

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76086; File No. SR-BOX-2015-33)

October 6, 2015

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 7270 (Block Trades)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 2, 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 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 Rule 7270 (Block Trades). 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 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.

---

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

<sup>2</sup> 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to amend Rule 7270 (Block Trades) to permit an Order Flow Provider (“OFP”) initiating a Facilitation Auction, at its option, to designate a lower amount for which it will retain certain priority and trade allocation privileges upon the conclusion of the Facilitation Auction.

Background

The Facilitation Auction mechanism allows OFPs to enter crossing transactions where the OFP represents a block-size order as agent (“Agency Order”) and (1) is trading against the Agency Order as principal (i.e., facilitating the Agency Order) and/or (2) has solicited an order to take the opposite side of the Agency Order.<sup>3</sup> The Facilitation Auction allows block-size order executions against facilitated or solicited orders, or against a combination of facilitated or solicited orders. The Facilitation Auction is limited to orders of fifty (50) contracts or more.

OFPs must be willing to execute the entire size of the Agency Orders entered into the Facilitation Auction through the submission of a contra “Facilitation Order.” Upon the entry of an Agency Order and Facilitation Order in the Facilitation Auction, a broadcast message is sent to Participants, giving them the opportunity to submit responses with the prices and sizes at which they would be willing to participate in the facilitation opposite the Agency Order. Responses must be priced at the price of the Agency Order or at a better price and must not exceed the size of the Agency Order to be facilitated. At the end of the period given for the entry of responses, the Facilitation Order will be automatically executed with the Agency Order.

Unless there is sufficient size to execute the entire Agency Order at a better price, Public

---

<sup>3</sup> See Rule 7270(a).

Customer bids (offers) and Public Customer responses at the time the Agency Order is executed that are priced higher (lower) than the facilitation price are executed at the facilitation price.

Non-Public Customer and Market Maker bids (offers) and Non-Public Customer and Market Maker responses at the time the Agency Order is executed that are priced higher (lower) than the facilitation price are executed against the Agency Order at their stated price, which provides Agency Order execution at a better price for the number of contracts associated with such higher bids (lower offers) and responses.

The facilitating OFP is allocated priority for at least forty percent (40%) of the original size of the Facilitation Order, but only after better-priced bids (offers) and responses, as well as Public Customer bids (offers) and responses at the facilitation price, are executed in full. After the facilitating OFP has executed his forty percent (40%), Non-Public Customer and Market Maker bids (offers) and responses at the facilitation price will participate in the execution of the Agency Order based upon price and time priority.

#### Proposed Changes

The Exchange is now proposing to amend the Facilitation Auction to permit an OFP to designate a lower amount for which it will retain certain priority and trade allocation privileges at the conclusion of the Facilitation Auction. Specifically, this proposal will permit an OFP, when starting a Facilitation Auction, to submit the Facilitation Order to BOX with a designation to identify the total size of the Agency Order that the OFP is willing to “surrender” to other Participants (“Surrender Quantity”), resulting in the OFP potentially being allocated less than the forty percent (40%) to which it is entitled.<sup>4</sup> For example, when an OFP submits an Agency Order

---

<sup>4</sup> The OFP will not be allowed to modify the Surrender Quantity once the order has been submitted to the Exchange. Additionally, the broadcast message sent to Participants at the start of the Facilitation Auction will not include the Surrender Quantity amount, if any.

and Facilitation Order for 100 contracts and a Surrender Quantity of 70 contracts, the OFP is designating that it is willing to surrender seventy percent (70%) of the Agency Order to other Participants. Therefore, the OFP is only retaining priority to thirty percent (30%) of the Agency Order, rather than the forty percent (40%) it could have received. The Facilitation Order shall continue to yield priority to certain competing orders in the circumstances set forth in Rule 7270(a).

The proposed rule change further provides that in no case shall the OFP's use of the Surrender Quantity function result in an allocation to the OFP that would be greater than the maximum allowable allocation the OFP would otherwise receive in accordance with the Facilitation allocation procedures set forth in Rule 7270(a).

The proposed rule change will modify the Trading Host's<sup>5</sup> trade allocation at the conclusion of the Facilitation Auction to account for the Surrender Quantity. The proposal specifies that when the Trading Host determines the priority and trade allocation amounts for the OFP upon the conclusion of the Facilitation Auction, the Trading Host will automatically adjust the trade allocations to other Participants according to the priority set forth in Rule 7270(a), providing a total amount to the other Participants up to the Surrender Quantity. The Facilitation Order shall be allocated the remaining size of the Agency Order, if any. If the aggregate size of responses and orders from Participants is not equal to or greater than the Surrender Quantity, then the remaining Surrender Quantity shall be left unfilled and the Facilitation Order shall be allocated the remaining size of the Agency Order. For example, an OFP submits an Agency Order and Facilitation Order for 100 contracts and a Surrender Quantity of 70 contracts. During the Facilitation Auction only one response for 25 contracts is received. Even though the OFP was

---

<sup>5</sup> The term "Trading Host" means the automated trading system used by BOX for the trading of options contracts.

willing to surrender 70 contracts to the other Participants, there is not enough competing size in this instance to allocate 70 contracts to someone else. Therefore, the Facilitation Order's requirement to completely fill the Agency Order takes precedence, and the OFP is allocated the remaining 75 contracts.

The Exchange will provide Participants with notice, via Information Circular, about the implementation date of the Surrender Quantity prior to its implementation in the trading system.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,<sup>6</sup> in general, and Section 6(b)(5) of the Act,<sup>7</sup> in particular, in that the proposed changes are designed to promote just and equitable principles of trade, 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, by providing the opportunity for Participants, not including the initiating Participant, to receive a greater allocation at the conclusion of the Facilitation Auction. The Exchange believes that the proposed changes will incentivize Participants to submit additional orders to the Exchange which will benefit all Participants and public customers.

The Exchange believes that the proposed rule change will benefit investors and Participants by allowing an OFP the flexibility to designate a lower amount for which it will retain certain priority and trade allocation privileges upon the conclusion of the Facilitation Auction, thereby providing other Participants with the opportunity to receive increased trade allocations. The proposed rule change is designed to promote just and equitable principles of trade by assuring that an OFP cannot use the Surrender Quantity to receive an allocation greater

---

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

than the maximum allowable percentage. The proposed rule change will protect investors and the public interest because Public Customer orders will still receive the same priority during the allocation process.

The proposed changes are similar to Exchange rules applicable to other auctions offered by the Exchange. Specifically, the Exchange allows Participants to submit a surrender quantity when submitting orders to the Price Improvement Period (“PIP”) and Solicitation Auction.<sup>8</sup>

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 similar to rules of the Exchange’s PIP and Solicitation Auction. The Exchange believes that the propose rule change should incent OFPs to continue submitting block trades to the Facilitation Auction to the benefit of the Exchange and its Participants and public customers. The Exchange believes that the proposal will enhance competition by providing an opportunity for Participants to receive a greater allocation at the end of the Facilitation Auction.

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)

---

<sup>8</sup> See Rules 7150(h)(5)(i) and 7270(b)(2)(iv). The Solicitation Auction’s surrender quantity is slightly different in that the Participant is surrendering its priority to interest on the BOX Book, as opposed to the PIP and proposed Surrender Quantity where the Participant is surrendering its interest to auction responses.

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 Act<sup>9</sup> and Rule 19b-4(f)(6) thereunder.<sup>10</sup>

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](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2015-33 on the subject line.

---

<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 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-2015-33. 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-2015-33, 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.<sup>11</sup>

Robert W. Errett  
Deputy Secretary

---

<sup>11</sup> 17 CFR 200.30-3(a)(12).