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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78171; File No. SR-BOX-2016-25)

June 28, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 7150 (Price Improvement Period (“PIP”)) to Establish the Quality Market Maker Allocation in a PIP Order

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 June 15, 2016, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend BOX Rule 7150 (Price Improvement Period (“PIP”)) to establish the Quality Market Maker allocation in a PIP Order. 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>.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

places 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

The Exchange proposes to amend BOX Rule 7150 (Price Improvement Period (“PIP”)) to establish the Quality Market Maker allocation in a PIP Order. This is a competitive filing that is based on a proposal recently submitted by NASDAQ OMX BX, Inc. (“BX”) and approved by the Commission.³

PIP

The Exchange currently offers Participants the possibility of price improvement via its electronic auction process known as the PIP. The PIP has saved investors more than \$722 million versus the prevailing NBBO since 2004. BOX believes that the proposed rule change will result in tighter and deeper markets, resulting in more liquidity on BOX.

Current PIP Allocation

At the conclusion of a PIP, the PIP Order is currently matched against the best prevailing quote(s) or order(s) on BOX (except any pre-PIP Broadcast proprietary quote or order from the Initiating Participant), in accordance with the priority algorithm described below, whether Improvement Order(s)⁴ or Unrelated Order(s)⁵ received by BOX, or Legging Orders⁶ generated during the PIP (excluding Unrelated Orders that were immediately executed during the interval

³ See Securities Exchange Act Release No. 34-76301 (October 29, 2015), 80 FR 68347 (November 4, 2016)(Order Approving SR-BX-2015-032). See also BX Rule BX Chapter VI, Sec.9(ii)(E)(3).

⁴ See BOX Rule 7150(f)(1).

⁵ See BOX Rule 7150(a)(1).

⁶ See BOX Rule 7240(c).

of the PIP). Such orders may include agency orders on behalf of Public Customers, Market Makers at away exchanges and non-BOX Options Participant broker-dealers, as well as non-PIP proprietary orders submitted by Options Participants.

The Exchange's Rules currently provide the following allocations for when the total quantity of orders, quotes, Improvement Orders, Legging Orders and the Primary Improvement Order is greater than the quantity of the PIP Order at a given price level:

Public Customer Allocation

All orders, other than Legging Orders and the Primary Improvement Order, for the account of Public Customers, whether Improvement Orders or Unrelated Orders, including quotes and orders on the BOX Book⁷ prior to the PIP Broadcast, will be allocated for execution against the PIP Order first.⁸ Where there are multiple such orders for the account of Public Customers at the same price, the trade allocation will be by time priority. If, at the end of the Public Customer allocation, there remains any unallocated quantity of the PIP Order, the balance will be allocated to the Primary Improvement Order allocation described below.

Primary Improvement Order Allocation

After the Public Customer allocation, the applicable trade allocation described below will be allocated to the Primary Improvement Order.⁹ After Public Customer Orders have been satisfied, the Initiating Participant's Primary Improvement Order retains priority for up to 40% of the remaining size of the PIP Order when the Primary Improvement Order matches any competing Improvement Orders and/or non-Public Customers' Unrelated Orders at the final price level. If the Primary Improvement Order has designated a PIP Surrender Quantity, the

⁷ See BOX Rule 100(a)(10).

⁸ See BOX Rule 7150(g)(1).

⁹ See BOX Rule 7150(g)(2).

Primary Improvement Order allocation will be reduced, if necessary, in accordance with the PIP Surrender Quantity.¹⁰ The balance will be allocated to the Market Maker allocation.

Market Maker Allocation

After the Primary Improvement Order allocation, any remaining unallocated quantity of the PIP Order will be allocated to orders and quotes, including Improvement Orders and quotes and orders on the BOX Book prior to the PIP Broadcast for the account of Market Makers.

Where there are orders and quotes for the accounts of more than one Market Maker at the same price, the trade allocation for Market Makers will be pro-rata.¹¹

Proposal

The Exchange proposes to establish the Quality Market Maker allocation after the Primary Improvement Order allocation and before the Market Maker allocation. As previously mentioned, the proposed rule change is based on, and substantially similar to, the rules of BX.¹² In the allocation following the Primary Improvement Order, Market Makers that were quoting at a price that is equal to the NBBO on the opposite side of the market from the PIP Order at the time of initiation of the PIP Auction (“Quality Market Makers”),¹³ would have priority up to their quote size in the NBBO which was present when the PIP Auction was initiated (“QMM Eligibility Quantity”) at each price level at or better than such NBBO when the PIP Auction was initiated after Public Customers have received allocations. Quality Market Maker quotes will be

¹⁰ See BOX Rule 7270(a)(3)(iii)(A).

¹¹ See BOX Rule 7150(g)(3)

¹² See supra note 3. The Exchange’s proposal is based on BX’s Priority Market Maker allocation round of their price improvement auction when size pro-rata is used for the auction’s allocation method.

¹³ The Exchange notes, as is the case with BX, the Exchange does not have non-displayed interest; therefore, there is no distinction in the proposed rule regarding the displayed NBBO versus non-displayed.

allocated pro-rata. Quality Market Maker status is only valid for the duration of the particular PIP auction. Further, Non-Quality Market Makers and Quality Market Maker interest which exceeded their size in the QMM Eligibility Quantity would have priority at each price level at or better than the NBBO when the PIP Auction was initiated after Public Customer, Initiating Participants and Quality Market Makers have received allocations. Non-Quality Market Maker and Quality Market Maker interest which exceeded their displayed size of the QMM Eligibility Quantity will be allocated pro-rata.

Example #1

A PIP Order to buy 200 contracts of options instrument A is received. Assume the NBBO is 2.00 – 2.10 and Market Maker 1 is at the NBBO to sell 10 contracts at the start of the PIP. The following responses are received:

Public Customer 1 to sell 20 at 2.08

Primary Improvement Order to sell 200 at 2.08

Market Maker 1 to sell 70 at 2.08

Market Maker 2 to sell 60 at 2.08

The PIP Order will be allocated in the following order:

Round 1: Public Customer Allocation

- 20 contracts at 2.08 to Public Customer 1

Round 2: Primary Improvement Order Allocation

- 72 contracts at 2.08 to the Primary Improvement Order (40% of the remaining quantity after Public Customer 1)

Round 3: Quality Market Maker Allocation

- 10 contracts at 2.08 to Market Maker 1 as a QMM (During the QMM allocation

round, the QMM is capped at the size of their quote at the NBBO at the start of the PIP. The QMM's allocation is at a price better than the NBBO at the start of the PIP.)

Round 4: Market Maker Allocation

- 49 contracts at 2.08 to Market Maker 1 (Market Maker 1 is allocated during the Market Maker round any remaining quantity after the QMM allocation round)
- 49 contracts at 2.08 to Market Maker 2

Example #2

A PIP Order to buy 200 contracts of options instrument A is received. Assume the NBBO is 2.00 – 2.10 and Market Maker 1 is at the NBBO to sell 120 contracts at the start of the PIP. The following responses are received:

Public Customer 1 to sell 10 at 2.08

Primary Improvement Order to sell 200 at 2.08

Market Maker 1 to sell 80 at 2.08

Market Maker 2 to sell 60 at 2.08

Market Maker 3 to sell 60 at 2.08

The PIP Order will be allocated in the following order:

Round 1: Public Customer Allocation

- 10 contracts at 2.08 to Public Customer 1

Round 2: Primary Improvement Order Allocation

- 76 contracts at 2.08 to the Primary Improvement (40% of the remaining quantity after Public Customer 1)

Round 3: Quality Market Maker Allocation

- 80 contracts to Market Maker 1 at 2.08 as a QMM (Market Maker 1's quote at the NBBO at the start of the PIP exceeds their PIP response, therefore the allocation is capped at the size of their PIP response instead of the size of their quote at the NBBO at the start of the PIP. The QMM's allocation is at a price better than the NBBO at the start of the PIP.)

Round 4: Market Maker Allocation

- 17 contracts to Market Maker 2 at 2.08 and 17 contracts to Market Maker 3 at 2.08 (Market Makers 2 and 3 receive a pro-rata allocation of the remainder of the contracts because there is insufficient size to satisfy the full quantity of their responses)

Example #3

A PIP Order to sell 100 contracts of options instrument A is received. Assume the NBBO is 1.00 – 1.10 and Market Maker 1 is at the NBBO to buy 120 contracts at the start of the PIP. The following responses are received:

Primary Improvement Order to buy 100 at 1.02

Market Maker 1 to buy 100 at 1.02

Market Maker 2 to buy 80 at 1.02

Market Maker 3 to buy 20 at 1.02

Broker Dealer 1 to buy 50 at 1.02

The PIP Order will be allocated in the following order:

Round 1: Primary Improvement Order Allocation

- 40 contracts at 1.02 to the Primary Improvement Order (40% of the remaining quantity after Public Customer (none in this example))

Round 2: Quality Market Maker Allocation

- 60 contracts to Market Maker 1 at 1.02 as a QMM (Market Maker 1's quote at the NBBO at the start of the PIP exceeds their PIP response, therefore the eligible allocation is capped at the size of their PIP response instead of the size of their quote at the NBBO at the start of the PIP. The QMM's allocation is at a price better than the NBBO at the start of the PIP.)

Example #4 – Multiple Market Makers quoting at the NBBO

A PIP Order to sell 250 contracts of options instrument A is received. Assume the NBBO is 1.00 – 1.10 and, at the start of the PIP, Market Maker 1 is at the NBBO to buy 100 contracts and Market Maker 2 is at the NBBO to buy 100 contracts. The following responses are received:

Public Customer 1 to buy 40 at 1.02

Primary Improvement Order to buy 250 at 1.02

Market Maker 1 to buy 80 at 1.02

Market Maker 2 to buy 80 at 1.02

Market Maker 3 to buy 50 at 1.02

Broker Dealer 1 to buy 10 at 1.02

The PIP Order will be allocated in the following order:

Round 1: Public Customer Allocation

- 40 contracts at 1.02 to Public Customer 1

Round 2: Primary Improvement Order Allocation

- 84 contracts at 1.02 to the Primary Improvement Order (40% of the remaining quantity after Public Customer 1)

Round 3: Quality Market Maker Allocation

- 63 contracts at 1.02 to Market Maker 1 as a QMM and 63 contracts at 1.02 to Market Maker 2 as a QMM (Market Maker 1 and 2 are allocated pro-rata since both had quotes at the NBBO at that start of the PIP and both responded to the PIP. Their eligible allocation is capped at the size of their response to the PIP because their quote at the NBBO at the start of the PIP exceeded their responses. The QMM's allocation is at a price better than the NBBO at the start of the PIP.)

Note – when there are multiple QMMs, allocation in the QMM round will be determined based on pro-rata using the size of the QMMs quote at the NBBO at the start of the auction.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),¹⁴ in general, and Section 6(b)(5) of the Act,¹⁵ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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 that the proposed Quality Market Maker allocation may encourage Market Makers to quote at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on BOX. Specifically, by offering BOX Market Makers the ability to receive priority in the proposed allocation during the PIP auction, a BOX Market Maker may be encouraged to quote outside of the PIP auction at their best and most aggressive prices with

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

additional size. BOX believes that this incentive may result in a narrowing of quotes and thus further enhance BOX's overall market quality. Within the PIP auction, BOX believes that the proposed allocation may encourage BOX Market Makers to compete vigorously to provide the opportunity for price improvement in a competitive auction process. Additionally, the Exchange believes that providing the Quality Market Maker allocation at price levels better than the NBBO at the start of the PIP will incentivize quoting on BOX.

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. In this regard, and as indicated above, the Exchange notes that the rule change is being proposed as a competitive response to a filing submitted by BX that was recently approved by the Commission.¹⁶

The Exchange does not believe that providing BOX Market Makers with an opportunity to receive priority allocation will create an undue burden on intra-market competition. BOX Market Makers have obligations to the market unlike other market participants.¹⁷ The allocation seeks to reward BOX Market Makers with an opportunity to receive additional allocations.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii)

¹⁶ See supra, note 3.

¹⁷ See BOX Rule 8040.

become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁸ and Rule 19b-4(f)(6) thereunder.¹⁹

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2016-25 on the subject line.

¹⁸ 15 U.S.C. 78s(b)(3)(A).

¹⁹ 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2016-25. 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-2016-25, 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.²⁰

Robert W. Errett
Deputy Secretary

²⁰ 17 CFR 200.30-3(a)(12).

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