material non-public information, which in this case is BOX Rule 3090.

The Exchange notes that this principles-based approach to protecting against the misuse of material non-public information for all its Participants is consistent with the rules of other exchanges with physical trading floors.<sup>217</sup> Except for prescribed rules relating to floor-based designated market makers on the NYSE, who have access to specified non-public trading information, each of these exchange have a principles based approach protecting against the misuse of material non-public information. In connection with approving these rule changes, the Commission found that, with adequate oversight by exchanges of their members, eliminating prescriptive information barrier requirements should not reduce the effectiveness of exchange rules requiring members to establish and maintain systems to supervise the activities of members, including written procedures reasonably designed to ensure compliance with applicable federal securities laws and regulations, and with the rules of the applicable exchange.

The Exchange notes that the design of the proposed Trading Floor alleviates certain concerns related to misuse of information on trading floors. Specifically, the Exchange is not proposing to have a specialist on the Trading Floor, and, therefore, there are no concerns raised related to a specialist and an affiliated Market Maker coordinating their market making or

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<sup>217</sup> See Securities Exchange Act Release No. 75432 (July 13, 2015), 80 FR 42597 (July 17, 2015) (Order Approving Adopting a Principles-Based Approach to Prohibit the Misuse of Material Nonpublic Information by Specialists and e-Specialists by Deleting Rule 927.3NY and Section (f) of Rule 927.5NY). See also Securities Exchange Act Release Nos. 60604 (Sept. 2, 2009), 76 FR 46272 (Sept. 8, 2009) (SR-NYSEArca-2009-78) (Order approving elimination of NYSE Arca rule that required market makers to establish and maintain specifically prescribed information barriers, including discussion of NYSE Arca and Nasdaq rules) (“Arca Approval Order”); and 72534 (July 3, 2014), 79 FR 39440 (July 10, 2014), [sic] SR-NYSE-2014-12) (Order approving amendments to NYSE Rule 98 governing designated market makers to move to a principles-based approach to prohibit the misuse of material non-public information) (“NYSE Approval Order”).

otherwise sharing information. Further, the Exchange is not proposing to change what is considered to be material, non-public information that an affiliate of a Floor Participant could share with the Floor Participant. In that regard, Rule 3090 does not permit affiliates to have access to any non-public order or quote information of the Floor Participant, including hidden or undisplayed size or price information on such orders or quotes. Affiliates of Floor Participants would only have access to order and quotes that are publicly available to all market participants and the Exchange believes the current surveillance procedures are sufficient to monitor and protecting against the misuse of material non-public information with regard to any communications on and off the Trading Floor.

The Exchange notes that all current Options Participants already have in place written policies and procedures to comply with Rule 3090 and such policies and procedures have been approved by BOX Regulation.<sup>218</sup> As such, Floor Participants would be obligated to ensure that their policies and procedures reflect the current state of their business and continue to be reasonably designed to achieve compliance with applicable federal securities laws and regulations, including Section 15(g) of the Act<sup>219</sup>, and with applicable Exchange rules, including being reasonably designed to protect against the misuse of material, non-public information. While information barriers are not required, Rule 3090(a) requires that a Participant consider its business model or business activities in structuring its policies and procedures, which may dictate that an information barrier or a functional separation be part of the appropriate set of policies and procedures that would be reasonably designed to achieve compliance with applicable securities law and regulations and with applicable Exchange rules.

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<sup>218</sup> FINRA currently approves Rule 3090 procedures on behalf of BOX Regulation pursuant to a Regulatory Services Agreement.

<sup>219</sup> 15 U.S.C. 780(g).

The Exchange believes that the reliance on Rule 3090 ensures that all BOX Participants are required to protect against the misuse of any material non-public information. Rule 3090(b)(2) requires that a firm refrain from trading while in possession of material non-public information concerning imminent transactions in the security or a related product. The Exchange believes that this principles based approach provides all BOX Participants the flexibility when managing risk across the firm, including integrating options positions with other positions of the firm, or as applicable, by respective trading unit.

Finally, FINRA has an exam program that reviews Participants for compliance with such procedures. As such, Floor Participants will be subject to FINRA's review when implementing such policies and procedures for the Trading Floor. In addition, once implemented, FINRA would continue to monitor a Floor Participant's compliance with those policies and procedures consistent with the current exam-based regulatory program associated with BOX Rule 3090.

Lastly, the Exchange notes that it will submit a separate filing to the SEC which will cover minor rule violations on the Trading Floor. Specifically, the Exchange will file with the SEC to amend the Exchange's Minor Rule Violation Plan in Rule 12140. The Exchange will not commence operation of the Trading Floor until the Minor Rule Violation Plan has been amended to include violations which occur on the Trading Floor.

### **Trading Floor Data**

The Exchange will provide the Commission with data related to activity on the Trading Floor. Specifically, the Exchange will provide information regarding size, participation, price improvement by spread and trade type, effective spread, Floor Market Maker participation, and BOX Book participation. This information will be provided on a confidential basis with non-firm specific information being available quarterly on the Exchange's website.

## 2. Statutory Basis

**Insert text from Item 3b.** [sic] The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>220</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>221</sup> 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.

### General

BOX believes that the proposal is consistent with the Act and furthers the foregoing objectives by increasing the opportunities for Participants to execute orders and provide an additional venue for seeking liquidity. The Exchange believes the adoption of the proposed rules allowing for an open-outcry floor is consistent with the goals of the Act to remove the impediments to and perfect the mechanism of a free and open market because it will benefit Participants by providing an additional mechanism for Participants to provide and seek liquidity for large and complex orders. The Exchange believes that the nature of open outcry transactions lends itself better to larger-sized transactions than the liquidity that is generally available electronically and the proposed rules would encourage greater participation in such large trades. Therefore, the proposed rule changes will benefit the market as a whole by providing an additional venue for market participants to seek liquidity for large-sized and complex orders. Providing an additional venue for these orders will benefit investors, the national market system, Participants, and the Exchange's market by increasing competition for order flow and executions, and thereby spur product enhancements and lower prices. The Exchange believes that the proposal is designed to prevent

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<sup>220</sup> 15 U.S.C. 78f(b).

<sup>221</sup> 15 U.S.C. 78f(b)(5).

fraudulent and manipulative acts and practices because all surveillance coverage currently performed by the Exchange will cover trading from the Trading Floor. Additionally, the Exchange will have surveillance coverage in place to monitor issues unique to the Trading Floor.

The Exchange believes the proposed changes to Rule 100(a) to include definitions of Floor Participant and Trading Floor are consistent with the goals of the Act. Specifically, the proposed changes are designed to protect investors and the public interest by providing background and clarity in the Rulebook. Additionally, proposed Rule 100(b) will provide additional clarity in the Rulebook. Specifically, the definition for Presiding Exchange Officials provides Floor Participants with notice of who is responsible for monitoring and regulating the Trading Floor. The other sections of proposed Rule 100(b) provide general background for Floor Participants in the beginning of the Rulebook that will aid in understanding the applicable rules throughout, which will protect investors and the public by making the Exchange's Rulebook simpler to understand. Additionally, the Exchange notes that the various sections of proposed Rule 100(b) are based on the rules of another exchange with an open-outcry floor.<sup>222</sup>

The Exchange believes that the proposed Rule detailing the requirements for public outcry<sup>223</sup> is reasonable and consistent with the Act. Specifically, the Exchange believes this proposal is designed to protect investors and public interest by making clear the requirements for open outcry. The Exchange believes that the default of a Floor Market Maker being "out" promotes just and equitable principles of trade by ensuring a Floor Market Maker is only allocated if he desires. Additionally, the Exchange believes that requiring a Floor Broker to give Floor Participants a reasonable amount of time to respond to an order will protect investors and the public interest by ensuring that there is an opportunity for robust interaction on the Trading Floor.

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<sup>222</sup> See PHLX Rules 1000(e), 1000(f), 1000(g), 1080.06, and CBOE Rule 6.74(a).

<sup>223</sup> See proposed Rule 100(b)(5).

## **Participant Eligibility and Registration**

The Exchange believes that the proposed registration requirements, including floor trading examinations, if required, for Floor Brokers,<sup>224</sup> Floor Market Makers and registered representatives on the Trading Floor, are reasonable and further the objectives of the Act.<sup>225</sup> Specifically, these examinations address industry and Exchange specific topics that establish the foundation for the regulatory and procedural knowledge necessary for individuals required to register as Floor Brokers or Floor Market Makers and for such individuals to appropriately register under the Exchange's Rules. Requiring these examinations will help promote consistency in examination requirements and uniformity across the markets. Additionally, the registration requirements for Floor Participants are reasonable because they will help the Exchange to determine if a registrant is qualified to be a Floor Broker or Floor Market Maker and therefore will protect investors and the public interest.

Similarly, the Exchange believes that prescribing appropriate registration requirements including floor trading examinations for all other Trading Floor personnel, including clerks, interns, stock execution clerks and other associated persons, are reasonable as well. Specifically, these examinations address industry and Exchange specific topics that establish the foundation for the regulatory and procedural knowledge necessary to appropriately register under the Exchange rules. The proposed registration requirements for associated persons are reasonable because they will help the Exchange to determine if a registrant is qualified to be on the Trading Floor and therefore will protect investors and the public interest. Additionally, the proposed Rules covering eligibility and registration are based on the rules of another exchange that has an open-outcry floor.<sup>226</sup>

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<sup>224</sup> Floor Brokers are required to complete a floor trading examination. See proposed Rules 2020(h) and 7550.

<sup>225</sup> See proposed Rules 2020(h) and (i).

<sup>226</sup> See PHLX Rule 620(a) and (b).

## **Trading on the Exchange Floor**

The Exchange believes that the proposed rules governing activity on the Trading Floor, including Trading Floor hours, opening the market, admittance, joint accounts, and dealings on the Trading Floor,<sup>227</sup> are reasonable restrictions that are designed to further the objectives of the Act. Specifically, the proposed rules are designed to maintain order and structure on the Trading Floor and apply to all Floor Participants. Additionally, these rules are based on those of competing options exchanges that also have open-outcry floors.<sup>228</sup>

The Exchange believes the proposal to require each Options Participant that physically conducts business on the Trading Floor to procure and maintain liability insurance<sup>229</sup> should assist in preventing unnecessary waste of Exchange resources, which can be easily diverted to defending litigation claims and responding to non-Exchange related litigation matters on behalf of its Participants. The proposal is meant to prevent the Exchange from diverting valued resources away from its main regulatory responsibilities and being consumed in litigation designed to siphon Exchange monies and staff. The Exchange notes the proposal to require liability insurance is based on the rules of another exchange.<sup>230</sup>

The Exchange is proposing various rules related to Clerks on the Trading Floor<sup>231</sup> that the Exchange believes are reasonable and further the objectives of the Act. Specifically, the proposal relates to restrictions and conduct of Clerks on the Trading Floor that are designed to maintain order on the Trading Floor. Additionally, the proposal will make clear the rights and responsibilities of

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<sup>227</sup> See proposed Rules 7070(d), 7500, 7510, 7520, and 7650.

<sup>228</sup> See PHLX Rules 1017(c), 102, 104, 443, and 772.

<sup>229</sup> See proposed Rule 7230(f).

<sup>230</sup> See PHLX Rule 652(c)(2).

<sup>231</sup> See proposed Rule 7630.

Clerks on the Trading Floor. The Exchange notes the proposed Rule related to Clerks on the Trading Floor is based on the rule of another exchange.<sup>232</sup>

The Exchange believes the proposed Rule relating to disputes on the Trading Floor will provide clarity and direction for the resolution of such disputes.<sup>233</sup> The proposed Rule will contribute to the maintenance of a fair and orderly market by clearly laying out the dispute resolution process. Additionally, by first allowing the interested Floor Participants an opportunity to settle the disagreement, the Exchange is providing a reasonable opportunity for the interested parties to reach an equitable agreement. The Exchange believes that allowing an Options Exchange Official to settle disputes is reasonable and is designed to promote just and equitable principles of trade by having an independent third party settle the dispute. The Exchange believes that the dispute resolution process is further strengthened by allowing Floor Participants the ability to appeal an Options Exchange Official's ruling. In addition, the Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>234</sup> in general, and furthers the objective of Section 6(b)(4) of the Act<sup>235</sup> in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members. The Exchange believes that this proposal is equitable in that the appeal fee would apply to all Participants equally. The Exchange believes the appeal fee amount is reasonable as a similar fee exists on other option exchange with an open outcry trading floor.<sup>236</sup> The addition of the appeal fee will help the Exchange offset costs associated with reviewing contested rulings by an Options Exchange Official.

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<sup>232</sup> See PHLX Rule 1090.

<sup>233</sup> See proposed Rule 7640.

<sup>234</sup> 15 U.S.C. 78f(b).

<sup>235</sup> 15 U.S.C. 78f(b)(4).

<sup>236</sup> See PHLX Rule 124(d)(iii).

The Exchange believes it is reasonable to exclude Floor Market Makers and Floor Brokers who do not conduct business with the public from Rule 4180.<sup>237</sup> Rule 4180 deals with requirements for Participants that are approved to transact business with the public; therefore the proposed Rule is simply clarifying that Rule 4180 will not apply to Floor Market Makers and Floor Brokers who do not conduct business with the Public. The Exchange notes the proposed Rule is based on the rule of another exchange.<sup>238</sup>

The proposal outlining bids and offers made on the Trading Floor and the solicitation of quotations on the Trading Floor<sup>239</sup> provides clarifying information to Floor Participants on how bidding and offering on the Trading Floor will work; therefore, the proposal is designed to protect investors and the public interest by making the proposed operation of the Trading Floor clear in the Exchange's rules. The proposal is based on the rules of another exchange.<sup>240</sup>

### **Floor Brokers**

The Exchange believes that the proposed rules applicable to Floor Brokers,<sup>241</sup> including responsibilities and restrictions, are designed to promote just and equitable principles of trade, 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 proposed rules will provide guidance and restrictions for Floor Brokers operating on the Trading Floor. The proposed registration requirements for Floor Brokers will protect investors and the public interest by

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<sup>237</sup> See proposed Rule 4180(g).

<sup>238</sup> See PHLX Rule 705(f)(1)(B).

<sup>239</sup> See proposed Rule 7040(d).

<sup>240</sup> See PHLX Rule 1033(a).

<sup>241</sup> See proposed Rules 7540, 7550, 7570, 7580, and 7590.

ensuring that all Floor Brokers are registered with the Exchange and that the Exchange approved each Floor Broker before they were admitted to the Trading Floor.

The proposed responsibilities for Floor Brokers<sup>242</sup> are designed to further the goals of the Act. Specifically, the requirement that a Floor Broker use due diligence in handling an order and the requirement to ascertain that at least one Floor Market Maker is present when the order is announced on the Trading Floor, are designed to promote just and equitable principles of trade, and, in general to protect investors and the public interest by providing the opportunity for additional interaction and price improvement from any Floor Market Maker. The Exchange believes the various restrictions on Floor Brokers are reasonable and are in line with those on another exchange with an open-outcry floor.<sup>243</sup>

### **Executions and Priority**

The proposed rule change is consistent with Section 11(a) of the Act and the rules thereunder. The Commission has stated that it believes all electronic executions executed against interest on the BOX Book are consistent with the requirements of Section 11(a) of the Act.

Under the proposed rule change, Participants will be prohibited from utilizing the Trading Floor to effect any transaction for covered accounts. Participants are subject to review with respect to such compliance.

Under the proposed rules, no covered account transactions utilizing the Trading Floor may use the G Exemption. Participants may only rely upon other exceptions to Section 11(a)(1) of the Act when interacting with the Trading Floor or the BOX Book utilizing the Trading Floor.<sup>244</sup> The

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<sup>242</sup> See proposed Rule 7580.

<sup>243</sup> See PHLX Rules 155, 1063, and 1065.

<sup>244</sup> For example, other §11(a)(1) exemptions include, the “effect vs. execute” exemption, the market maker exemption, and the error account exemption.

proposed rule changes would not limit in any way the obligation of a BOX Participant, while acting as a Floor Broker or otherwise, to comply with Section 11(a) or the rules thereunder.<sup>245</sup>

Notwithstanding proposed IM-7600-5, under Rule 11a2-2(T), the so-called “effect vs. execute” rule, a Participant may effect transactions on the Trading Floor for its covered accounts by using another Participant, acting as a Floor Broker, provided that (i) the executing Floor Broker is not an associated person of the initiating Participant, (ii) the covered account order must be transmitted from off the Trading Floor, (iii) neither the initiating Participant nor any associated person of the initiating Participant participates in execution of the order after the covered account order has been transmitted for execution from off the Trading Floor (referred to below as the “non-participation requirement”); and (iv) if the transaction is being effected for an account over which the initiating Participant or an associated person of that Participant exercises investment discretion, neither the initiating Participant nor any associated person may retain any compensation in connection with effecting the transaction unless express written consent to such retention has been obtained from the person or persons authorized to transact business for the managed account in the manner provided in the rule. Thus, a Participant (not acting in a market-making capacity) could submit an order for a covered account from off the Trading Floor to an unaffiliated Floor Broker for representation on the Trading Floor and use the effect versus execute exemption (assuming the other conditions of the rule are satisfied).<sup>246</sup> A Participant, relying on the “effect versus execute” exemption, could not submit an order for a covered account to its “house” Floor Broker on the Trading Floor for execution. At no time following the submission of an order utilizing the Trading

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<sup>245</sup> A Floor Broker may utilize the Trading Floor to effect a transaction for a covered account only pursuant to proposed Rule 7540 and for purposes of liquidating error positions.

<sup>246</sup> Orders for covered accounts that rely on the “effect versus execute” exemption will be transmitted from a remote location directly to the Trading Floor by electronic means.

Floor will the submitting Participant or any associated person of such Participant acquire control or influence over the result or timing of the order's execution.

The Exchange believes that the proposed rules applicable to executions and priority<sup>247</sup> are designed to promote just and equitable principles of trade, 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. As explained above, executions from the Trading Floor will be consistent with options trade-through and priority rules and the Exchange's systems are designed to help ensure that an execution from the Trading Floor cannot occur in violation of those rules. Specifically, when a QOO Order is submitted to the Trading Host for execution, the Exchange's system will evaluate the current market conditions to ensure that the execution price is equal to or better than the NBBO. It is the Exchange's understanding that traditionally on trading floors when a Floor Broker executed an order in the trading crowd verbally, that order was deemed executed; when the Floor Broker then entered the execution price electronically to complete the processing of the trade, including trade reporting to the tape, markets can change such that the execution price was outside the NBBO or violated the priority of orders now resting on the electronic book of the exchange. By having the QOO Order execute when it is received by the Trading Host, the Exchange is providing a system that will prevent executions that appear to be at prices that are worse than the NBBO due to the time they are reported. Specifically, the Exchange's system will automatically enforce BOX Book priority<sup>248</sup> and trade-through provisions.

The Exchange further believes that protecting non-Public Customer interest on the BOX Book that is ranked ahead of Public Customer interest is consistent with just and equitable

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<sup>247</sup> See proposed Rules 7600 and 7610.

<sup>248</sup> Floor Brokers are responsible for complying with priority among Floor Participants on the Trading Floor.

principles of trade because it maintains the Exchange's existing price/time priority rules by protecting interest that has time priority over Public Customer interest that has priority. The Exchange also notes that this proposed priority interaction with the BOX Book is the same as NYSE Arca.<sup>249</sup> Additionally, the Exchange's proposed interaction with orders on the BOX Book actually provides additional opportunities for orders on the BOX Book to interact with trades on the Trading Floor as compared to other exchanges with open-outcry floors. Specifically, other exchanges with open-outcry floors only require floor trades to yield priority to Public Customer Orders on the electronic book.<sup>250</sup>

The Exchange believes that the proposal to provide a Floor Broker with a guarantee for certain orders initiating from the Trading Floor<sup>251</sup> is reasonable and is consistent with the Act. Specifically, the proposal will reward Floor Brokers who bring large orders to the Exchange by guaranteeing them the ability to cross a certain percentage. The Exchange notes that another options exchange provides a guarantee on their trading floor.<sup>252</sup> Additionally, the Exchange currently provides a guarantee with respect to auction transactions executed on the Exchange.<sup>253</sup>

The Exchange believes that the proposed priority provisions for Complex QOO Orders are reasonable because they align the Exchange's Rules with the rules of other exchanges with open-outcry floors.<sup>254</sup> Specifically, the Exchange will allow Complex QOO Orders from the Trading Floor to execute without giving priority to equivalent bids (offers) in the individual series legs on the initiating side, provided at least one options leg better than the corresponding bid or offer on the

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<sup>249</sup> See NYSE Arca Rules 6.47 and 6.75.

<sup>250</sup> See PHLX Rule 1014.05(c), CBOE Rule 6.45(a), and NYSE MKT Rule 963NY(a).

<sup>251</sup> See proposed Rule 7600(f).

<sup>252</sup> See PHLX Rule 1064.02.

<sup>253</sup> See Rule 7150 Price Improvement Period.

<sup>254</sup> See NYSE Arca Rule 6.75(g).

BOX Book by at least one minimum trading increment as set forth in Rule 7240(b)(1).<sup>255</sup> BOX believes this is consistent with the Act because it is providing at least one leg with an improved price compared to bids or offers on the BOX Book. Additionally, the Exchange notes that these Complex Orders executed on trading floors can be large and complex and the proposed treatment of Complex Orders on the Trading Floor will increase the ability for Floor Brokers to execute these complex trades to the benefit of market participants. The Exchange believes that allowing Floor Brokers to disable the NBBO aspect of the Complex Order Filter when executing a Complex QOO Order is reasonable because other exchanges do not have NBBO protection for complex orders.<sup>256</sup>

The Exchange believes that the Trading Host, including the BOG as a component of the Trading Host,<sup>257</sup> will further the objectives and goals of the Act. Specifically, the ability of the Trading Host to provide an electronic audit trail will help prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, and remove impediments to and perfect the mechanisms of a free and open market and a national market system. All transactions on the Trading Floor must be submitted through the BOG for processing by the Trading Host, which will allow the Exchange to provide a complete and accurate audit trail and minimize the occurrences of disputes and regulatory violations. The Trading Host is designed to prohibit trade-through violations by preventing an execution at a price worse than the NBBO.

The Exchange believes requiring that all transactions on the Trading Floor must be executed by the Trading Host will increase the speed and efficiency in which Floor Brokers handle orders, thereby making the Exchange's market more efficient, to the benefit of the investing public and consistent with promoting just and equitable principles of trade.

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<sup>255</sup> See proposed Rule 7600(c).

<sup>256</sup> See ISE Rule 722(b)(3).

<sup>257</sup> See proposed Rule 100(b)(2).

The Exchange believes that the proposal to adopt a new order type<sup>258</sup> for all executions originating on the Trading Floor is consistent with the Act. Specifically, as mentioned above, the new order type will help Floor Brokers initiating orders on the Trading Floor. The various elements of the QOO Order are designed to aid Floor Brokers in their duties on the Trading Floor. For example, by having the QOO Order execute when it is processed by the Trading Host, the Exchange is providing an accurate timestamp of when the order was executed. Additionally, the QOO Order is designed to ensure that all orders submitted by Floor Brokers are systematized before they are announced to the trading crowd.<sup>259</sup> The Exchange believes that the features of the QOO Order are designed to promote just and equitable principles of trade, to remove impediments to and protect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The Exchange believes that the proposed rules governing order allocation<sup>260</sup> are reasonable and consistent with the Act. Specifically, the proposed rules relating to the allocation of orders align the Exchange's Rules with the rules of another options exchange with an open outcry trading floor.<sup>261</sup> The Exchange believes the proposed rule change is designed to protect investors and the public interest by providing clarity and detail with regard to the allocation process on the Trading Floor. Additionally, the Exchange believes the proposed procedures a Floor Broker must follow

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<sup>258</sup> See proposed Rule 7600.

<sup>259</sup> In order to execute a QOO Order from the Trading Floor, it must be sent from a Floor Broker's system to the BOG. This requires that the Floor Broker adequately systemized the QOO Order. The Exchange also notes that Floor Brokers will be subject to regulatory oversight by the Exchange to review whether Floor Brokers are properly systematizing orders.

<sup>260</sup> See proposed Rule 7600(d).

<sup>261</sup> See NYSE Arca Rules 6.47 and 6.75.

when allocating an order are designed to promote just and equitable principles of trade by ensuring that priority on the Exchange is enforced.

The Exchange believes that the book sweep size in proposed Rule 7600(h) is consistent with Section 6(b)(5) of the Act.<sup>262</sup> In particular, the book sweep size promotes just and equitable principles of trade, removes impediments to and perfects the mechanism of a free and open market and a national market system and, in general protects investors and the public interest by increasing the interaction of the Trading Floor with the BOX Book, which will be beneficial to all market participants. Specifically, the Exchange believes that the book sweep functionality will enhance execution efficiency and regulatory oversight on the Trading Floor by making certain that a Floor Broker's order will first trade with all available Public Customer interest on the BOX Book and any non-Public Customer interest ranked ahead of such Public Customer interest at the execution price. The Exchange believes that without the book sweep size, the Exchange Act's goal of creating an efficient market system will not be supported, as a Floor Broker may attempt to execute an order without first exhausting priority interest. Instead, the proposed book sweep size removes impediments to and perfects the mechanism of a free and open market and a national market system by providing an alternative that will increase the opportunity for orders on the Trading Floor to interact with interest on the BOX Book, which in turn has the potential to increase liquidity for all orders on the BOX Book. The Exchange notes that this approach is not entirely novel; as mentioned above, PHLX's FBMS contains a functionality that will help a Floor Broker clear PHLX's electronic book so a floor based order can execute.<sup>263</sup> Specifically, if a Floor Broker on PHLX enters a two-sided order through the FBMS, and there is interest on the PHLX electronic book at a price that would prevent the Floor Broker's order from executing, the FBMS will provide

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<sup>262</sup> 15 U.S.C. 78(f)(b)(5).

<sup>263</sup> See PHLX Rule 1063(e)(iv).

the Floor Broker with the quantity of contracts on the electronic book that have priority and need to be satisfied before the Floor Broker's order can execute at the agreed upon price.<sup>264</sup> If the Floor Broker wishes to still execute his order, he can cause a portion of the floor based order to trade against this priority interest on the electronic book, thereby clearing the interest and permitting the remainder of the Floor Broker's order to trade at the desired price. The PHLX FBMS functionality is optional, and a Floor Broker can decide not to trade against the electronic book and therefore not execute his two-sided order at the particular price. The Exchange believes that the Trading Floor book sweep size improves upon PHLX's FBMS functionality by either immediately executing or rejecting the order depending on the book sweep size provided and the level of priority interest on the BOX Book. The Exchange believes the immediate execute or reject feature will allow for more execution certainty and incentivize Floor Brokers on BOX to provide an adequate book sweep size if they want the order to be eligible for execution. The Exchange does not believe that the immediate execution or rejection will disadvantage Floor Brokers on BOX compared to PHLX because it will provide certainty to Floor Brokers. The Exchange believes that the proposed book sweep size will protect investors and the public interest generally by establishing more execution oversight. Specifically, the Exchange believes that the book sweep size will allow BOX to electronically link in a single audit trail the Floor Broker execution and any execution with interest on the BOX Book.

The Exchange believes that the proposal outlining the resolution of uncompleted trades<sup>265</sup> will provide clarity and direction for Floor Participants when a disagreement arises from an uncompleted Exchange options transaction that cannot be resolved by mutual agreement. The

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<sup>264</sup> See Securities Exchange Act Release No. 68960 (February 20, 2013), 78 FR 13132 (February 26, 2013) (SR- Phlx-2013-09) at 13134.

<sup>265</sup> See proposed Rule 8530.

Exchange believes this proposal is designed to protect investors and public interest by making the proposed resolution of uncompleted trades clear in the Exchange's rules. Further, the proposal is based on the rules of another exchange.<sup>266</sup>

### **Communications and Equipment**

The Exchange believes the proposed Rule involving communications and equipment on the Trading Floor<sup>267</sup> includes reasonable restrictions that are consistent with the requirements of the Act. Specifically, the proposed Rule will provide the Exchange with the ability to monitor equipment on the Trading Floor and therefore provide adequate oversight of the Trading Floor. Additionally, the proposal will allow the Exchange to limit use of a communication device when such device interferes with normal operation of the Exchange's own systems or facilities or with the Exchange's regulatory duties, is inconsistent with the public interest, the protection of investors or just and equitable principles of trade, or interferes with the obligations of a Participant to fulfill its duties under, or is used to facilitate any violation of the Act or rules thereunder, or Exchange rules. Additionally, the Exchange notes that the proposal is consistent with rules of other exchanges.<sup>268</sup>

### **Market Makers**

The Exchange believes that the proposed Rules applicable to Floor Market Makers<sup>269</sup> are reasonable and will foster cooperation and coordination with persons engaged in facilitating transactions in securities and will remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange also believes the proposed changes enhance the Exchange's ability to fairly and efficiently regulate its Floor Market Makers by utilizing

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<sup>266</sup> See PHLX Rule 1039.

<sup>267</sup> See proposed Rule 7660.

<sup>268</sup> See PHLX Rule 606 and CBOE Rule 6.23.

<sup>269</sup> See proposed Rules 8500 and 8510.

a consistent rule set of obligations and restrictions. The Exchange believes the proposed changes reflect similar Market Maker obligations and restrictions already in place on BOX's electronic exchange.<sup>270</sup> The proposed changes simply align the existent obligations and restrictions of Market Makers with the use of a trading floor with certain exceptions. Specifically, instead of providing \$5 bid/ask differentials as provided in Rule 8040(a)(7), the Exchange is proposing stricter bid/ask differentials. The Exchange believes that the proposed bid/ask differentials for Floor Market Makers are reasonable and will protect investors and the public interest by providing the opportunity for better execution prices on the Trading Floor when a Floor Market Maker is involved. Additionally, the Exchange believes that the proposed changes fall in line with similar trading floor rules at other exchanges.<sup>271</sup>

The Exchange believes that the proposed continuous open outcry quoting requirement for Floor Market Makers in proposed Rule 8510(c)(2) is consistent with Section 6(b)(5) of the Act. In particular, the continuous quoting requirement is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect the investors and the public interest. Specifically, the Exchange believes that the continuous open outcry quoting requirement for Market Makers will benefit investors, the national market system, Participants, and the Exchange by ensuring that Floor Market Makers provide liquidity to the Trading Floor to the benefit of market participants. Lastly, the Exchange believes that the proposed rule is non-discriminatory as it will apply to all Floor Market Makers.

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<sup>270</sup> See BOX Rules 8000, 8030, 8040, and 8050.

<sup>271</sup> See PHLX Rules 1020 and 1014.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that other exchanges currently offer open-outcry floors. The Exchange believes that the proposed rules will allow the Exchange to compete with these other exchanges. Additionally, while the proposed rule changes would permit BOX to operate a Trading Floor, the Exchange is not requiring that Participants register and have a presence on the Trading Floor. Therefore, the proposed rule changes do not impose a burden on intra-market competition.

Overall, the proposal is pro-competitive for several reasons. In particular, by helping Floor Brokers at the Exchange compete for executions against floor brokers at other exchanges, it also helps them to be more efficient and provide a better audit trail of their executions on the Trading Floor. This, in turn, helps the Exchange compete against other exchanges in a deeply competitive landscape. The Exchange believes its proposed unique features for open-outcry trading will provide value to Floor Participants, which in turn, will help the Exchange compete.<sup>272</sup>

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. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 2, 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

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<sup>272</sup> Unique features include proposed Rules 7600(h) and 100(b)(5).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2016-48 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-2016-48. 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-2016-48 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.<sup>273</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>273</sup> 17 CFR 200.30-3(a)(12).