

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84391; File No. SR-BOX-2018-34)

October 10, 2018

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule on the BOX Options Market LLC (“BOX”) Facility to Adopt a New Rebate for Certain Manual Transactions Initiated from the Trading Floor

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 September 27, 2018, BOX Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,³ and Rule 19b-4(f)(2) thereunder,⁴ which renders the proposal effective upon filing with the Commission. 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 is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend the Fee Schedule to amend the Fee Schedule on the BOX Options Market LLC (“BOX”) facility. While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on October 1, 2018.

The text of the proposed rule change is available from the principal office of the Exchange, at the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

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 Exchange 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 Exchange 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 proposes to amend the Fee Schedule for trading on BOX to adopt a new rebate for manual transactions initiated from the Trading Floor. Specifically, the Exchange proposes that on each trading day, Floor Brokers will be eligible to receive a \$500 rebate for presenting certain Strategy QOO Orders on the Trading Floor.⁵ The rebate will be applied once the current \$1,000 Fee Cap for all reversal, conversion, jelly roll, and box spread strategies⁶ is

⁵ Eligibility to receive the \$500 rebate relies on the Floor Broker's customer reaching the \$1,000 Strategy Order Fee Cap each trading day.

⁶ A "reversal strategy" is established by combining a short security position with a short put and a long call position that shares the same strike and expiration. A "conversion strategy" is established by combining a long position in the underlying security with a long put and a short call position that shares the same strike and expiration. A "jelly roll strategy" is created by entering into two separate positions simultaneously. One position involves buying a put and selling a call with the same strike price and expiration. The second position involves selling a put and buying a call, with the same strike price, but with a different expiration from the first position. A "box spread strategy" is a strategy that synthesizes long and short stock positions to create a profit. Specifically, a long call and short put at one strike is combined with a short call and long put at a different strike to create synthetic long and synthetic short stock positions, respectively.

met.⁷

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act, in general, and Section 6(b)(4) and 6(b)(5) of the Act,⁸ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among BOX Participants and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Exchange believes that the proposed Strategy QOO Order Rebate is reasonable, equitable and not unfairly discriminatory. The Exchange believes the proposed rebate is reasonable when compared to rebates assessed at another options exchange.⁹ Further, the

⁷ The \$1,000 Fee Cap is applied to customer orders sent to a Floor Broker on the BOX Trading Floor. For example, when Customer A sends certain Strategy QOO Orders to Floor Broker 1 on the Trading Floor, Customer A's fees for these orders will be capped at \$1,000 per day. If Customer A reaches the \$1,000 Fee Cap, Floor Broker 1, who entered these orders on behalf of Customer A into the BOX system, will receive the \$500 rebate. Customer B may also send certain Strategy QOO Orders to Floor Broker 1 for execution on the BOX Trading Floor. Customer B's fees for these orders will also be capped at \$1,000 per day and Floor Broker 1, who entered these orders, will receive the \$500 rebate if Customer B reaches the \$1,000 daily Fee Cap.

⁸ 15 U.S.C. 78f(b)(4) and (5).

⁹ See Cboe Exchange Inc. ("Cboe") Fee Schedule Footnote 25. At Cboe, Floor Brokers that execute an average of 15,000 customer and/or professional customer and voluntary professional open-outcry contracts per day over the course of a calendar month in certain underlying symbols will receive a rebate of \$9,000 on the Floor Broker's Trading Permit Fees. The Exchange believes that the proposed rebate is similar as Floor Brokers on the BOX Trading Floor may only receive the proposed \$500 rebate once its customer sends enough Strategy QOO volume to reach the \$1,000 Fee Cap. For example, if Floor Broker 1 executes 4,000 Strategy QOO Order contracts per day for Customer A discussed above, Customer A will meet the \$1,000 Fee Cap and Floor Broker 1 will receive the \$500 rebate. If instead, Floor Broker 1 only executes 2,000 Strategy QOO Order contracts on behalf of Customer A, Customer A will not reach the \$1,000 Fee Cap and Floor Broker 1 will not receive the \$500 rebate. In other words, the rebate ultimately relies on Strategy QOO order volume submitted by Floor Brokers on the Trading Floor much like the rebate at Cboe discussed above. The Exchange notes that the proposed rebate will go directly to the Floor Broker and not offset their Floor Broker fees like the rebate at Cboe. The

Exchange believes that offering the proposed rebate will allow Floor Brokers to price their services at a level that would enable them to attract this Strategy QOO order flow to the BOX Trading Floor. As such, the Exchange believes that the proposed rebate is reasonable.

The Exchange believes that the proposed rebate is equitable and not unfairly discriminatory as the rebate is available to all Floor Brokers. Further, the Exchange believes that applying the proposed rebate to Floor Brokers and not to Floor Market Makers is equitable and not unfairly discriminatory as Floor Market Makers only represent their own interest on the Trading Floor and therefore do not need a similar incentive. The Exchange believes that applying the rebate to Floor Brokers and not to the Floor Broker's customers is equitable and not unfairly discriminatory.¹⁰ As discussed herein, Floor Brokers serve an important function in facilitating the execution of orders via open outcry for customers who do not have their own technology, systems and personnel to participate on the BOX Trading Floor. As such, the Exchange believes that offering the proposed rebate will allow Floor Brokers to price their services at a level that would enable them to attract Strategy QOO order flow from participants who would otherwise utilize other front-end order entry mechanisms offered by the Exchange's competitors instead of incurring the cost in time and resources to install and develop their own internal systems to deliver Strategy QOO orders directly to the Exchange's system.

Exchange believes that this difference is minor, as the Floor Broker is receiving a rebate based on customer volume in both circumstances.

¹⁰ The Exchange notes that it currently offers a rebate to Floor Brokers who present QOO Orders on the BOX Trading Floor on behalf of their customers. The Exchange believes that like the QOO Order Rebate, the proposed rebate is appropriate as the Floor Broker is offering a service to its customers in facilitating the execution of orders via open outcry. The Exchange notes that executions subject to the Strategy QOO Order Fee Cap, and therefore the proposed Strategy QOO Order Floor Broker rebate, are not eligible for the QOO Order Rebate.

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 not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its rebates to remain competitive with other exchanges. Because competitors are free to modify their own rebates in response, the Exchange believes that the degree to which rebate changes in this market may impose any burden on competition is limited. For the reasons discussed above, the Exchange believes that the proposed changes do not impose an undue burden on competition.

Further, the Exchange does not believe that offering a rebate to Floor Brokers will impose an undue burden on intra-market competition because all Floor Brokers are eligible to transact Strategy QOO Orders and receive a rebate. Further, as discussed above, the Exchange believes that applying the proposed rebate to Floor Brokers and not to Floor Market Makers is appropriate as Floor Market Makers only represent their own interest on the Trading Floor and therefore do not need a similar incentive. Lastly, the Exchange believes that the rebate will promote competition by allowing Floor Brokers to competitively price their services and for the Exchange to remain competitive with other exchanges with trading floors.

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

No written comments were either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the

Exchange Act¹¹ and Rule 19b-4(f)(2) thereunder,¹² because it establishes or changes a due, or fee.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend the rule change if it appears to the Commission that the action is necessary or appropriate in the public interest, for the protection of investors, or would otherwise further the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule 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. Please include File Number SR-BOX-2018-34 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-2018-34. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

¹¹ 15 U.S.C. 78s(b)(3)(A)(ii).

¹² 17 CFR 240.19b-4(f)(2).

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. 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-2018-34, 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.¹³

Eduardo A. Aleman
Assistant Secretary

¹³ 17 CFR 200.30-3(a)(12).