

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71344; File No. SR-BOX-2014-02)

January 17, 2014

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change to Amend BOX Rule 8130

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 6, 2014, 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 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 8130 (Automatic Quote Cancellation) to require Market Makers to enter values in at least one of the Exchange-provided risk parameters. 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 places

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 8130 (Automatic Quote Cancellation) to require Market Makers³ to enter values in at least one of the Exchange-provided risk parameters. This is a competitive filing based on a proposal recently submitted by the International Securities Exchange, LLC (“ISE”) and approved by the Commission.⁴

BOX Rule 8040 (Obligations of Market Makers) requires Market Makers to enter and maintain continuous quotations for the options classes to which they are appointed. This requirement creates a possibility of “rapid fire” executions that could result in large and unintended principal positions and expose the Market Maker to unnecessary market risk. To lessen this risk, many Market Makers employ their own proprietary quotation and risk management systems to determine the prices and sizes at which they quote. Additionally, under the current BOX Rule 8130 the Exchange offers Market Makers the ability to automatically cancel quotes in specified classes if certain triggering parameters are met.⁵ When enabled, these

³ As defined in BOX Rule 100 (a)(30), the term "Market Maker" means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in the Rule 8000 Series. All Market Makers are designated as specialists on the Exchange for all purposes under the Exchange Act or Rules thereunder.

⁴ See Securities Exchange Act Release No. 70132 (August 7, 2013), 78 FR 49311 (August 13, 2013) (Order Approving SR-ISE-2013-38).

⁵ See Securities Exchange Act Release No. 55472 (March 14, 2007), 72 FR 13322 (March 21, 2007) (Notice of Filing and Immediate Effectiveness of SR-BSE-2007-08).

triggering parameters can help Market Makers manage their risk and protect them from a “rapid fire” execution scenario.

Specifically, under BOX Rule 8130 there are five triggering parameters that Market Makers can enable on a class-by-class basis. These are when the Market Maker: (1) experiences a duration of no technical connectivity for between one and nine seconds; (2) trades a specified number of contracts in the aggregate across all series of an options class; (3) trades a specified absolute dollar value of contracts bought and sold in a class; (4) trades a specified number of contracts in a class of the net between (i) calls purchased plus puts sold, and (ii) calls sold and puts purchased; or, (5) trades a specified absolute dollar value of the net position in a class between (i) calls purchased and sold, (ii) puts and calls purchased; (iii) puts purchased and sold; or (iv) puts and calls sold.

The risk to Market Makers is not limited to a single option series. Market Makers have exposure in all series of a particular options class in which they are appointed, requiring them to offset or hedge their overall position in each option to minimize risk. By limiting a Market Maker’s exposure across series, the Exchange believes that a Market Maker is able to provide quotations at better prices. The Exchange believes that the Exchange-provided risk parameters help Market Makers, as key liquidity providers, to better manage their risk, aiding them in providing deeper and more liquid markets, beneficial to all Participants.

Under Rule 8130, Market Makers are currently not required to use the Exchange-provided risk parameters and can program their own systems to perform similar functions if they prefer. The Exchange proposes to amend Rule 8130 to prevent Market Makers from inadvertently entering quotes without any internal or external risk-management parameters. Specifically, the Exchange proposes to make it mandatory for a Market Maker to enter values

in at least one triggering parameter for each of their appointed options classes. The Exchange is not proposing to require values be entered for all five triggering parameters, as the Exchange is aware that Market Makers have different internal risk control mechanisms and therefore will use the tool differently. Additionally, Market Makers that currently use this feature have elected to use different parameters based on their specific needs.

While entering values into at least one of the risk parameters will now be mandatory to prevent an inadvertent exposure to risk, Market Makers who prefer to use their own risk-management systems can enter values that will ensure the Exchange-provided parameters will not be triggered.⁶ Accordingly, the proposal does not require members to manage their risk using the Exchange-provided tools.

The Exchanges notes that nothing under this proposed rule change relieves a Market Maker of its obligations to provide continuous, two sided quotes under Rule 8050.

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”),⁷ in general, and Section 6(b)(5) of the Act,⁸ 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

⁶ For example, a Market Maker could set the value for the total number of contracts in the aggregate across all series of an options class at a level that exceeds the total aggregate number of contracts that the Market Maker actually quotes in all the series of the option class.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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.

The Exchange believes that requiring Market Makers to enter values for at least one of the triggering parameters will not be unreasonably burdensome, as Market Makers who prefer to use their own risk-management systems can enter out-of-range values so that the Exchange-provided parameters will not be triggered. Moreover, the Exchange is proposing this rule change in order to reduce the risk of a Market Marker inadvertently entering quotes without populating any of the triggering parameters. Reducing such risk will enable Market Makers to enter quotations with larger size, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market.

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 proposed rule change is substantially similar to a filing submitted by ISE that was recently approved by the Commission.⁹ The proposal is meant to help Market Makers manage risk by preventing the inadvertent entry of quotes without any risk-management parameters, whether internal or external. As noted above, Market Makers who prefer to use their own risk-management systems can enter out-of-range values so that the Exchange-provided parameters will not be triggered. Accordingly, the proposal does not require members to manage their risk using this feature.

⁹ See supra, note 4.

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 foregoing 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) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act¹⁰ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹¹

A proposed rule change filed under Rule 19b-4(f)(6)¹² normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii)¹³ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requested that the Commission waive the 30-day operative delay. The Exchange stated that waiver of the operative delay will allow the Exchange to quickly adopt an additional risk protection feature for Market Makers.

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest, because the Exchange will be able to implement promptly an amended automatic quote cancellation feature that will require a Market Maker to

¹⁰ 15 U.S.C. 78s(b)(3)(A)(ii).

¹¹ 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.

¹² 17 CFR 240.19b-4(f)(6).

¹³ 17 CFR 240.19b-4(f)(6)(iii).

enter values for at least one of the triggering parameters, and thus the proposal may help Market Makers mitigate their quoting risk exposure.¹⁴

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.

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-2014-02 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2014-02. 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

¹⁴ As noted by the Exchange above, Market Makers who prefer to use their own risk-management systems can enter out-of-range values so that the Exchange-provided parameters will not be triggered. Thus, the proposal does not require members to manage their risk using the Exchange's automatic quote cancellation feature.

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 am and 3:00 pm. 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; 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-2014-02 and should be submitted on or before [date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Kevin M. O'Neill
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).