



8011-01 P
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75826; File No. SR-BOX-2015-29)

September 3, 2015

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule on the BOX Market LLC Options Facility

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 1, 2015, BOX Options 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 Market LLC (“BOX”) options facility. While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on September 1, 2015. The text of the proposed rule change is

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).

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>.

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 make a number of changes to Facilitation and Solicitation fees and credits within the BOX Fee Schedule.

First, the Exchange proposes to amend Section I (Exchange Fees) to establish a subsection entitled "Facilitation and Solicitation Transactions." The Exchange proposes to move all the fees associated with Facilitation and Solicitation Transactions⁵ from Section I.B. (Auction Transactions) to this new section.

The Exchange then proposes to adjust exchange fees for Facilitation and Solicitation Transactions. For Agency Orders⁶ Professional Customers and Brokers Dealers are currently charged \$0.37 and Market Makers are charged \$0.20. Broker Dealers, Professional Customers, and Market Makers are charged \$0.25 for Facilitation and Solicitation Orders.⁷ The Exchange

⁵ Transactions executed through the Solicitation Auction mechanism and Facilitation Auction mechanism.

⁶ An Agency Order is the block-size order that an Order Flow Provider "OFP" seeks to facilitate as agent through the Facilitation Auction or Solicitation Auction mechanism,

⁷ Facilitation and Solicitation Orders are the matching contra orders submitted on the opposite side of the Agency Order.

proposes to remove the Agency Order and Facilitation and Solicitation Order exchange fees for all Participants, as well as the \$25,000 fee cap for these transactions. Additionally, the Exchange proposes to reduce the exchange fees for Responses to the Facilitation and Solicitation mechanisms. For Responses in these mechanisms, Public Customers are currently charged \$0.15, Professional Customer and Broker Dealers are charged \$0.37, and Market Makers are charged \$0.30. The revised fee structure for Facilitation and Solicitation Transactions will be as follows:

	Account Type			
	Public Customer	Professional Customer	Broker Dealer	Market Maker
Agency Order	\$0.00	\$0.00	\$0.00	\$0.00
Facilitation Order or Solicitation Order	N/A	\$0.00	\$0.00	\$0.00
Responses in the Solicitation or Facilitation Auction Mechanisms	\$0.15	\$0.27	\$0.27	\$0.20

For example, if a Market Maker submitted an Agency Order through the Facilitation mechanism, the Market Maker would no longer be charged for the Agency Order or matching contra order. To expand on this example, if the Market Maker instead was responding to the Facilitation Order, then the Market Maker would be charged \$0.20.

Consequently, the Exchange proposes to rename Section 1.B. from “Auction Transactions” to “PIP and COPIP Transactions” as this section will now only reflect the Exchange fees for PIP and COPIP transactions. The Exchange is also proposing to amend the footnotes in the PIP and COPIP transactions subsection to remove any references to the Facilitation and Solicitation auction mechanisms.

The Exchange then proposes to amend Section II.B of the BOX Fee Schedule, liquidity fees and credits for Facilitation and Solicitation transactions. Specifically, the Exchange

proposes to establish different liquidity fees and credits for Facilitation and Solicitation transactions in Penny Pilot Classes than for Facilitation and Solicitation transactions in Non-Penny Pilot Classes. Currently all Facilitation and Solicitation transactions are assessed a \$0.30 fee for adding liquidity and credited \$0.30 for removing liquidity. The Exchange now proposes to adopt the following liquidity fees and credits:

Facilitation and Solicitation Transactions	Fee for Adding Liquidity (All Account Types)	Credit for Removing Liquidity (All Account Types)
Non-Penny Pilot Classes	\$0.95	(\$0.95)
Penny Pilot Classes	\$0.40	(\$0.40)

The Exchange also proposes to amend the Liquidity Fees and Credits for Facilitation and Solicitation transactions to specify that Agency Orders submitted to the Facilitation and Solicitation mechanisms are assessed the “removal” credit only if the Agency Order does not trade with their contra order. The Exchange also proposes to specify that only Responses to Facilitation and Solicitation Orders executed in these mechanisms shall be charged the “add” fee.

For example, if an OFP submits an Agency Order to buy 200 contracts in the facilitation auction and there are no responders, the Agency Order would execute against the matching Facilitation Order to sell 200 contracts and neither Order would be assessed a liquidity fee or credit. If, instead, the same Agency Order receives a Market Maker Response to sell 150 contracts, at the end of the auction the Agency Order would now execute against the Market Maker Response for 150 contracts and the Facilitation Order for 50 contracts, and liquidity fees and credits would be assessed on the 150 contracts which executed against the Market Maker Response.

The proposed reduction in exchange fees and increase in liquidity fees and credits in Facilitation and Solicitation transactions is designed to provide BOX Participants additional

incentives to submit block orders to these auctions and to remain competitive with other options exchanges that have similar mechanisms for large block orders.⁸

Finally, the Exchange is proposing to make additional non-substantive changes to the Fee Schedule. Specifically, the Exchange is renumbering certain footnotes, headings and internal references to accommodate the above proposed changes to the Fee Schedule.

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,⁹ 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 proposed changes will allow the Exchange to be competitive with other exchanges and to apply fees and credits in a manner that is equitable among all BOX Participants. Further, the Exchange operates within a highly competitive market in which market participants can readily direct order flow to any other competing exchange if they determine fees at a particular exchange to be excessive.

The Exchange believes creating a separate subsection for the Facilitation and Solicitation transactions is reasonable, equitable and not unfairly discriminatory as the proposed subsection is meant to provide clarity about the applicable exchange fees for each of BOX's auction mechanisms. The Exchange also believes that the proposed exchange fees for Facilitation and Solicitation transactions are reasonable, equitable and not unfairly discriminatory. The Exchange believes that it is reasonable to remove the fees for Agency, Facilitation and Solicitation Orders, and lower the Facilitation and Solicitation Order Response fees from \$0.37 to \$0.27 for

⁸ See International Securities Exchange Rule 716.

⁹ 15 U.S.C. 78f(b)(4) and (5).

Professional Customers and Broker Dealers, and from \$0.30 to \$0.20 for Market Makers. Further, the Exchange believes that it is reasonable to eliminate the \$25,000 fee cap for Facilitation and Solicitation transactions, as most the exchange fees for these transactions are being removed. The Exchange believes eliminating and reducing these fees will attract order flow to these mechanisms which will result in greater liquidity and ultimately benefit all Participants trading on the Exchange.

The Exchange believes it is reasonable, equitable and not-unfairly discriminatory to charge higher exchange fees for responders in the Facilitation and Solicitation auctions than for initiators of these orders and the contra orders. The Exchange believes it is reasonable when compared to a similar practice for Facilitation and Solicitation fees at a competing venue.¹⁰ For example, at the ISE the fee for both the initiating order and contra order in a Crossing Order¹¹ is \$0.20 for Market Makers, Broker Dealers and Professional Customers, and \$0.00 for Public Customers. Responses to these orders are charged \$0.47 regardless of Participant type.

The Exchange also believes that charging Professional Customers and Broker Dealers higher fees than Public Customers for Responses in the Facilitation and Solicitation auction mechanisms 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. The Exchange believes that the higher level of trading activity from these Participants will draw a greater amount of BOX system resources, and the Exchange aims to recover its costs by assessing Professional Customers and Broker Dealers higher fees for these orders.

¹⁰ See ISE Schedules of Fees at http://www.ise.com/assets/documents/OptionsExchange/legal/fee/ISE_fee_schedule.pdf

¹¹ Under the ISE Fee Schedule Crossing Orders are any orders executed in the Exchange's auction mechanisms, including the Facilitation and Solicitation mechanisms.

The Exchange believes it is equitable and not unfairly discriminatory to charge Public Customers less than Market Makers, Broker Dealers and Professional Customers for their Responses to the Facilitation and Solicitation Auction mechanisms. 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. The Exchange believes that charging lower fees to Public Customers is reasonable and, ultimately, will benefit all Participants trading on the Exchange by attracting Public Customer order flow.

Finally, the Exchange believes it is equitable and not unfairly discriminatory for BOX Market Makers to be assessed lower fees than Professional Customers and Broker Dealers for Responses in the Facilitation and Solicitation auction mechanisms because of the significant contributions to overall market quality that Market Makers provide. Market Makers generally provide higher volumes of liquidity and assessing overall lower fees for these Participants within the BOX Fee Schedule will help attract a higher level of Market Maker order flow to the BOX Book and create liquidity, which the Exchange believes will ultimately benefit all Participants trading on BOX. Additionally, Market Makers are the Participants most likely to use the Facilitation and Solicitation auction mechanisms, and the Exchange believes that assessing lower fees for these Participants will help drive liquidity to these block trade mechanisms.

BOX believes that the changes to Facilitation and Solicitation transaction liquidity fees and credits are equitable and not unfairly-discriminatory in that they apply to all categories of participants and across all account types. The Exchange also believes the fees and credits are reasonable and competitive when compared to similar fees at competing venues.¹² Under the ISE Fee Schedule a Responder to a Facilitation or Solicitation Order will pay \$0.47. While a

¹² See supra, note 10.

Responder on BOX will pay \$0.55 to \$0.67 in Penny Pilot Classes (exchange fee of \$0.15 to \$0.27 and an liquidity “add” fee of \$0.40).

However, for the equivalent of Non-Penny Pilot Classes¹³ on ISE the Responder will most likely also be assessed a Payment for Order Flow (“PFOF”) Fee of \$0.70. The Exchange notes that while PFOF at the ISE only applies when an Initiator is a Public Customer and a Responder is a Market Maker, this Exchange believes that this type of interaction amounts to a majority of the ISE’s Facilitation and Solicitation transactions. Therefore, in Non-Penny Classes the Exchange believes the Responder to a Facilitation or Solicitation auction is paying \$1.17 at the ISE, while BOX proposes to charge Responders between \$1.10 and \$1.22 (exchange fee of \$0.15 to \$0.27 and a liquidity “add” fee of \$0.95). The Exchange notes that while Broker Dealers will be assessed \$1.22 in total; a majority of the Responders to these auctions will be Market Makers and these Participants will be assessed \$1.15 in total.

With the proposed fee changes for Facilitation and Solicitation transactions, Initiators will never pay a fee and will only receive a credit of \$0.40 in Penny Pilot Classes and \$0.95 in Non-Penny Pilot Classes for the portion of the order that interacts with a Responder. In comparison, under the ISE Fee Schedule all Initiators except Public Customers are charged a \$.20 fee for Penny Pilot Classes and \$0.20 to \$0.25 fee for Non-Penny Pilot Classes.¹⁴ However, the ISE then uses volume based incentives that can greatly reduce the fees these participants are charged. Certain Facilitation and Solicitation fees on ISE are subject to a fee cap of \$75,000,¹⁵

¹³ The ISE Fee Schedule uses the term “Select Symbols” to denote Penny Pilot Classes.

¹⁴ The ISE uses the term “Crossing Order” for orders executed on the Exchange’s Facilitation and Solicitation mechanisms.

¹⁵ See Section IV.H of the ISE Fee Schedule. All Firm Proprietary and Non-ISE Market Maker transactions that are part of the originating or contra side of a Crossing Order are capped.

allowing Participants who use these auctions to potentially reduce their per contract fee to a much lower rate. In addition, depending on their overall monthly volume, Initiators can receive a rebate of \$0.05 to \$0.11 per contract for their orders.¹⁶

Finally, if the order executes against a responder within one of these mechanisms the Initiator will receive an additional rebate of \$0.15 for Penny Pilot Classes. For Non-Penny Pilot Classes, the Initiator will typically receive a proportional PFOF credit to their pool which they can allocate as they so choose.¹⁷

In conclusion, the Exchange believes the proposed Facilitation and Solicitation fees and credits are reasonable when compared to fees and credits for similar mechanisms at the ISE. While it is difficult to exactly equate these two fee structures, most Responders on ISE (Market Makers interacting with Customer Orders) will pay \$0.47 (Penny Pilot Classes) and \$1.17 (Non-Penny Pilot Classes) while most Responders on BOX (Market Makers interacting with Customer Orders) will pay \$0.60 (Penny Pilot Classes) and \$1.15 (Non-Penny Pilot Classes). At the ISE, depending on volume, Initiators in this scenario could receive a credit per contract for all Facilitation and Solicitation orders, and an additional \$0.15 break up credit (Penny Pilot Classes) or PFOF credit (Non-Penny Pilot Classes).¹⁸ In comparison, under the BOX proposal, Initiators would only receive a credit for the portion of the order that interacted with a Response, and the credit would be \$0.40 (Penny Pilot Classes) or \$0.95 (Non-Penny Pilot Classes).

Further, the Exchange believes that the proposed difference between what an Initiator

¹⁶ See Section IV.A of the ISE Fee Schedule.

¹⁷ Under Section IV.D of the ISE Fee Schedule the fee for PFOF is \$0.70 and the fee will be rebated proportionally to the members that paid the fee on a monthly basis.

¹⁸ The Exchange notes that the language used in the ISE Fee Schedule states that there will be a proportional credit put into the monthly pool that the Initiator can then allocate. With this discretion the PFOF credit for these orders could be higher than \$0.70.

will pay compared to what a Responder will pay is reasonable, equitable and not unfairly discriminatory. As stated above, this difference is in-line with the credits and fees at the ISE. Further, the Exchange believes that this differential is reasonable because Responders are willing to pay a higher fee for liquidity discovery.

Further, the Exchange notes that with the proposed reduction in Responder exchange fees, all Responders except for Public Customers are only paying an overall higher fee for their Responses to Non-Penny Class transactions. For example, a Responder under the current schedule would be assessed an exchange fee of \$0.37 (for Professional Customers and Broker Dealers) and \$0.30 (for Market Makers) along with a fee for “adding” liquidity of \$0.30. In total, Professional Customers and Broker Dealers are currently assessed \$0.67 and Market Makers \$0.60. Under the proposed change to both the Exchange fees and Liquidity Fees and Credits, Professional Customers and Broker Dealers Responders would still be assessed \$0.67 in total for Penny Pilot Classes (\$0.27 exchange fee and \$0.40 liquidity fee) and Market Makers would be assessed \$0.60 (\$0.20 exchange and \$0.40 liquidity fee). While Participants would be assessed overall higher fees for responding to Non-Penny Pilot Issues, as stated above, the Exchange believes that these liquidity fees are reasonable as they are within the range assessed for Facilitation and Solicitation responses at a competing exchange.¹⁹

The Exchange also believes it is reasonable to establish different fees and credits for Facilitation and Solicitation transactions in Penny Pilot Classes compared to transactions in Non-Penny Pilot Classes. The Exchange makes this distinction throughout the BOX Fee Schedule, including the liquidity fees and credits for PIP and COPIP Transactions. The Exchange believes it is reasonable to establish higher fees and credits for Non-Penny Pilot Classes because these

¹⁹ See supra, note 10.

Classes are typically less actively traded and have wider spreads. The Exchange believes that offering a higher rebate will incentivize order flow in Non-Penny Pilot issues on the Exchange, ultimately benefitting all Participants trading on BOX.

Further, the Exchange notes that the proposed fees and credits for transactions on BOX offset one another in any particular transaction. The result is that BOX will collect a fee from Participants that add liquidity on BOX and credit another Participant an equal amount for removing liquidity. Stated otherwise, the collection of these liquidity fees will not directly result in revenue to BOX, but will simply allow BOX to provide the credit incentive to Participants to attract order flow. The Exchange believes it is appropriate to provide incentives to market participants to use the Facilitation and Solicitation auction mechanisms, because doing so may result in greater liquidity on BOX which would benefit all market participants.

The Exchange believes it is reasonable, equitable and not-unfairly discriminatory for responders to Facilitation and Solicitation auctions to be assessed higher fees than initiators. The Agency Order is a block sized order typically composed of Public Customer orders and represented by an OFP who then guarantees the execution by submitting a matching Facilitation or Solicitation Order. Responders in the Facilitation and Solicitation mechanisms are always non-Public Customers and more typically are Market Makers. The Exchange believes it is reasonable, equitable and not unfairly discriminatory to give these Agency Orders a credit when their orders execute against a non-Public Customer and, accordingly, charge non-Public Customers a fee when their orders execute against a Public Customer. The Exchange notes that increasing fees to non-Public Customers in order to provide incentives for Public Customers is similar to the payment for order flow and other pricing models that have been adopted by

competing exchanges²⁰ to attract Public Customer order flow. As stated above, the Exchange aims to improve markets by developing features for the benefit of its Public Customers. The Exchange believes that providing incentives for Public Customers is reasonable and will benefit all Participants trading on the Exchange by attracting Public Customer order flow.

Further, the Exchange believes it is reasonable, equitable and not unfairly discriminatory to only assess liquidity fees and credits on Agency Orders that do not trade with their contra order, and the Responses to these Orders. As stated above, liquidity fees and credits are meant to incentivize order flow, and the Exchange believes incentives are not necessary for internalized orders in these mechanisms that only trade against their contra order. Additionally, other Exchanges also make this distinction in their Facilitation and Solicitation auction mechanisms.²¹

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 believes that the proposed rule change reflects this competitive environment.

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.

²⁰ See supra, note 10. Under the ISE Fee Schedule, if the initiator is a Public Customer and the responder is a Market Maker in Non-Penny Pilot Classes, the Market Maker is assessed a \$.70 PFOF fee which will be rebated proportionally to the members that paid the fee on a monthly basis.

²¹ See supra, note 10. Under the ISE Fee Schedule in the equivalent of Penny Pilot Classes the initiator receives a "break-up" rebate only for contracts that are submitted to the Facilitation and Solicitation mechanisms that do not trade with their contra order. The responder fee for these Orders is only applied to any contracts for which the rebate is provided.

The proposed rule change modifies the exchange fees and raises the liquidity fees and credits for Facilitation and Solicitation transactions. BOX notes that its market model and fees are generally intended to benefit retail customers by providing incentives for Participants to submit their customer order flow to BOX. The Exchange does not believe that the proposed liquidity fees and credits will burden competition by creating such a disparity between the fees an Initiating Participant in the Facilitation and Solicitation auction pays and the fees a competitive responder pays that would result in certain Participants being unable to compete with initiators. In fact, the Exchange believes that these changes will not impair these Participants from adding liquidity and competing in Facilitation and Solicitation auction transactions and will help promote competition by providing incentives for market participants to submit customer order flow to BOX and thus, create a greater opportunity for customers to receive additional price improvement. Specifically, BOX is removing and lowering the exchange fees for Facilitation and Solicitation transactions to encourage all market participants to participate in these auctions. While the liquidity fees and credits for these transactions will be higher, they will only be assessed against the portion of the order that executes against a response in the auctions. The Exchange believes that participants submitting responses in these auctions are willing to pay a higher fee for liquidity discovery in less liquid names. Further, as stated above the fees and credits proposed are in line with the facilitation and solicitation fees and credits on at least one other options exchange.

BOX believes that this proposal will enhance competition between exchanges because it is designed to allow the Exchange to better compete with other exchanges for Facilitation and Solicitation auction order flow.

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 Act²² and Rule 19b-4(f)(2) thereunder,²³ 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-2015-29 on the subject line.

²² 15 U.S.C. 78s(b)(3)(A)(ii).

²³ 17 CFR 240.19b-4(f)(2).

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-2015-29. 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, D.C. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-BOX-2015-29, 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.²⁴

Robert W. Errett
Deputy Secretary

[FR Doc. 2015-22741 Filed: 9/9/2015 08:45 am; Publication Date: 9/10/2015]

²⁴ 17 CFR 200.30-3(a)(12).