

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-87613; File No. SR-BOX-2019-24)

November 25, 2019

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Amend Rule 7600

I. Introduction

On August 8, 2019, BOX Exchange LLC (“BOX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend BOX Rule 7600 to permit split-price priority for Complex Qualified Open Outcry (“QOO”) Orders and multi-leg QOO Orders.<sup>3</sup> The proposed rule change was published for comment in the Federal Register on August 27, 2019.<sup>4</sup> On October 9, 2019, pursuant to Section 19(b)(2) of the Act,<sup>5</sup> the Commission extended to November 25, 2019, the time within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> A QOO Order is a two-sided order that a Floor Broker submits to the BOX Trading Host for execution. QOO Orders include Complex Orders, as defined in BOX Rule 7240(a)(7) (“Complex QOO Orders”), and multi-leg 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. See BOX Rules 7600(a)(4) and (c). A QOO Order has an initiating side and a contra side. The initiating side must be filled in its entirety, and the contra-side must guarantee the full size of the initiating side of the QOO Order and may provide book sweep size, as provided in BOX Rule 7600(h). See BOX Rule 7600(a)(1).

<sup>4</sup> See Securities Exchange Act Release No. 86723 (August 21, 2019), 84 FR 44954 (“Notice”).

<sup>5</sup> 15 U.S.C. 78s(b)(2).

whether to approve or disapprove the proposed rule change.<sup>6</sup> The Commission received no comment letters regarding the proposed rule change. On November 21, 2019, BOX submitted Amendment No. 1 to the proposed rule change.<sup>7</sup> Amendment No. 1 replaces and supersedes the original filing in its entirety. The Commission is publishing this notice to solicit comment on Amendment No. 1 to the proposed rule change from interested persons and is approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

## II. Description of the Proposed Rule Change, as Modified by Amendment No. 1

BOX currently provides split-price priority for QOO Orders comprised of a single option series.<sup>8</sup> BOX proposes to amend BOX Rule 7600(i) to permit split-price priority for Complex QOO Orders and multi-leg QOO Orders.<sup>9</sup> Split-price priority will be available only for open outcry transactions.<sup>10</sup> Under proposed BOX Rule 7600(i)(3), if an order or offer (bid) of a

---

<sup>6</sup> See Securities Exchange Act Release No. 87266, 84 FR 55351 (October 16, 2019).

<sup>7</sup> Amendment No. 1 revises the proposal to: (1) add a paragraph to BOX Rule 7600(h) to describe the operation of book sweep size for Complex QOO Orders and multi-leg QOO Orders; (2) delete proposed BOX Rule 7600(i)(1)(i), which would have permitted split-price priority for Complex QOO and multi-leg QOO Orders with fewer than 100 contracts on each component leg of the order; (3) modify proposed BOX Rule 7600(i)(3) to make clear that split-price priority is available for Complex QOO and multi-leg QOO orders with at least 100 contracts on each component leg of the order and indicate that a Floor Participant must trade 50 or more contracts of each component leg of the Complex QOO or multi-leg QOO Order in a permissible ratio at a price that complies with the priority requirements of BOX Rule 7600(c) to obtain split-price priority; (4) delete a sentence from proposed BOX Rule 7600(i)(3) indicating that a Complex QOO or multi-leg QOO Order would have priority over all orders and quotes on the BOX Book and the Complex Order Book; (5) amend proposed BOX Rule 7600(i)(3)(i) and (ii) to more clearly describe the availability of split-price priority when the width of a quote for a strategy is \$0.01 based on interest in the Complex Order Book; and (6) modify examples and provide additional examples demonstrating the operation of the proposed functionality.

<sup>8</sup> See BOX Rule 7600(i).

<sup>9</sup> See proposed BOX Rule 7600(i)(3).

<sup>10</sup> See proposed BOX Rule 7600(i)(5)(i).

Complex QOO Order or multi-leg QOO Order with at least 100 contracts on each leg of the order is represented to the trading crowd, a Floor Participant that buys (sells) 50 or more contracts of each component leg at the permissible ratio of the Complex QOO Order or multi-leg QOO Order or offer (bid) at one price that complies with the priority requirements in BOX Rule 7600(c) will have priority over all other orders and quotes to buy (sell) up to the same number of contracts of those remaining from the same order or offer (bid) at the next lower (higher) price.<sup>11</sup> To obtain split-price priority, a 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.<sup>12</sup> 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).<sup>13</sup>

Split-price priority will not be available under certain circumstances. If the width of the quote for a strategy is \$0.01 based on interest in the Complex Order Book, and both the bid and offer represent Implied Orders or Public Customer Complex Orders resting in the Complex Order Book (e.g., an Implied Order<sup>14</sup> bidding \$2.00 for a strategy and a Public Customer offering \$2.01 for the strategy), split-price priority pursuant will not be available to a Floor Participant until the Implied Order or the Public Customer Complex Order resting in the Complex Order Book on either side of the market trades or is cancelled.<sup>15</sup> If the width of the quote for the

---

<sup>11</sup> See proposed BOX Rule 7600(i)(3) and Amendment No. 1.

<sup>12</sup> See proposed BOX Rule 7600(i)(5)(ii).

<sup>13</sup> See proposed BOX Rule 7600(i)(5)(iii).

<sup>14</sup> An Implied Order is a Complex Order at or within the Extended cNBBO (as defined in BOX Rule 7240(a)(5), derived from the orders at the BBO on the BOX Book for each component leg of a Strategy. See BOX Rule 7240(d)(1).

<sup>15</sup> See proposed BOX Rule 7600(i)(3)(i) and Amendment No. 1.

strategy is \$0.01 based on interest in Complex Order Book, and the bid and the offer do not represent Implied Orders or Public Customer Complex Orders, split price priority will be available subject to BOX Rule 7600(c).<sup>16</sup>

The proposal also amends BOX Rule 7600(h) to allow, but not require, a Floor Broker to provide a book sweep size for Complex QOO and multi-leg QOO Orders.<sup>17</sup> The book sweep size is the number of contracts, if any, of the initiating side of the Complex QOO Order that the Floor Broker is willing to relinquish to orders and quotes on the BOX Complex Order Book and the BOX Book that have priority pursuant to BOX Rule 7240(b)(2) and (3).<sup>18</sup> If the number of contracts on the BOX Complex Order Book or BOX Book that have priority over the contra-side order is greater than the book sweep size, the Complex QOO Order or multi-leg QOO Order will be rejected.<sup>19</sup> If the number of contracts on the BOX Complex Order Book or BOX Book that have priority over the contra-side order is less than or equal to the book sweep size, then the Complex QOO Order or multi-leg QOO Order will execute.<sup>20</sup>

BOX notes that another options exchange with a physical trading floor currently offers split-price priority for complex orders.<sup>21</sup>

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations

---

<sup>16</sup> See proposed BOX Rule 7600(i)(3)(ii) and Amendment No. 1.

<sup>17</sup> See proposed BOX Rule 7600(h) and Amendment No. 1.

<sup>18</sup> See id.

<sup>19</sup> See id.

<sup>20</sup> See id.

<sup>21</sup> See Notice, 84 FR at 44954, n.4, and Nasdaq PHLX LLC Options 8 Floor Trading Rules, Section 22(a)(2)(D)(ii).

thereunder applicable to a national securities exchange.<sup>22</sup> In particular, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act,<sup>23</sup> which requires, among other things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, 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.

Under the proposal, split-price priority will be available only for Complex QOO and multi-leg QOO Orders with at least 100 contracts on each component leg of the order.<sup>24</sup> The Commission believes that permitting split-price priority for these orders could help to facilitate the execution of Complex QOO and multi-leg QOO Orders which, because of their size, may be executed at multiple prices. To obtain split-price priority, a Floor Broker would be required to execute at least 50 contracts of each component leg of the Complex QOO or multi-leg QOO Order at the permissible ratio at a price that complies with the priority requirements in BOX Rule 7600(c).<sup>25</sup> The Commission notes that these requirements are consistent with split-price priority requirements for single-leg QOO orders of 100 or more contracts.<sup>26</sup> The Commission believes

---

<sup>22</sup> In approving this proposed rule change, as modified by Amendment No. 1, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>23</sup> 15 U.S.C. 78f(b)(5).

<sup>24</sup> See proposed BOX Rule 7600(i)(3) and Amendment No. 1.

<sup>25</sup> See id.

<sup>26</sup> See BOX Rule 7600(i)(2) (providing that if an order or offer (bid) of 100 or more contracts of a series is represented to the trading crowd, a Floor Participant that buys (sells) 50 or more of the contracts of that order or offer (bid) at one price will have priority over all other orders and quotes to buy (sell) up to the same number of contracts of those remaining from the same order or offer (bid) at the next lower (higher) price). See also Amendment No. 1 (noting that the required quantities of at least 100 contracts per leg of the Complex QOO Order or multi-leg QOO order and at least 50 contracts per

that the proposed book sweep functionality for Complex QOO and multi-leg QOO Orders would protect the priority of resting interest and provide additional execution opportunities for such interest by allowing, but not requiring, a Floor Broker to relinquish contracts from the initiating side to trading interest on the Complex Order Book and the BOX Book that has priority over the contra-side order.<sup>27</sup> The proposal also protects resting interest by providing that split-price priority will not be available when the width of a quote for a strategy is \$0.01 based on interest on the Complex Order Book and both the bid and offer represent Implied Orders or Public Customer Complex Orders.<sup>28</sup>

#### IV. Solicitation of Comments on Amendment No. 1

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether Amendment No. 1 to 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-2019-24 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.

---

leg at the permissible ratio at the first price are the same quantities used for single leg orders using the split-price priority functionality, which could avoid investor confusion).

<sup>27</sup> See BOX Rule 7600(h) and Amendment No. 1.

<sup>28</sup> See proposed BOX Rule 7600(i)(3)(i).

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].

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the 30th day after the date of publication of notice of Amendment No. 1 in the Federal Register. As noted above, Amendment No. 1 revised the proposal to add text to BOX Rule 7600(h) to describe the operation of the book sweep functionality for Complex QOO and multi-leg QOO Orders, limit the availability of split-price priority to Complex QOO and multi-leg QOO Orders with at least 100 contracts on each component leg of the order, make

clear that split-price priority is available for Complex QOO and multi-leg QOO orders with at least 100 contracts on each component leg of the order and indicate that a Floor Participant must trade 50 or more contracts of each component leg of the Complex QOO or multi-leg QOO Order in a permissible ratio at a price that complies with the priority requirements of BOX Rule 7600(c) to obtain split-price priority, more clearly describe the circumstances under which split-price priority is not available when the width of the market for a strategy is \$0.01 based on interest in the Complex Order Book, and modify examples and provide additional examples showing the operation of the proposed rules. The Commission notes that Amendment No. 1 provides that split-price priority is available only to Complex QOO and multi-leg QOO Orders with at least 100 contracts on each component leg of the order and that a Floor Broker seeking split-price priority must execute 50 or more contracts of each component leg at the permissible ratio at the first price to obtain priority over the same number of contracts at the next less aggressive price, thereby assuring that split-price priority is available only to large Complex QOO and multi-leg QOO Orders and that a Floor Broker must trade a substantial portion of such an order at the first price to obtain split-price priority. In addition, Amendment No. 1 revises the text of BOX Rule 7600(h) to add a paragraph to the rule describing the operation of book sweep size for Complex and multi-leg QOO Orders, thereby assuring that the text of the rule indicates the availability and functioning of book sweep with respect to these orders.<sup>29</sup> The Commission believes that Amendment No. 1 provides additional clarity and detail to the rule text and additional analysis and examples of several aspects of the proposal, thereby facilitating the Commission's ability to make the findings set forth above to approve the proposal. For these

---

<sup>29</sup> The Notice included an example showing the use of book sweep size for a Complex QOO Order. See Notice, 84 FR at 44956.



reasons, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>30</sup> to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act,<sup>31</sup> that the proposed rule change (SR-BOX-2019-24), as modified by Amendment No. 1, is approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>32</sup>

Eduardo A. Aleman  
Deputy Secretary

---

<sup>30</sup> 15 U.S.C. 78s(b)(2).

<sup>31</sup> 15 U.S.C. 78s(b)(2).

<sup>32</sup> 17 CFR 200.30-3(a)(12).