

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82113; File No. SR-BOX-2017-35)

November 17, 2017

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 7300

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> notice is hereby given that on November 8, 2017, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

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

The Exchange proposes to amend Rule 7300. 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://boxoptions.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.

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

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

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Rule 7300. Specifically, the Exchange is proposing to amend how the quoting requirements for Preferred Market Makers<sup>3</sup> are calculated. A Preferred Market Maker must maintain a continuous two-sided market, pursuant to Rule 8050(c)(1), throughout the trading day, in 99% of the non-adjusted option series of each class for which it accepts Preferred Orders,<sup>4</sup> for 90% of the time the Exchange is open for trading in each such option class.<sup>5</sup> Compliance with the Preferred Market Maker quoting requirement is determined on a monthly basis; however, determining compliance with this requirement on a monthly basis does not relieve a Preferred Market Maker from meeting this quoting requirement on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against a Preferred Market Maker for failing to meet this requirement each trading day.

Currently, the Exchange applies the quoting requirements on a class-by-class basis. The Exchange is now proposing that compliance with the quoting requirements apply to all of a Preferred Market Maker's classes for which it receives Preferred Orders collectively. This

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<sup>3</sup> The term "Preferred Market Maker" means a Market Maker designated as such by a Participant with respect to an order submitted by such Participant to BOX. See Rule 7300(a)(2).

<sup>4</sup> The term "Preferred Order" means any order, whether on a single option instrument or on a Complex Order Strategy, for which a Preferred Market Maker is designated with respect to such order, upon submission of such order to BOX. See Rule 7300(a)(1).

<sup>5</sup> For purposes of this requirement, a Preferred Market Maker is not required to quote in intra-day add-on series or series that have a time to expiration of nine months or more in the classes for which it receives Preferred Orders and a Market Maker may still be a Preferred Market Maker in any such series if the Market Maker otherwise complies with the requirements.

change is being proposed as a competitive response to the rules of another exchange.<sup>6</sup> The Exchange is not proposing any change to the actual quoting requirements, only to how the requirements are applied to Preferred Market Makers.

The Exchange believes that applying the continuous electronic quoting requirements for Preferred Market Makers collectively across all classes is a fair and efficient way for the Exchange and market participants to evaluate compliance with the continuous electronic quoting obligation. Applying the continuous electronic quoting requirements collectively across all classes rather than on a class-by-class basis is beneficial to Preferred Market Makers by providing some flexibility to choose which series in their appointed classes they will continuously electronically quote – increasing the continuous electronic quoting in the series of one class while allowing for a decrease in the continuous electronic quoting in the series of another class. This flexibility, however, does not diminish the Preferred Market Maker’s obligation to continuously electronically quote in a significant percentage of series for a significant part of the trading day. This flexibility is especially important for classes that have relatively few series and may prevent a Preferred Market Maker from reaching the continuous electronic quoting obligation when failing to quote 90% of the trading day in more than one series in an appointed class. The Exchange believes that the proposed rule change will not diminish, and may in fact increase, market making activity on the Exchange, by applying continuous electronic quoting obligations in a reasonable manner, which is already in place on other options exchanges.<sup>7</sup>

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<sup>6</sup> See CBOE Rule 8.13(d).

<sup>7</sup> See e.g., Nasdaq ISE, LLC (“ISE”) Rule 713, Supplementary Material .03 and Rule 804(e); and NYSE Arca, Inc. (“NYSE Arca”) Options Rule 6.88-O.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>8</sup> in general, and Section 6(b)(5) of the Act,<sup>9</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 foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. In particular, the proposed change will more closely align how the Exchange applies the quoting requirements for Preferred Market Makers with another options exchange.<sup>10</sup> The Exchange believes the proposed change will provide increased flexibility to Preferred Market Makers in their ability to provide liquidity, which in turn, will benefit the public.

With respect to the application of continuous electronic quoting obligations collectively, the Exchange believes that providing Preferred Market Makers with flexibility to satisfy their continuous electronic quoting obligations collectively across their appointed classes will not diminish Preferred Market Makers’ obligations to provide continuous electronic quotes in a significant percentage of series for a significant part of the trading day. BOX believes that the balance between the obligations imposed on and benefits provided to Preferred Market Makers under the rules is appropriate. The proposed rule change does not diminish any of the obligations imposed on Preferred Market Makers. Rather, it merely changes how the continuous electronic quoting obligation is applied. The Exchange notes that Preferred Market Makers are subject to

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> See supra note 7.

many obligations under the rules, including the obligation to satisfy bid/ask differential requirements, to meet minimum quote size requirements, and to contribute to the maintenance of a fair and orderly market in their appointed classes, which the Exchange believes will ensure continued liquidity on the Exchange. BOX believes that its proposed rule change is consistent with the Act in that providing flexibility does not detract from the overall market making obligations of Preferred Market Makers. The proposed rule change better supports a Preferred Market Maker's continuous obligation to engage in dealings for its own account. Accordingly, any benefits of the proposed rule change to provide flexibility to Preferred Market Makers are offset by the continued responsibilities to provide significant liquidity to the market to the benefit of all market participants.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. As discussed above, the proposed change simply aligns the rules of the Exchange with those of other options exchanges.<sup>11</sup> Additionally, the proposed change is only amending how the quoting obligations are calculated; not the quoting obligations themselves.

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

The Exchange has neither solicited nor received comments on the proposed rule change.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the

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<sup>11</sup> See supra note 7.

Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.<sup>13</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2017-35 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.

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

All submissions should refer to File Number SR-BOX-2017-35. 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, on official business days between the hours of 10:00 a.m. and 3:00 p.m., located at 100 F Street, NE, Washington, DC 20549. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-BOX-2017-35 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>14</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).