



## Via Electronic Mail

October 12, 2018

Brent J Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F. Street, N.E.  
Washington, D.C. 20549-1090

Re: File No. SR-BOX-2018-14

Dear Mr. Fields:

BOX Exchange LLC (“BOX” or “Exchange”) appreciates the opportunity to comment on the above referenced proposed rule filing that would adopt rules governing the trading of Complex Qualified Contingent Cross (“QCC”) Orders and Complex Customer Cross Orders on the Exchange. While, the Exchange has received no comment letters in response to the filing, the staff of the Division of Trading and Markets has raised issues as to whether the proposed Complex QCC rules would unduly disadvantage resting Public Customer interest on the BOX Book. As explained in detail in this letter, BOX believes the proposed Complex QCC rules instead provide price protection to all Participants, including Public Customers, and that the Commission should approve the filing.

### **BOX’s proposed Complex QCC rules provide price protection to all Participants**

Though controversial at the time, QCC Orders were determined by the Commission to be consistent with the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and consequently approved by the SEC in February 2011 (“Approval Order”).<sup>2</sup> The Commission addressed certain areas of concern within the Approval Order which the Exchange believes also apply to the proposed Complex QCC Order rules on BOX (the “Proposal”).

In the Approval Order, the SEC discusses customer protection with regard to QCC Orders. Specifically, the commenters to ISE’s Original QCC Order proposal<sup>3</sup> argued that the proposal “did not provide adequate protection because the QCC Order would have priority over resting customer orders on ISE’s books.” As such, the original proposal was modified (and later approved by the Commission) to provide for automatic cancellation of a QCC Order if there was a Public Customer on the limit order book at the same price.

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

<sup>2</sup> See Securities Exchange Act Release No. 63955 (February 24, 2011) (“Approval Order”)

<sup>3</sup> See Securities Exchange Act Release No. 62523 (July 16, 2010), 75 FR 43211 (July 23, 2010)(Notice of Filing SR-ISE-2010-73).

The Exchange believes that the BOX Proposal goes a step further compared to other exchanges with Complex QCC functionality, and requires the execution price to be \$0.01 better than all interest in individual leg books, not only resting Public Customer interest.<sup>4</sup> Specifically, under the Proposal, Complex QCC Orders may execute as a net credit or debit with one other Participant; provided, the price of at least one leg of the Complex Order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least one minimum trading increment (i.e., one cent) as set forth in BOX Rule 7240(b)(1).<sup>5</sup> With a net execution price \$0.01 better than all the interest in the individual leg books, a Complex QCC Order cannot trade ahead of resting Public Customer interest at the same price. The Exchange believes the proposed Complex QCC Order functionality provides a level of price protection to all Participants that is consistent with the Act.

### **BOX's proposed Complex QCC rules mirror existing Complex Order functionality**

The Trading and Markets staff has also expressed concern that the Proposal does not give Public Customers the ability to participate in Complex QCC transactions.<sup>6</sup> The Exchange believes that concern relies on a standard adopted before the BOX Complex Order functionality was approved by the Commission in 2013. Under the current BOX Complex Order Rules, a resting Public Customer Order on the individual leg will not interact with an incoming regular Complex Order that is priced better than the cBBO even though the regular Complex Order is “exposed.”<sup>7</sup>

For example, a regular Complex Order is received to sell strategy A+B at a net price of 3.01. Based on the individual leg books, as seen below, the cBBO is 3.00-3.20. Further, there is a resting Complex Order to buy strategy A+B at 3.01. The incoming Complex Order is accepted and executes against the resting Complex Order at 3.01 because it is inside the cBBO.

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<sup>4</sup> The “cBBO,” which the Complex QCC Order must be priced better than, is determined by all interest on the individual books and not only Public Customer orders.

<sup>5</sup> See Rule 7240(b)(2)(1)(i). In addition, Complex Qualified Open Outcry Orders may be executed at a price without giving priority to equivalent bids or offers in the individual series legs on the initiating side, provided at least one options leg betters the corresponding bid or offer on the BOX Book by at least one minimum trading increment (i.e., one cent) as set forth in Rule 7240(b)(1). See 7600(c).

<sup>6</sup> See Securities Exchange Act Release No. 34-84031 (September 5, 2018), 83 FR 46003 (September 11, 2018) (Order Instituting Proceedings).

<sup>7</sup> With regard to QCC Orders and their automatic execution, the SEC stated in its ISE Approval Order that “the Commission believes that those customers participating in QCC Orders will likely be sophisticated investors who should understand that, without a requirement of exposure for QCC Orders, their order would not be given an opportunity for price improvement on the Exchange.”

Leg A Book				Leg B Book			
Account	Buy	Sell	Account	Account	Buy	Sell	Account
BD1	1.00	1.10	PC	PC	2.00	2.10	PC
PC	1.00						

As a result, the resting Public Customer Orders on the individual legs will not “participate” even though the Complex Order was exposed to the market. This is the same result as if a Complex QCC Order was received at 3.01 as outlined in the Proposal. The Exchange believes that mirroring the Complex Order functionality that instead takes into account all interest on the individual leg books is consistent with the Act and has been positively received by the industry.

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BOX thanks the Commission for the opportunity to clarify on the Complex QCC Order Proposal. The Exchange filed its proposal on May 22, 2018. Since filing, the Commission has requested comments from the industry twice. No comment letters on the Proposal have been received. The Exchange respectfully requests that the Commission approve the Proposal without further delay so the Exchange may compete with other exchanges in the industry with similar functionality. If the Commission or staff have any further questions on this matter, please do not hesitate to contact us.

Sincerely,



Alanna Barton  
 General Counsel  
 BOX Exchange LLC