

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82690; File No. SR-BOX-2018-06)

February 12, 2018

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change to Adopt IM-8040-3 to Rule 8040

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 5, 2018, 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 change from interested persons.

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

The Exchange proposes to adopt IM-8040-3 to Rule 8040. 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.

¹ 15 U.S.C. 78s(b)(1).

² 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 adopt IM-8040-3 to Rule 8040. Specifically, the Exchange is proposing that Directed Orders³ may be submitted with an Auction Only designation. Further, the Exchange is proposing that a Directed Order with an Auction Only designation will be cancelled if it is not entered into the PIP by the Executing Participant ("EP")⁴.

Pursuant to Rule 8040(d), upon receipt of a Directed Order from an Order Flow Provider ("OFP")⁵ an EP must either submit the Directed Order to the PIP process or send the Directed Order to the BOX Book. Further, a Directed Order is sent to the BOX Book if (i) the EP has not taken action within one second of receipt of a Directed Order,⁶ (ii) the Market Maker that the order is directed to has not systematically indicated that it is an EP,⁷ (iii) a Guaranteed Directed Order⁸ has been automatically generated and is pending, then upon receipt of a subsequent

³ The term "Directed Order" means any Customer Order to buy or sell contracts on a single option series which has been directed to a particular Market Maker by an Order Flow Provider. See Rule 100(a)(19). Unlike all other orders submitted to the BOX Trading Host, Directed Orders are not anonymous. The Options Participant identification number ("Participant ID") of the OFP sending the Directed Order will be given to the Market Maker recipient. See Rule 8040(d).

⁴ An Executing Participant ("EP") is a Market Maker who desires to accept Directed Orders.

⁵ 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)(46).

⁶ See Rule 8040(d)(4).

⁷ See Rule 8040(d)(1).

⁸ If a Directed Order is executable against the current NBBO and the EP is also quoting at such NBBO on the opposite side of the Directed Order, then the Trading Host will immediately upon receipt of the Directed Order take down the EP's quote and shall guarantee the EP's execution of the Directed Order for at least the price and size of the EP's quote. This guarantee shall be called a Guaranteed Directed Order ("GDO"). The

Directed Order for the same EP for the same series and side of the market,⁹ or (iv) a Directed Order is modified once the Trading Host has established a GDO.¹⁰ Therefore, under the proposal, if the Directed Order with an Auction Only designation is to be sent to the BOX Book, regardless of the reason, it will instead be cancelled back to the OFP that submitted the Directed Order.¹¹ The Auction Only designation is automatically applied by the system and the designation is not disclosed to the EP. Therefore, the Exchange does not believe the proposed designation will alter the behavior of the EP or provide any advantage to the EP.¹²

The Exchange notes that the proposed Auction Only designation is an optional designation that the submitting OFP may decide to utilize. The Exchange believes the proposed change will provide increased flexibility to OFPs when executing orders on the Exchange as well as provide execution certainty because the Directed Order will either execute via the PIP or be cancelled back. The Exchange further believes that the proposed designation will make the Directed Order process more attractive to Participants that are searching for liquidity¹³ and the potential for price improvement.

The Exchange will provide at least two weeks' notice to Participants via Circular prior to

EP's quote shall not be reestablished until the Directed Order has been processed pursuant to Rule 8040(d). See Rule 8040(d)(2)(i).

⁹ See Rule 8040(d)(2)(ii).

¹⁰ See Rule 8040(d)(5).

¹¹ Interest on the BOX Book may still interact with a Directed Order that has the Auction Only designation via the PIP allocation. See Rule 7150(g).

¹² The Exchange notes that there currently are restrictions on an EP's behavior that will continue to apply. Specifically, an EP shall not submit to BOX a contra order to the Directed Order for his proprietary account during the one second following his submission of the Directed Order to BOX. See Rule 8040(d)(6)(i).

¹³ Pursuant to Rule 7150(f), a Customer Order that is submitted to the PIP must be submitted with a matching contra side order equal to the full size of the Customer Order, as such, the order is guaranteed to be fully executed.

the launch of the proposed change. The Exchange anticipates launching in the second quarter of 2018.

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”),¹⁴ in general, and Section 6(b)(5) of the Act,¹⁵ 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 Exchange believes the proposed rule change is designed to remove impediments to and perfect the mechanisms of a free and open market and a national market system by providing an additional tool and greater flexibility for Participants executing orders on the Exchange as well as providing execution certainty. The Exchange also believes the proposal will provide opportunity for Participants to achieve better handling of orders by providing Participants with this additional functionality. As a result, adopting this proposal to allow Directed Orders to be submitted with the Auction Only designation will promote just and equitable principles of trade and foster cooperation and coordination with persons engaged in facilitating transactions in securities.

As mentioned above, the EP is not notified that a Directed Order was submitted with the Auction Only designation and therefore there is no unfair advantage bestowed on the EP as a result of the proposal. As such, the proposal is designed to prevent fraudulent and manipulative

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

acts and practices.

The Exchange believes that the proposal removes impediments to and perfects the mechanism of a free and open market by enhancing the Exchange's market by providing market participants the ability to send Directed Orders with an Auction Only designation to the Exchange. As such, BOX believes that the proposed change will increase flexibility to OFPs when executing orders on the Exchange.

The Exchange believes that the proposed Auction Only designation will provide OFPs with a valuable tool when executing orders on the Exchange. As such, the Exchange believes that the proposed change removes impediments to and perfects the mechanism of a free and open market because the proposed change further promotes competition among options exchanges. The Exchange believes that the proposed additional functionality for executing Directed Orders will protect investors and the public interest by providing OFPs with greater flexibility and opportunity for their orders on the Exchange. The Exchange believes this increased opportunity will lead to enhanced order flow to the Exchange, which in turn will benefit and protect investors and the public interest through the potential for greater volume of orders and executions on BOX. The Exchange believes that the proposed rule change is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers because the proposed additional tool for Directed Orders is open to all OFPs and is completely voluntary. As such, the Exchange believes the proposed change is consistent with the Act.

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 Act. On the contrary, the Exchange believes that the proposed feature to Directed Orders will enhance competition in the

U.S. option markets by providing enhanced functionality thereby making the Exchange more competitive with other exchanges. Additionally, respecting intra-market competition, the additional feature for Directed Orders will be available to all OFPs that submit Directed Orders to the Exchange.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be 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. Please include File Number SR-BOX-2018-06 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-BOX-2018-06. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. 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-2018-06, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

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Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).