

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82845; File No. SR-BOX-2018-08)

March 9, 2018

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 7600(c) to State that the Qualified Open Outcry (“QOO”) Order is Subject to the Trade-through Exceptions Outlined in Rule 15010(b)

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 February 27, 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 Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 7600(c) to state that the Qualified Open Outcry (“QOO”) Order is subject to the trade-through exceptions outlined in Rule 15010(b). 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

---

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

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

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 purpose of the proposed rule change is to amend Rule 7600(c) to state that the Qualified Open Outcry (“QOO”) Order is subject to the trade-through exceptions in Rule 15010(b).<sup>3</sup>

Currently, BOX Participants must comply with Exchange rules and the terms of the Options Order Protection and Locked/Crossed Market Plan (“Linkage Plan”) by honoring any better-priced Protected Quotes.<sup>4</sup> The Linkage Plan, as codified in BOX Rule 15000 Series, provides that Participants shall not effect trade-throughs of a Protected Bid or Offer (collectively, a “Protected Quote”), except pursuant to an applicable exceptions that are outlined in Sections(b)(1) through (10) of Rule 15010. A Protected Quote is defined as a bid or offer in an options series that (1) is disseminated pursuant to the OPRA Plan and (2) is the best bid or offer, respectively, displayed by an eligible exchange.

---

<sup>3</sup> The Exchange notes that, in practice, QOO Orders will rely on the exceptions detailed in Rule 15010(b)(4) and (7). Under BOX Rule 15010(b)(4), an exception to trade-through liability exists if the transaction that constitutes the Trade-Through is the execution of an order identified as an Intermarket Sweep Order (“ISO”), or the transaction that constitutes the Trade-Through is effected by BOX while simultaneously routing an ISO to execute against the full displayed size of any better-priced Protected Bid or Offer. Under BOX Rule 15010(b)(7), another exception to Trade-Through liability exists if the transaction that constituted the Trade-Through was effected as a portion of a Complex Trade. This may happen if the Participant has a Stock Option Complex Order. Because BOX does not trade equities, the Participant would direct that portion of the order to another exchange and execute the option portion on BOX.

<sup>4</sup> See Securities Exchange Act Release No. 54551 (September 29, 2006), 71 FR 59148 (October 6, 2006) (Order Approving NMS Linkage Plan).

The Exchange notes that it recently adopted rules for an open outcry Trading Floor.<sup>5</sup> These rules included a statement in Rule 7600(c) that both sides of the QOO Order must execute at a price equal to or better than the NBBO. The Exchange now proposes to add language to explain that this statement does not apply if the execution of the QOO Order is using one of the exceptions outlined in Rule 15010(b). Specifically, the Exchange proposes to state that “when a Floor Broker executes the QOO Order, the execution price must be equal to or better than the NBBO, subject to the exceptions in Rule 15010(b).”

Specifically, pursuant to Rule 15010(b)(4), a QOO Order with an ISO designation will be submitted to the Trading Host in the same manner as any other QOO Order.<sup>6</sup> Without an ISO designation, a QOO Order priced worse than the NBBO would be rejected. The Exchange notes that the Floor Broker is the individual who marks the QOO Order with an ISO designation and is responsible for taking out all better-priced Protected Bids at away exchanges.<sup>7</sup>

Upon identifying the QOO Order as an ISO, the system will execute the order, regardless of the NBBO.<sup>8</sup> A Floor Broker must ensure that the routing of any outbound ISOs in connection with an execution of a QOO Order on the Trading Floor occur as contemporaneously as possible.

For example, assume the following at the time the QOO Order is submitted to the BOX trading host:

---

<sup>5</sup> See Securities Exchange Act Release No. 81292 (August 2, 2017), 82 FR 37144 (August 8, 2017)(Order Approving SR-BOX-2016-48 as modified by Amendment Nos. 1 and 2).

<sup>6</sup> The Exchange notes that the QOO Order with the ISO designation will be treated in the same manner as any other QOO Order on the Trading Floor. The ISO designation simply identifies that the QOO Order has an ISO designation and must no longer execute at a price equal to or better than the NBBO.

<sup>7</sup> The Exchange notes that this is identical to the process for electronic orders.

<sup>8</sup> The Exchange notes that the ISO designation does not allow the QOO Order to ignore interest on the BOX Book.

NBBO: .97-1.00  
Cboe: .97-1.00<sup>9</sup>  
Phlx: .97-1.02  
Nasdaq ISE: .97-1.03  
All other Exchanges: .95-1.05

A QOO Order with an ISO designation is submitted to the Trading Host to sell 100 at .96. The QOO Order will execute regardless of the NBBO. Contemporaneously, the Floor Broker must take out all better-priced Protected Bids. The Floor Broker would send the following orders to each exchange displaying a better-priced Protected Quote, for the full size of the Protected Quote, contemporaneous with the execution of the QOO Order on BOX:

Sell 10@ .97 Cboe  
Sell10@ .97 Phlx  
Sell 10@ .97 Nasdaq ISE

The Exchange notes that other options exchanges with open outcry trading floors have made this distinction in the past in their respective Regulatory Circulars.<sup>10</sup> The Exchange also notes that Arca and Cboe do not reference these exceptions in their trading floor rules. Further, the Exchange believes that referencing these exceptions in the BOX Trading Floor rules will provide clarity and transparency to BOX Participants.

---

<sup>9</sup> Assume the away markets are all bidding for 10 contracts.

<sup>10</sup> See NYSE Arca (“Arca”) Options RB-16-04 available at <https://www.nyse.com/publicdocs/nyse/markets/arca-options/rule-interpretations/2016/NYSE%20Arca%20Options%20RB%2016-04.pdf>, see also Chicago Board Options Exchange, Incorporated (“Cboe”) Regulatory Circular RG09-117 available at <https://www.cboe.org/publish/regcir/rg09-117.pdf>. The Exchange notes that it recently issued a Regulatory Circular reminding BOX Participants of the rules that must be followed when trading in open out-cry on the BOX Trading Floor. See BOX Regulatory Circular RC-2017-17 available at <https://boxoptions.com/assets/RC-2017-17-Order-Protection-Rules-in-Open-Outcry-Trading.pdf>.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>11</sup> in general, and Section 6(b)(5) of the Act,<sup>12</sup> in particular, in that the proposed change 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 protect investors and the public interest.

The Exchange believes that stating that both sides of the QOO Order must execute at a price equal to or better than the NBBO subject to the exceptions in Rule 15010(b) is reasonable because it will provide Participants with more clarity and transparency with regard to the Trading Floor rules; specifically, rules surrounding QOO Orders on the Trading Floor and their relationship with the Linkage Plan. Further, the Exchange believes that the proposed change is appropriate as other exchanges have made this clarification in their respective circulars.

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

As discussed above, the Exchange notes that the proposed rule change is simply amending Rule 7600(c) to state that the exceptions detailed in Rule 15010(b) apply to Trading Floor transactions. As mentioned above, other options exchanges with open out-cry trading floors have issued Regulatory Circulars addressing the Linkage Plan and how it relates to their respective trading floor rules. As such, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

---

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

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 foregoing 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 Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>13</sup> and Rule 19b-4(f)(6) thereunder.<sup>14</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>15</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>16</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange notes that waiver of the operative delay would allow it to implement the proposal immediately and eliminate the potential for confusion with regard to QOO Orders on the Trading Floor and their relationship to the Linkage Plan. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the proposed rule change is designed to provide clarity and transparency to BOX

---

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission 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. The Exchange has satisfied this requirement.

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

<sup>16</sup> 17 CFR 240.19b-4(f)(6)(iii).

Participants with regard to QOO Orders on the Trading Floor and their relationship to the Linkage Plan. The Commission also notes that the proposed rule change is consistent with the practices of other options exchanges, which are set forth in regulatory circulars.<sup>17</sup> Accordingly, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>18</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-2018-08 on the subject line.

---

<sup>17</sup> See supra note 10.

<sup>18</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2018-08. 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 the 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-2018-08 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.<sup>19</sup>

Eduardo A. Aleman  
Assistant Secretary

---

<sup>19</sup> 17 CFR 200.30-3(a)(12).