

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87378; File No. SR-BOX-2019-30)

October 22, 2019

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 for Complex Order Transactions

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 October 10, 2019, 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 on the BOX Options Market LLC (“BOX”) facility. 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://boxexchange.com>.

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).

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. The Exchange first notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or incentives to be insufficient. More specifically, the Exchange is one of 16 options venues to which market participants may direct their order flow. The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow, or discontinue to reduce use of certain categories of products, in response to fee changes. Accordingly, competitive forces constrain the Exchange's transaction fees, and market participant can readily trade on competing venues if they deem pricing levels at those other venues to be more favorable.

In response to this competitive environment, the Exchange has established a Make/Take pricing model for Complex Orders which was intended to attract Complex Orders to the Exchange by offering market participants incentives (i.e. maker or taker credits) to submit their Complex Orders to the Exchange, which could result in greater overall liquidity on BOX, ultimately benefiting all Participants trading on the Exchange. These Make/Take pricing models

have been accepted by both the Commission and the industry.⁵ The result of this structure is that a Participant does not know the fee it will be charged when submitting the Complex Order. Therefore, the Participant must recognize that it could be charged the highest applicable fee on the Exchange's Complex Order schedule, which may, instead be lowered or changed to a credit depending upon how the Complex Order interacts.

Proposal

The Exchange proposes to adjust certain fees and credits within the Complex Order pricing structure. Specifically, the Exchange proposes to increase the maker and taker credits for Public Customers interacting with Professional Customers/Broker Dealers or Market Makers in both Penny and Non-Penny Pilot Classes. Here, the Exchange proposes to increase the credit Public Customers receive when interacting with Professional Customers, Broker Dealers or Market Makers, regardless of whether they are adding or removing liquidity to \$0.50 from \$0.35 (Penny Pilot Classes) and to \$0.90 from \$0.70 (Non-Penny Pilot Classes).

The Exchange also proposes to adjust the Maker credits and Taker fees for Professional Customers or Broker Dealers in both Penny Pilot and Non-Penny Pilot Classes. Specifically, when a Professional Customer or Broker Dealer interacts with a Public Customer in a Penny Pilot Class, the Exchange proposes to raise this fee to \$0.50 from \$0.45 for making liquidity and to \$0.50 from \$0.45 for taking liquidity. For Non-Penny Pilot Classes, the Exchange proposes to raise the fees in this same type of interaction to \$0.98 from \$0.80 for making liquidity and to \$0.98 from \$0.80 for taking liquidity. For when a Professional Customer or Broker Dealer interacts with another Professional Customer or Broker Dealer in Penny Pilot Classes, the Exchange proposes to raise the credit for making liquidity to \$0.30 from \$0.10 and raise the fee

⁵ The "Make/Take" model is currently used by Nasdaq ISE LLC ("ISE") and NASDAQ PHLX LLC ("PHLX").

for taking liquidity to \$0.50 from \$0.30. For Non-Penny Pilot Classes, the Exchange proposes to raise the fees and credits in this same type of interaction. Specifically, the Exchange proposes to raise the credit for making liquidity to \$0.30 from \$0.10 and increase the fee for taking liquidity to \$1.00 from \$0.45. For when a Professional Customer or Broker Dealer interacts with a Market Maker in Penny Pilot Classes, the Exchange proposes to raise the credit for making liquidity to \$0.30 from \$0.10 and increase the fee for taking liquidity to \$0.50 from \$0.30. For Non-Penny Pilot Classes the Exchange proposes to raise the fees and credits in this same type of interaction. Specifically, the Exchange proposes to increase the credit for making liquidity to \$0.30 from \$0.10 and increase the fee for taking liquidity to \$1.00 from \$0.45.

The Exchange also proposes to adjust the Maker and Taker fees and credits for Market Makers in both Penny Pilot and Non-Penny Pilot Classes. Specifically, when a Market Maker interacts with a Public Customer in a Penny Pilot Class, the Exchange proposes to raise the fee to \$0.50 from \$0.40 for making liquidity and to \$0.50 from \$0.40 for taking liquidity. For Non-Penny Pilot Classes, the Exchange proposes to raise the fees in this same type of interaction to \$0.98 from \$0.75 for making liquidity and to \$0.98 from \$0.75 for taking liquidity. For when a Market Maker interacts with a Professional Customer or Broker Dealer in Penny Pilot Classes, the Exchange proposes to raise the credit for making liquidity to \$0.30 from \$0.10 and raise the fee for taking liquidity to \$0.50 from \$0.30. For Non-Penny Pilot Classes, the Exchange proposes to raise the fees and credits in this same type of interaction. Specifically, the Exchange proposes to raise the credit for making liquidity to \$0.30 from \$0.10 and increase the fee for taking liquidity to \$1.00 from \$0.45. For when a Market Maker interacts with another Market Maker in Penny Pilot Classes, the Exchange proposes to raise the credit for making liquidity to \$0.30 from \$0.10 and increase the fee for taking liquidity to \$0.50 from \$0.30. For Non-Penny

Pilot Classes, the Exchange proposes to raise the fees and credits in this same type of interaction. Specifically, the Exchange proposes to increase the credit for making liquidity to \$0.30 from \$0.10 and increase the fee for taking liquidity to \$1.00 from \$0.45.

The revised Complex Order Pricing Structure will be as follows:

Account Type	Contra Party	Penny Pilot Classes		Non-Penny Pilot Classes	
		Maker Fee/Credit	Taker Fee/Credit	Maker Fee/Credit	Taker Fee/Credit
Public Customer	Public Customer	\$0.00	\$0.00	\$0.00	\$0.00
	Professional Customer/ Broker Dealer	(\$0.50)	(\$0.50)	(\$0.90)	(\$0.90)
	Market Maker	(\$0.50)	(\$0.50)	(\$0.90)	(\$0.90)
Professional Customer or Broker Dealer	Public Customer	\$0.50	\$0.50	\$0.98	\$0.98
	Professional Customer/ Broker Dealer	(\$0.30)	\$0.50	(\$0.30)	\$1.00
	Market Maker	(\$0.30)	\$0.50	(\$0.30)	\$1.00
Market Maker	Public Customer	\$0.50	\$0.50	\$0.98	\$0.98
	Professional Customer/ Broker Dealer	(\$0.30)	\$0.50	(\$0.30)	\$1.00
	Market Maker	(\$0.30)	\$0.50	(\$0.30)	\$1.00

The Exchange next proposes to amend Section IV (Complex Order Transaction Fees) of the BOX Fee Schedule to establish a \$0.12 per contract surcharge on any electronic non-Public Customer Complex Order that executes against an electronic Public Customer Complex Order

(the “Complex Surcharge”). The Exchange notes that the proposed Complex Surcharge is consistent with charges imposed by other options exchanges.⁶

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,⁷ 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.

Complex Order Transaction Fees

The Exchange believes that amending the Complex Order pricing structure is reasonable, equitable and not unfairly discriminatory. The fee structure for Complex Order Transactions has been well received by Participants and the industry since it was adopted in 2016,⁸ and the Exchange believes it is now appropriate to adjust certain fees and credits in order to remain competitive with other options exchanges in the industry. As discussed above, the Complex Order fee structure is generally intended to attract order flow to the Exchange by offering all market participants incentives to submit their Complex Orders to the Exchange.

The Exchange believes that the proposed increase in the amount of credits for Public Customer Complex Orders are reasonable. Under the proposed fee structure, Public Customers will either receive a \$0.50 credit for making or taking liquidity in Penny Pilot Classes when

⁶ See NYSE American LLC (“NYSE American”) Fee Schedule (imposing a \$0.12 per contract surcharge to certain complex orders). See also Miami Securities International Exchange, LLC (“MIAX”) fee schedule (imposing a \$0.12 fee on certain complex orders).

⁷ 15 U.S.C. 78f(b)(4) and (5).

⁸ See Securities Exchange Act Release No. 77568 (April 8, 2016), 81 FR 22151 (April 14, 2016) (SRBOX-2016-15).

interacting with a Professional Customer, Broker Dealer or Market Maker or receive a \$0.90 credit for making or taking liquidity in Non-Penny Pilot Classes when interacting with a Professional Customer, Broker Dealer or Market Maker. Public Customers will continue to be charged no fee when interacting with another Public Customer. The Exchange believes providing an increased credit and charging no fee to Public Customers for Complex Orders is equitable and not unfairly discriminatory. The securities markets generally, and BOX in particular, have historically aimed to improve markets for investors and develop various features within the market structure for Public Customer benefit. Accordingly, the Exchange believes that charging no fee or providing a credit for Public Customers is appropriate and not unfairly discriminatory. Public Customers are less sophisticated than other Participants and the proposed increased credit will help to attract a high level of Public Customer order flow to the BOX Book and create liquidity, which the Exchange believes will ultimately benefit all Participants trading on BOX.

The Exchange also believes it is reasonable, equitable and not unfairly discriminatory to give Public Customers a credit when their Complex Order executes against a non-Public Customer and, accordingly, charge non-Public Customers a higher fee when their Complex Order executes against a Public Customer. As stated above, the Exchange aims to improve markets by developing features for the benefit of its Public Customers. Similar to the payment for order flow and other pricing models that have been adopted by the Exchange and other exchanges to attract Public Customer order flow, the Exchange increases fees to non-Public Customers to provide incentives for Public Customers. The Exchange believes that providing incentives for Complex Orders by Public Customers is reasonable and, ultimately, will benefit all Participants trading on the Exchange by attracting Public Customer order flow.

The Exchange believes that the proposed fees and credits for Professional Customers and Broker Dealers in Complex Orders are reasonable. Under the proposed fee structure, a Professional Customer or Broker Dealer making liquidity and interacting with a Public Customer will be charged \$0.50 in Penny Pilot Classes and \$0.98 in Non-Penny Pilot Classes. Further, Professional Customers or Broker Dealers making liquidity and interacting with another Professional Customer, Broker Dealer or Market Maker will be credited \$0.30 for Complex Orders in Penny Pilot Classes. If the Professional Customer or Broker Dealer is instead taking liquidity and interacting with another Professional Customer, Broker Dealer or Market Maker, they will be charged \$0.50 for Complex Orders in Penny Pilot Classes. For Complex Orders in Non-Penny Pilot Classes, the Professional Customer or Broker Dealer will be charged \$0.98 if the Complex Order interacts with a Public Customer's Complex Order in the Non-Penny Pilot Classes. Further, Professional Customers and Broker Dealers will be credited \$0.30 when making liquidity in Non-Penny Pilot Classes and interacting with another Professional Customer, Broker Dealer or Market Maker. Lastly, Professional Customers and Broker Dealers taking liquidity in Non-Penny Pilot Classes will be charged \$1.00 if the Complex Order interacts with a Professional Customer or Broker Dealer or a Market Maker.

The Exchange believes that charging Professional Customers and Broker Dealers higher fees than Public Customers for Complex Orders is equitable and not unfairly discriminatory. Professional Customers, while Public Customers by virtue of not being Broker Dealers, generally engage in trading activity more similar to Broker Dealer proprietary trading accounts (submitting more than 390 standard orders per day on average). The Exchange believes that the higher level of trading activity from these Participants will draw a greater amount of BOX system resources than that of nonprofessional, Public Customers. Because this higher level of trading activity will

result in greater ongoing operational costs, the Exchange aims to recover its costs by assessing Professional Customers and Broker Dealers higher fees for transactions.

Finally, the Exchange believes that the proposed fees for Market Makers in Complex Orders are reasonable. Under the proposed fee structure, a Market Maker making or taking liquidity and interacting with a Public Customer will be charged \$0.50 for Complex Orders in Penny Pilot Classes. A Market Maker making liquidity and interacting with a Professional Customer, Broker Dealer or Market Maker will be credited \$0.30 for Complex Orders in both Penny Pilot Classes and Non-Penny Pilot Classes. If the Market Maker is instead taking liquidity, for Complex Orders in Penny Pilot Classes it will be charged \$0.50 if the Complex Order interacts with a Professional Customer or Broker Dealer or a Market Maker. For Market Maker Complex Orders making or taking liquidity and interacting with a Public Customer in Non-Penny Pilot Classes, the Market Maker will be charged \$0.98. Further, Market Makers will be credited \$0.30 when making liquidity in Non-Penny Pilot Classes and interacting with another Professional Customer or Broker Dealer or Market Maker. Lastly, Market Makers taking liquidity in Non-Penny Pilot Classes will be charged \$1.00 if the Complex Order interacts with a Professional Customer or Broker Dealer or a Market Maker.

The Exchange believes it is equitable and not unfairly discriminatory for BOX Market Makers to be assessed the same fees as Professional Customers and Broker Dealers as the proposed change will provide uniformity throughout the Complex Order pricing structure for non-Public Customers which will provide clarity and reduce investor confusion.

The Exchange believes it is reasonable, equitable and not unfairly discriminatory for Professional Customers, Broker Dealers and Market Makers to be charged a higher fee for orders removing liquidity when compared to the credit they receive for orders that add liquidity. Giving

a credit to Complex Orders that add liquidity will promote liquidity on the Exchange and ultimately benefit all participants on BOX. Further, the concept of incentivizing orders that add liquidity over orders that remove liquidity is commonly accepted within the industry as part of the “Make/Take” liquidity model.⁹

Finally, the Exchange also believes it is reasonable to charge Professional Customers, Broker Dealers, and Market Makers less for certain executions in Penny Pilot issues compared to Non-Penny Pilot issues because these classes are typically more actively traded; assessing lower fees will further incentivize order flow in Penny Pilot issues on the Exchange, ultimately benefiting all Participants trading on BOX. Additionally, the Exchange believes it is reasonable to give a greater credit to Public Customers for Complex Orders in Non-Penny Pilot issues as compared to Penny Pilot issues. Since these classes have wider spreads and are less actively traded, giving a larger credit will further incentivize Public Customers to trade in these classes, ultimately benefitting all Participants trading on BOX.

The Exchange believes that the proposed Complex Order fee structure will keep the Exchange competitive with other exchanges and will be applied in an equitable manner among all BOX Participants. The Exchange believes the proposed fee structure is reasonable and competitive with fee structures in place on other exchanges. Further, the Exchange believes that the competitive marketplace impacts the fees proposed for BOX.

Complex Surcharge

The Exchange believes the proposed Complex Surcharge is reasonable, equitable and not unfairly discriminatory, as it applies to all non-Public Customer orders. Applying the surcharge to all market participants except Public Customers is equitable and not unfairly discriminatory

⁹ The “Make/Take” model is currently used by Nasdaq ISE LLC (“ISE”) and NASDAQ PHLX LLC (“PHLX”).

because Public Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Specifically, Public Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Market Makers. An increase in the activity of Market Makers in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants.

In addition, the proposed Complex Surcharge is reasonable, equitable, and not unfairly discriminatory as it is consistent with fees charged by other options exchanges.¹⁰ Specifically, NYSE American imposes a \$0.12 per contract surcharge to any electronic non-customer complex order that executes against a customer complex order which may result in an overall per contract fee of \$0.62.¹¹ The Exchange notes that the proposed Complex Surcharge of \$0.12 is identical to the surcharges imposed on both NYSE American and MIAX. In addition, the Exchange believes that the proposed surcharge is not new or novel as it incorporates aspects of the surcharges that are already imposed on NYSE American and MIAX.

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 the proposed Complex Surcharge would not impose an unfair burden on competition as it

¹⁰ See supra note 6.

¹¹ Id. On NYSE American, NYSE American Market Makers have a potential total per contract fee of \$0.62 in the Penny Pilot classes which includes a "Rate Per Contract for Electronic Transactions," a per contract "Marketing Charge," and a \$0.12 complex order surcharge. NYSE American Broker Dealers also have a potential total per contract fee of \$0.62 in the Penny Pilot classes which includes a "Rate Per Contract for Electronic Transactions" and the complex surcharge. Similarly, on MIAX, Market Makers who qualify for Tier 1 of the Market Maker Sliding Scale fee structure have a potential total per contract fee of \$0.62 which includes a \$0.25 "Complex Per Contract Fee for Penny Classes," a \$.25 per contract "Marketing Fee," and a \$0.12 "Per Contract Surcharge for Trading Against a Priority Customer Complex Order for Penny and Non-Penny Classes."

is consistent with fees charged by other exchanges.¹² Further, the Exchange believes that amending certain Complex Order fees and credits will enhance competition between exchanges because it is designed to allow the Exchange to better compete with other exchanges for Complex Order flow.

In addition, the proposal does not impose an undue burden on intra-market competition because the changes will apply equally to all similarly situated Participants. Further, the Exchange does not believe the proposed changes impose a unnecessary burden on intra-market competition, as they are merely designed to allow the Exchange to stay competitive within the industry where Participants already pay similar fees at other competitor exchanges.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing exchanges. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believe that the proposed rule change reflects this competitive environment.

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 Act¹³ and Rule 19b-4(f)(2) thereunder,¹⁴ because it establishes or changes a due, or fee.

¹² See supra notes 6 and 11.

¹³ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁴ 17 CFR 240.19b-4(f)(2).

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-2019-30 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-2019-30. 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 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-2019-30, 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.¹⁵

Jill M. Peterson
Assistant Secretary

¹⁵ 17 CFR 200.30-3(a)(12).