

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75001; File No. SR-BOX-2015-20)

May 20, 2015

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to authorize the Exchange to share any Participant-designated risk settings in the trading system with the Clearing Participant that clears transactions on behalf of the Participant

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 May 13, 2015, 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 7000 (Access to and Conduct on the BOX Market) to authorize the Exchange to share any Participant-designated risk settings in the trading system with the Clearing Participant that clears transactions on behalf of the Participant. 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at the 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 7000 (Access to and Conduct on the BOX Market) to authorize the Exchange to share any Participant-designated risk settings in the trading system with the Clearing Participant³ that clears transactions on behalf of the Participant.⁴ Rule 7000 states that “[u]nless otherwise provided in the Rules, no one but an Options Participant or a person associated with an Options Participant shall effect any BOX Transactions.”⁵ The Exchange proposes to amend the rule by adding the following sentence: “The Exchange may share any Participant-designated risk settings in the trading system with the Clearing Participant that clears transactions on behalf of the Participant.” This is a competitive filing that is based on a proposal recently submitted by the International Securities Exchange, LLC (“ISE”).⁶

³ The term “Clearing Participant” means an Options Participant that is self-clearing or an Options Participant that clears BOX Transactions for other Options Participants of BOX. See Rule 100(a)(13).

⁴ The term “Options Participant” or “Participant” means a firm, or organization that is registered with the Exchange pursuant to the Rule 2000 Series for purposes of participating in options trading on BOX as an “Order Flow Provider” or “Market Maker”. See Rule 100(a)(40).

⁵ See Rule 7000(a).

⁶ See Securities Exchange Act Release No. 74623 (April 1, 2015), 80 FR 18447 (April 6, 2015) (Notice of SR-ISE-2015-12).

Rule 7200 provides that every Clearing Participant shall be responsible for the clearance of BOX Transactions⁷ of such Clearing Participants and of each Participant that gives up such Clearing Participant's name pursuant to a letter of authorization, letter of guarantee or other authorization given by such Clearing Participant to such Participant, which authorization must be submitted to the Exchange.⁸ The Exchange believes that because Clearing Participants guarantee all transactions on behalf of a Participant, and therefore, bear the risk associated with those transactions, it is appropriate for Clearing Participants to have knowledge of what risk settings a Participant may utilize within the trading system.

The Exchange notes that while not all Participants are Clearing Participants, all Participants require a Clearing Participant's consent to clear transactions on their behalf in order to conduct business on the Exchange. As the Clearing Participant ultimately bears all the risk for a trade they clear on any Participant's behalf, the Exchange believes it is reasonable to provide Clearing Participants with information relating to the risk settings used by each Participant whose transactions they are clearing. To the extent that a Clearing Participant might reasonably require a Participant to provide access to its risk settings as a prerequisite to continue to clear trades on the Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Participants and ensures that Clearing Participants are receiving information that is up-to-date and conforms to the settings active in the trading system.

The Exchange further notes that any broker-dealer is free to become a clearing member of the Options Clearing Corporation (the "OCC"), which would enable that

⁷ The term "BOX Transaction" means a transaction involving an options contract that is effected on or through BOX or its facilities or systems. See Rule 100(a)(8).

⁸ See Rule 7200(b).

Participant to avoid sharing risk settings with any third party, if they so choose. For these reasons, the Exchange believes that the proposal is consistent with the Act as it provides Clearing Participants with additional risk-related information that may aid them in complying with the Act, notably Rule 15c3-5 and, as noted, Participants that do not wish to share such settings with a Clearing Participant can do so by becoming a clearing member of the OCC.

The risk settings that would be shared pursuant to the proposed rule are currently codified in Rule 8130.⁹ The risk settings are designed to mitigate the potential risks of multiple executions against a Participant's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. The proposed rule will allow the Exchange to share a Participant's risk settings with the Clearing Participant that guarantees the Participant's transactions, and therefore has a financial interest in understanding the risk tolerance of a Participant.

Because the letter of guarantee codifies the relationship between a Participant and the Clearing Participant, the Exchange is on notice of which Clearing Participants have relationships with which Participants. The proposed rule change would simply provide the Exchange with authority to directly provide Clearing Participants with information that may otherwise be available to such Clearing Participants by virtue of their relationship with the respective Participant.

⁹ 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.

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”),¹⁰ in general, and Section 6(b)(5) of the Act,¹¹ 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.

The Exchange believes that the proposed rule change removes impediments to and perfects the mechanism of a free and open market by codifying that the Exchange may directly provide to Clearing Participants which guarantee that Participant’s transactions on the Exchange the Participant-designated risk settings in the trading system, which are designed to mitigate the potential risk of “rapid fire” executions that could result in large and unintended principal positions and expose the Participant to unnecessary market risk. The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest because it will permit Clearing Participants with a financial interest in a Participant’s risk settings to better monitor and manage the potential risks assumed by Participants with whom the Clearing Participant has entered into a letter of guarantee, thereby providing Clearing Participants with greater control and flexibility over setting their own risk tolerance and exposure.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

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 response to a filing submitted by ISE.¹² The proposed rule change is not designed to address any competitive issues and does not pose an undue burden on non-Clearing Participants because, unlike Clearing Participants, non-Clearing Participants do not guarantee the execution of a Participant's BOX Transactions. The proposed rule change would provide authority for the Exchange to directly share risk settings with Clearing Participants regarding the Participants with whom the Clearing Participant has executed a letter of guarantee so the Clearing Participant can better monitor and manage the potential risks assumed by the Participants, thereby providing them with greater control and flexibility over setting their own risk tolerance and exposure. The proposed rule change is structured to offer the same enhancement to all Clearing Participants, regardless of size, and would not impose a competitive burden on any participant.

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) of the

¹² See supra, note 6.

Act¹³ and Rule 19b-4(f)(6)¹⁴ thereunder. 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 will institute proceedings to determine whether the proposed rule change 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-2015-20 on the subject line.

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-2015-20. 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

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 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.

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 will also 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-2015-20 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.¹⁵

Robert W. Errett
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).