

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-86723; File No. SR-BOX-2019-24)

August 21, 2019

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing of Proposed Rule Change to Amend Rule 7600

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 19, 2019, BOX Exchange LLC (“BOX” or “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 to extend split-price functionality to Complex QOO Orders 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

¹ 15 U.S.C. 78s(b)(1).

² 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 March 2018, the Exchange adopted rules that allowed for split-price transactions for Qualified Open Outcry (“QOO”) Orders on the BOX Trading Floor.³ The Exchange now proposes to extend this functionality to Complex QOO Orders on the BOX Trading Floor. The Exchange believes the proposed change is reasonable as split-price functionality applies to complex orders at another exchange with a physical trading floor.⁴

Background

The industry first recognized the complexity of the split-price order in 2005 when Nasdaq Phlx, LLC (“Phlx”) filed to create an exception from existing priority rules for spit-price orders.⁵

³ See Securities Exchange Act Release No. 82891 (March 16, 2018), 83 FR 12627 (March 22, 2018)(Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Adopt Rule 7600(i) To Allow Split-Price Transactions on the BOX Trading Floor)(“Approval Order”).

⁴ See Nasdaq PHLX LLC (“Phlx”) Floor Trading Rules Section 22(a)(2)(D)(ii). On Phlx, split price functionality for complex and multi-leg orders are allowed on the trading floor, but due to Phlx system limitations, require manual calculation. Under this proposal, BOX is not requiring split price complex orders and multi-leg orders to be manually calculated, as the BOX system has the functionality to process these orders. Further, on Phlx, complex and multi-leg orders that qualify for the exception in Phlx Section 22(a)(2)(D) are afforded the priority provision in Phlx Floor Allocation Section 25(a)(2). The Exchange notes that this priority provision on Phlx is similar to BOX’s split price priority provision detailed in BOX Rule 7600(i)(2). As such, the Exchange believes that the proposed change to expand split price priority to Complex QOO Orders and multi-leg QOO Orders on the Exchange is appropriate as another options exchange currently has a similar offering in place.

⁵ See Securities Exchange Act Release No. 51820 (June 10, 2005), 70 FR 35759 (June 21, 2005) (SR-Phlx-2005-028) (pilot approval). See also Securities Exchange Act Release

The purpose behind the split-price priority exception was “to bring about the execution of large orders, which by virtue of their size and the need to execute them at multiple prices may be difficult to execute without a limited exception to the priority rules.”⁶ The proposed exception allows a Participant effecting a trade that betters the market to have priority on the balance of that trade at the next pricing increment, even if there are orders in the book at the same price.

BOX adopted rules for split-price transactions on the BOX Trading Floor in March 2018.⁷ BOX’s split-price priority rules are only available for Qualified Open Outcry (“QOO”) Orders and are not available for Complex Orders.

Proposal

The Exchange now proposes to extend the split-price priority functionality to Complex QOO Orders⁸ on the BOX Trading Floor.

BOX Rule 7600(i)(1) details current priority principles for single leg split-price transactions of less than 100 contracts occurring in open outcry on the Trading Floor. Generally, under BOX Rule 7600(i)(1), if an order or offer (bid) for any number of contracts of a series is represented to the trading crowd, a Floor Participant that buys (sells) one or more contracts of that order or offer (bid) at one price will have priority over all other orders and quotes, except Public Customer Orders resting in the BOX Book, to buy (sell) up to the same number of

No. 55993 (June 29, 2007), 72 FR 37301 (July 9, 2007) (SR-Phlx-2007-044) (permanent approval).

⁶ See Securities Exchange Act Release No. 51820 (June 10, 2005), 70 FR 35759 (June 21, 2005) (SR-Phlx-2005-028).

⁷ See Securities Exchange Act Release No. 82891 (March 18, 2018), 83 FR 12627 (March 22, 2018)(SR-BOX-2019-36).

⁸ The Exchange also proposes to extend split-price priority functionality to multi-leg QOO Orders on the BOX Trading Floor. Multi-leg QOO Orders are the same as Complex QOO Orders except for the ratio restrictions. See Securities Exchange Act Release No. 85052 (February 5, 2019), 84 FR 3265 (February 11, 2019)(SR-BOX-2019-01).

contracts of those remaining from the same order or offer (bid) at the next lower (higher) price. The Exchange proposes to allow the above priority principles for split-price transactions for Complex QOO Orders and multi-leg QOO Orders with less than 100 contracts on the BOX Trading Floor.

Specifically, the Exchange proposes to add Rule 7600(i)(1)(i) which states that if an order or offer (bid) for any number of units of a Complex QOO Order or multi-leg QOO order is represented to the trading crowd, a Floor Participant that buys (sells) one or more units of that order or offer (bid) at one price will have priority over all other orders and quotes, except Public Customer Orders resting in the BOX Book or Complex Order Book, to buy (sell) up to the same number of units of those remaining from the same order or offer (bid) at the next lower (higher) price. The Exchange notes that the proposed language is substantially similar to the current language of Rule 7600(i)(1), except the proposed provision governs Complex QOO Orders and multi-leg QOO orders of less than 100 units.

The Exchange believes that the proposal to extend the split-price priority detailed in Rule 7600(i)(1) to Complex QOO Orders and multi-leg QOO orders of less than 100 units is reasonable and consistent with the Act. As stated herein, the Commission has recognized the importance of split-price trades because they permit the execution of large blocks, even permitting a limited exception to priority rules. As such, due to the nature and complexity of Complex QOO Order and multi-leg QOO orders and the occasional need to execute these orders at sub-increment prices, the Exchange believes that extending split-price functionality to these orders is appropriate.

For example, assume a Floor Broker is looking to execute a split price Complex QOO Order at a price of 2.005 in strategy A+B for 50. Assume a Floor Market Maker is willing to sell

25 units at \$2.00 provided that he can also sell the remaining 25 units at \$2.01. Under the proposed change, that Floor Market Maker could offer \$2.00 for 25 units and then, by virtue of the proposed split-price priority, he will have priority for the balance of the order (up to 25 units) over all other Participants, except Public Customer Orders resting on the BOX Book or Complex Order Book. The Floor Broker will enter strategy A+B for 50 at a price of \$2.005. The system will then split the QOO Order. The first transaction will be for 25 units at \$2.00. The second transaction will be for 25 units at \$2.01, the next best price for the Floor Broker [sic] customer. The Floor Market Maker (i.e., the contra-side of the QOO Order) would have priority over all other Participants to sell the 25 contracts at \$2.01, except Public Customer Orders resting on the BOX Book or Complex Order Book. The Floor Broker's customer will receive a net purchase price of \$2.005 for 50 contracts,⁹ which is the price that the Floor Broker entered when submitting the QOO Order.

Proposed Rule 7600(i)(3) details split-price priority for Complex QOO Orders or offers (bids) and multi-leg QOO Orders or offers (bids) of 100 or more units. If an order or offer (bid) of 100 or more units of a Complex QOO Order or multi-leg QOO Order is represented to the trading crowd, a Floor Participant that buys (sells) 50 or more of the units of that Complex QOO Order or offer (bid) or multi-leg QOO Order of offer (bid) at one price will have priority over all other orders and quotes to buy (sell) up to the same number of units of those remaining from the same order or offer (bid) at the next lower (higher) price. The incoming Complex QOO Order or multi-leg QOO order will have priority over all orders and quotes on the BOX Book and Complex Order Book.

⁹ The Floor Broker's customer would receive 25 contracts at \$1.00 and 25 contracts at \$1.01. The net price that the customer paid for the contracts would be \$2.005 $((25*\$2.00+ 25*\$2.01)/50)$.

In order for a Floor Participant to avail himself to split-price priority pursuant to BOX Rule 7600(i)(3) for Complex QOO Orders or multi-leg QOO Orders, there are certain requirements. First, the priority is available for open outcry transactions only (i.e., QOO Orders). The Floor Participant must make its bid (offer) at the next lower (higher) price for the second (or later) transaction at the same time as the first bid (offer) or promptly following the announcement of the first (or earlier) transaction. The second (or later) purchase (sale) must represent the opposite side of a transaction with the same order or offer (bid) as the first (or earlier) purchase (sale).

For example, assume a Floor Broker is looking to execute a split price Complex QOO Order at a price of 2.005 in strategy A+B for 100. Assume there is a resting Public Customer order to buy leg A at 1.00 and a resting Public Customer order to sell leg A at 1.01. Leg B has a resting Public Customer Order to buy at 1.00 and no resting orders to sell Leg B. The order would be split into 50 A+B at 2.01 and 50 A+B at 2.00 for a net price of 2.005 for the strategy. The strategy order for 50 A+B at 2.00 is permitted because the order is for at least 100 contracts, and the Floor Broker executed 50 contracts at the first price (i.e., 2.01) giving the Floor Broker priority at the second price (i.e., 2.00). The following executions would be reported: 50 Leg A at 1.00, 50 Leg A at 1.00, 50 Leg B at 1.00, and 50 Leg B at 1.01.

The Exchange further proposes that if the width of the quote is \$0.01, and both the bid and offer represent Public Customer Orders resting in the BOX Book and/or Complex Order Book, split-price priority pursuant to proposed Rule 7600(i)(3) is not available to a Floor Participant until the Public Customer Order(s) resting in the BOX Book and/or Complex Order Book on

either side of the market trades.¹⁰ This exception is consistent with the Exchange's allocation and priority rules, which provide for Public Customer Orders to have priority at the best price in open outcry over QOO Orders.¹¹

For example, assume a Floor Broker is looking to execute a split price Complex QOO Order at a price of 2.013 in strategy A+B for 100. Assume there is a resting Market Maker order to buy A+B at 2.01 for 50 and a resting Public Customer order to buy A+B at 2.01 for 40 resting behind it. Assume there is a resting Public Customer Order to sell at 2.02 for 1. The order would be split into 70 A+B at 2.01 and 30 A+B at 2.02 for a net price of 2.013 for the strategy. Further, assume the Floor Broker provides a book sweep size¹² of 100 contracts. Because the initiating side's quantity (30) is smaller than the required 50 contracts pursuant to proposed rule 7600(i)(3), the initiating side does not have priority over Public Customer orders on the BOX Book (the initiating side does, however, have priority over non-Public Customer orders on the BOX Book pursuant to BOX Rule 7600(i)(1)). As such, the initiating side would sweep the Public Customer order on the BOX Book up to the quantity of their first price (30) at \$2.01. The initiating side would then sweep the remaining 40 Market Maker contracts on the BOX Book at \$2.01. Because there are remaining Public Customer orders on both sides of the bid and offer for the strategy, the Complex QOO Order is rejected.

¹⁰ See proposed Rule 7600(i)(3)(i).

¹¹ See Rule 7600 (c) and (d).

¹² The book sweep size is the number of contracts, if any, of the initiating side of the QOO Order that the Floor Broker is willing to relinquish to orders and quotes on the BOX Book that have priority pursuant to Rule 7600(d)(1) and (2). If the number of contracts on the BOX Book that have priority over the contra-side order is greater than the book sweep size, then the QOO Order will be rejected. If the number of contracts on the BOX Book that have priority over the contra-side order is less than or equal to the book sweep size, then the QOO Order will execute. See BOX Rule 7600(h).

The Exchange also proposes that if the width of the quote for a series is \$0.01, and both the bid and offer represent Implied Orders on both sides of the BOX BBO, split-price priority pursuant to this rule is not available until the Implied Orders on either side of the market trades.

For example, assume a Floor Broker is looking to execute a split price Complex QOO Order at a price of 2.005 in strategy A+B for 100. Assume there is a resting Public Customer order to buy leg A at 1.00 and a resting Public Customer order to sell leg A at 1.01. Leg B has a resting Public Customer Order to buy at 1.00 and a resting Market Maker Order to sell leg B at 1.01. The order would be split into 50 A+B at 2.01 and 50 A+B at 2.00 for a net price of 2.005 for the strategy. The strategy order for 50 A+B at 2.00 is not permitted because there is an Implied Order to buy A+B at 2.00. Additionally, a strategy order for 50 A+B at 2.01 would also not be permitted because of the Implied Order to sell A+B at 2.01. Therefore, the system will reject the Complex QOO Order entered at 2.005.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹³ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁴ 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. In particular, the Exchange believes the proposed rule change is appropriate as split-price functionality exists on another options exchange with a physical trading floor.¹⁵

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ See supra note 4.

The Exchange believes that allowing split-price priority pursuant to BOX Rule 7600(i)(1)(i) and BOX Rule 7600(i)(3) is reasonable and appropriate as the proposal is similar in operation to the current Complex Order priority exception¹⁶ under the Exchange rules. This exception (which is established in the rules of many options exchanges) was intended to facilitate the trade of complex orders, which by virtue of their multi-legged composition could be more difficult to trade without a limited exception to the priority rule for one of the legs. The purpose behind the proposed split price priority for Complex QOO Orders and multi-leg QOO Orders is the same – to facilitate the execution of large orders, which by virtue of their size, multi-legged composition and the need to execute them at multiple prices may be difficult to execute without a limited exception to the priority rules. The proposed extension of the split-price priority rule to Complex QOO Orders and multi-leg QOO Orders will operate in the same manner as the complex order exception by allowing a Participant effecting a trade that betters the market to have priority on the balance of that trade at the next pricing increment even if there are orders in the book at the same price.

The proposed change is designed to induce Floor Participants to bid (offer) at better prices for an order or offer (bid) that may require execution at multiple prices (such as larger complex orders), which will result in a better average price for the originating Floor Participant (or its customer).

The Exchange believes that the proposal should lead to more aggressive quoting of Complex QOO Orders and multi-leg QOO Orders by Floor Participants, which in turn could lead

¹⁶ See BOX Rule 7240(b)(2). A Complex Order may be executed at a net credit or debit price with one other Participant; provided, however, that the price of at least one leg of the Complex Order must trade at a price that is better than the corresponding bid or offer in the market place by at least one minimum trading increment.

to better executions for market participants. A Floor Participant might be willing to trade at a better price for a portion of a Complex QOO Order or multi-leg QOO Order if he were assured of trading with the balance of the order at the next pricing increment. As a result, Floor Brokers representing Complex QOO Orders or multi-leg QOO Orders in the trading crowd might receive better-priced executions. As such, the Exchange believes that the proposed rule change will encourage Participants on BOX's Trading Floor to bid or offer better prices, thus creating more opportunities for price improvement, which ultimately enhances competition.

Lastly, as discussed above, the Exchange notes that the proposed change is similar to functionality that exists at another options exchange with an open outcry trading floor.¹⁷

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 believes that the proposal will allow it to compete with other floor-based exchanges and help the Exchange's Floor Brokers compete with floor brokers on other options exchanges by accommodating another type of complicated order. Further, the Exchange believes that the proposed changes will not impose any burden on intramarket competition as the proposed functionality is available to all Floor Participants who wish to execute a split price Complex QOO Order or multi-leg QOO Order on the BOX Trading Floor.

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

¹⁷ See supra note 4.

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-2019-24 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-2019-24. 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-2019-24 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.¹⁸

Jill M. Peterson
Assistant Secretary

¹⁸ 17 CFR 200.30-3(a)(12).