

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82959; File No. SR-BOX-2018-06)

March 28, 2018

Self-Regulatory Organizations; BOX Options Exchange LLC; Order Approving a Proposed Rule Change to Adopt IM-8040-3 to Exchange Rule 8040 to Permit Directed Orders to Be Submitted with an Auction Only Designation

I. Introduction

On February 5, 2018, BOX Options Exchange LLC (“BOX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to adopt IM-8040-3 to Exchange Rule 8040 to permit Directed Orders³ to be submitted with an Auction Only designation. The proposed rule change was published for comment in the Federal Register on February 16, 2018.⁴ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to adopt IM-8040-3 to Exchange Rule 8040 to allow Options Participants⁵ to apply a new optional Auction Only designation to Directed Orders. A Directed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The term “Directed Order” means any Customer Order to buy or sell contracts on a single option series that has been directed to a particular market maker by an Order Flow Provider (“OFP”). See Exchange Rule 100(a)(19).

⁴ See Securities Exchange Act Release No. 82690 (February 12, 2018), 83 FR 7084 (“Notice”).

⁵ The term “Options Participant” or “Participant” means a firm, or organization that is registered with the Exchange pursuant to the BOX Rule 2000 Series for purposes of participating in options trading on BOX as an OFP or Market Maker. See Exchange Rule 100(a)(41).

Order with an Auction Only designation will be cancelled if it is not entered into the Price Improvement Period (“PIP”)⁶ by the Executing Participant (“EP”).⁷

Market Makers⁸ may receive and handle Directed Orders on an agency basis, in accordance with the procedures set forth in Exchange Rule 8040(d). Upon receipt of a Directed Order from an OFP,⁹ an EP must either submit the Directed Order to the PIP, or send the Directed Order to the BOX Book.¹⁰ In addition, the BOX Trading Host will send the Directed Order to the BOX Book: (i) if the EP has not taken action within one second of receipt of a Directed Order;¹¹ (ii) if the Market Maker that the order is directed to has not systematically indicated that it is an EP;¹² (iii) upon receipt of a subsequent Directed Order for the same EP for the same series and side of the market if a Guaranteed Directed Order (“GDO”)¹³ has been

⁶ See Exchange Rule 7150.

⁷ An Executing Participant (“EP”) is a market maker that desires to accept Directed Orders. See Notice, supra note 4, at 7085 n.4.

⁸ The term “Market Maker” means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in the BOX Rule 8000 Series. All Market Makers are designated as specialists on the Exchange for all purposes under the Act or Rules thereunder. See Exchange Rule 100(a)(31).

⁹ An OFP is an Options Participant representing as agent Customer Orders on the Exchange or a non-Market Maker Participant conducting proprietary trading. See Exchange Rule 100(a)(46).

¹⁰ See Exchange Rule 8040(d)(3).

¹¹ See Exchange Rule 8040(d)(4).

¹² See Exchange Rule 8040(d)(1).

¹³ If a Directed Order is executable against the current national best bid or offer (“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 guarantee the EP’s execution of the Directed Order for at least the price and size of the EP’s quote. This guarantee is the GDO, and the EP’s quote will not be reestablished until the Directed Order has been processed pursuant to Exchange Rule 8040(d). See Exchange Rule 8040(d)(2)(i).

automatically generated and is pending;¹⁴ or (iv) if a Directed Order is modified once the BOX Trading Host has established a GDO.¹⁵

As noted above, BOX proposes that if a Directed Order with an Auction Only designation would be sent to the BOX Book for any reason, it will instead be cancelled back to the OFP that submitted the Directed Order.¹⁶ The Exchange notes that, under the proposal, the Auction Only designation will be automatically applied by the system, and the designation will not be disclosed to the EP.¹⁷

The Exchange represents that it will provide at least two weeks' notice to Participants via Circular prior to the launch of the proposed change, which the Exchange anticipates will be during the second quarter of 2018.¹⁸

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹⁹ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁰ which requires, among other things, that the rules of

¹⁴ See Exchange Rule 8040(d)(2)(ii).

¹⁵ See Exchange Rule 8040(d)(5).

¹⁶ The Exchange notes that interest on the BOX Book may still interact with a Directed Order that has an Auction Only designation via the PIP allocation. See Exchange Rule 7150(g).

¹⁷ The Exchange notes that existing restrictions on an EP's behavior will continue to apply. Specifically, an EP shall not submit to the Exchange a contra order to the Directed Order for its proprietary account during the one second following submission of the Directed Order to the Exchange. See Exchange Rule 8040(d)(6)(i).

¹⁸ See Notice, supra note 4, at 7085.

¹⁹ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁰ 15 U.S.C. 78f(b)(5).

a national securities exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating 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, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The Commission also finds that the proposed rule change is consistent with Section 6(b)(8) of the Act,²¹ which requires that the rules of an exchange not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Commission believes that the Auction Only designation will provide OFPs with greater control over how their Directed Orders are handled by the EP, as OFPs will have certainty that their Directed Orders with the Auction Only designation will either be executed in the PIP or cancelled.²² In addition, should the Directed Order be entered into the PIP, the Directed Order will receive the opportunity for price improvement.²³ Moreover, the Commission notes that an EP will not be notified whether a Directed Order was submitted with the Auction Only designation,²⁴ and current restrictions on an EP's behavior with respect to Directed Orders will continue to apply.²⁵ Accordingly, the Commission believes that the Exchange's proposal is consistent with the Act.

²¹ 15 U.S.C. 78f(b)(8).

²² The Exchange notes that, pursuant to Exchange 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 and as such, the order is guaranteed to be fully executed. See Notice, supra note 4, at 7085 n.13.

²³ See Exchange Rule 7150.

²⁴ See proposed IM-8040-3 to Exchange Rule 8040.

²⁵ See supra note 17.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁶ that the proposed rule change (SR-BOX-2018-06) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Jill M. Peterson
Assistant Secretary

²⁶ 15 U.S.C. 78s(b)(2).

²⁷ 17 CFR 200.30-3(a)(12).