

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-85052; File No. SR-BOX-2019-01)

February 5, 2019

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Clarify That Multi-leg Qualified Open Outcry Orders are Permitted on the BOX Trading Floor

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 January 30, 2019, BOX 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 make multi-leg QOO Orders available on the BOX Trading Floor. 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

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<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

In August 2017, the Securities and Exchange Commission (“SEC” or “Commission”) approved the Exchange’s proposal to adopt rules for an open outcry trading floor.<sup>3</sup> Among the approved rules was BOX Rule 7600(a)(4) which stated that “QOO Orders may be multi-leg orders up to four (4) legs, including Complex Orders as defined in Rule 7240(a)(5) and tied to hedge orders as defined in IM-7600-2.”<sup>4</sup> The Exchange notes that while this rule currently allows for multi-leg QOO Orders that do not meet the definition of a Complex Order<sup>5</sup> to trade on the BOX Trading Floor, such multi-leg QOO Orders are not currently traded. Due to technology enhancements, the Exchange now proposes to make these multi-leg QOO Orders available on the

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<sup>3</sup> See Securities Exchange Act Release No. 81292 (August 2, 2017), 82 FR 37144 (August 8, 2017)(Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, To Adopt Rules for an Open-Outcry Trading Floor).

<sup>4</sup> The Exchange notes it recently amended this rule to provide the ability for the Exchange to determine the applicable number of legs for a Complex QOO Order. See Securities Exchange Act Release No. 84340 (October 2, 2018), 83 FR 50718 (October 9, 2018)(Notice of Filing and Immediate Effectiveness SR-BOX-2018-30). In this filing, the Exchange stated that only orders that meet the definition of a Complex Order are allowed to trade on the BOX Trading Floor. The Exchange now proposes, due to technology enhancements, to make such multi-leg QOO Orders that do not meet the definition of a Complex Order available on the BOX Trading Floor. Upon approval, multi-leg QOO orders that are entered into the system will be accepted and executed pursuant to Rule 7600(c). The Exchange notes that Complex Order priority provisions do not apply to multi-leg QOO Orders. Multi-leg QOO Orders are treated like single-leg QOO Orders with respect to execution and priority.

<sup>5</sup> The term “Complex Order” means any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy. See BOX Rule 7240(a)(7).

BOX Trading Floor.<sup>6</sup> As such, the Exchange proposes to add rule text that states that the priority rules for Complex Orders contained in Rule 7240(b)(2) and (3) do not apply to multi-leg QOO orders that are not Complex Orders (“multi-leg QOO Orders”). Multi-leg QOO Orders must involve the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, and for the purpose of executing a particular investment strategy.<sup>7</sup> Each component series of a multi-leg QOO order must be executed at a price that is equal to or better than the NBBO for that series subject to the exceptions of Rule 15010(b). Each component series of a multi-leg QOO order (1) may not trade through any equal or better priced Public Customer bids or offers on the BOX book for that series or any non-Public Customer bids or offers on the BOX book for that series that are ranked ahead of or equal to better priced Public Customer bids or offers, and (2) may not trade through any non-Public Customer bids or offers for that series on the BOX book that are priced better than the proposed execution price.<sup>8</sup>

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<sup>6</sup> The Exchange notes that NYSE Arca Inc. (“NYSE Arca”) currently allows multi-leg orders to trade on their trading floor. While NYSE Arca does not specifically provide in their rulebook that multi-leg orders (that do not meet the definition of a Complex Order) may trade on the trading floor, NYSE Arca distributed a regulatory bulletin which detailed the rules of priority and order protection in open outcry including multi-leg orders on the trading floor. Specifically, the bulletin states, “OTP Holders are reminded that orders involving multiple legs that do not meet the definition of a Complex Order, as defined in Rule 6.62(e)...do not have priority over equal priced priority interest in the Consolidated Book.” See NYSE Arca Options RB-16-04. Given this language, the Exchange believes that multi-leg orders that do not meet the definition of a Complex Order are currently permitted on the NYSE Arca trading floor. As such, the Exchange does not believe the proposed clarification is novel; especially since current BOX rules already allow for such orders to be traded on the Trading Floor. The purpose of this filing is to advise market participants that multi-leg QOO Orders will now be allowed to trade on the Trading Floor due to recent technological enhancements.

<sup>7</sup> The Exchange notes multi-leg QOO Orders are the same as Complex QOO Orders except for the ratio restrictions.

<sup>8</sup> The Exchange notes that similar functionality exists at NYSE Arca with respect to execution and priority for single leg orders on their trading floor. See NYSE Arca Rule

The Exchange notes that the system will enforce the execution and priority provisions in the proposed change. As such, multi-leg QOO Orders will not be allowed to take advantage of the Complex Order priority provisions in BOX Rule 7240(b)(2) and (3).

The Exchange anticipates this enhanced functionality to be available in the first quarter of 2019. The Exchange will distribute an Informational Circular at least two weeks before the implementation date.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>9</sup> in general, and Section 6(b)(5) of the Act,<sup>10</sup> in particular, in that it is designed to promote just and equitable principles of trade, 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. The Exchange believes that the proposed change discussed herein protects investors and the public interest as it will reduce any potential confusion regarding multi-leg QOO Orders on the BOX Trading Floor. Further, the Exchange notes that similar functionality exists on another options exchange with a trading floor.<sup>11</sup> Also, the Exchange believes the proposed change promotes just and equitable principles of trade and removes impediments to and perfects the mechanism of a free and open market and a national system because it mirrors the current functionality for single leg orders on the Trading Floor. Lastly, the Exchange believes the proposed change is consistent with the Act because it is simply advising Participants of the technological enhancement. Further, the functionality is available to all Floor Participants.

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6.47-O(a)(3).

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

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> See supra note 6.

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. The Exchange believes that proposed clarification will promote competition by making the enhanced functionality available to market participants. The Exchange notes that similar functionality already exists on another trading floor.<sup>12</sup> 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.

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>13</sup> and Rule 19b-4(f)(6)<sup>14</sup> thereunder.

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

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<sup>12</sup> Id.

<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 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.

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 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-2019-01 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-2019-01. 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-2019-01 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>15</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).