

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70063; File No. SR-BOX-2013-38)

July 30, 2013

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of a Proposed Rule Change to Modify the Complex Order Filter

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 22, 2013, BOX Options Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 7240(b)(3)(iii) related to filtering of Complex Orders and Rule 7130 to clarify that exposed Complex Orders are included in the Exchange’s High Speed Vendor Feed (“HSVF”). 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

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

<sup>2</sup> 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 its rules relating to filtering inbound Complex Orders<sup>3</sup> (the "Complex Order Filter"). The proposed rule change would make the existing exposure period available to all unexecuted Complex Orders with an exposure price equal to or better than cNBBO.<sup>4</sup> The proposed rule change would further provide Exchange Participants with a mechanism to elect whether to participate in the exposure process and would clarify that the broadcast notice of each exposed Complex Order is provided to market participants. The Exchange believes the proposed Complex Order Filter will simplify the filtering procedure, provide greater flexibility to Participants submitting Complex Orders to BOX Market LLC, the Exchange's trading facility ("BOX").

The proposed Complex Order Filter is intended to expand the existing Complex Order Filter. The proposed Complex Order Filter will continue to apply to Complex Orders on standard strategies (two legs with a ratio of 1:1) and non-standard strategies (other than two legs with a ratio of 1:1). The proposed Complex Order Filter will not affect the Exchange's rules regarding execution of single options series on the BOX Book. The Exchange notes that,

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<sup>3</sup> "Complex Order" is defined as "any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same amount, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy." See Exchange Rule 7240(a)(5).

<sup>4</sup> See proposed Rule 7240(b)(3)(iii)(B).

currently, orders on single option series may be subjected to an exposure period.<sup>5</sup> However, while unexecutable orders on single option series may be routed away from the Exchange or rejected, Complex Orders are not routed away.

The Exchange's existing Complex Order Filter is contained in Exchange Rule 7240(b)(3)(iii) and provides that all inbound Complex Orders to BOX are filtered to ensure that each leg of a Complex Order will be executed at a price that is equal to or better than NBBO and BOX BBO for each of the component series.

The proposed Complex Order Filter operates by a series of sequential steps, set forth in proposed Rule 7240(b)(3)(iii)(A), (B), (C) and (D), resulting in the Complex Order being fully or partially executed, cancelled or entered on the Complex Order Book.<sup>6</sup> The proposed Complex Order Filter differs from the existing Complex Order Filter by allowing Limit Complex Orders that are not immediately executable to be subject to the exposure period.

The first step in the Complex Order Filter is described in existing Rule 7240(b)(3)(iii)(A) and provides that inbound Complex Orders with execution prices equal to or better than both cNBBO and cBBO are first executed against existing interest on the BOX Book<sup>7</sup> and the Complex Order Book. The Exchange proposes to retain this initial execution step, unchanged from the current Complex Order Filter, and adding the words, "to the extent possible," to Rule 7240(b)(3)(iii)(A) to clarify that such execution may be only a partial execution of the Complex Order.

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<sup>5</sup> See Rule 7130(b)(4)(ii).

<sup>6</sup> "Complex Order Book" is defined as "the electronic book of Complex Orders maintained by the BOX Trading Host." See Exchange Rule 7240(a)(6).

<sup>7</sup> "BOX Book" is defined as "the electronic book of orders on each single option series maintained by the BOX Trading Host." See Exchange Rule 100(a)(10).

Following the initial execution step, the current Complex Order Filter contemplates a series of steps set forth in existing Rule 7240(b)(3)(iii) by which, depending upon the Complex Order type and price, certain Complex Orders are exposed and others are entered on the Complex Order Book. Exposed orders may be exposed for execution for a period of up to one second. Any executable, opposite side orders received during the exposure period immediately execute against the exposed Complex Order and any remaining unexecuted portion is cancelled. Currently, after any initial execution, Limit Complex Orders are directly entered on the Complex Order Book without an opportunity for exposure.<sup>8</sup>

Currently, the Exchange permits BOX-Top and Market Complex Orders to be exposed for an exposure period of up to one second to the extent not executed in the initial execution step.<sup>9</sup> The Exchange proposes to allow Limit Complex Orders with an exposure price equal to, or better than, the same side cNBBO to also be exposed to the extent not previously executed in the initial execution step. However, if the Complex Order's exposure price would be worse than the same-side cNBBO, the Complex Order will not be exposed and will be cancelled; provided that a Limit Complex Order not exposed for this reason, and which would not lock or cross the Complex Order Book, will be entered on the Complex Order Book.<sup>10</sup> The Exchange believes allowing inbound Limit Complex Orders that are not executable on BOX but are executable against the cNBBO to be subject to the exposure period will result in higher numbers of exposed Complex Orders and thereby improve order execution opportunities for Participants.

The exposure period will not exceed one second and it will be set by the Exchange, taking into consideration the technological ability of Participants to respond and similar exposure

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<sup>8</sup> See Exchange Rule 7240(b)(3)(iii)(C)(I) and Rule 7240(b)(3)(iii)(D).

<sup>9</sup> See Exchange Rule 7240(b)(3)(iii)(B) and (C)(II).

<sup>10</sup> See proposed Rule 7240(b)(3)(iii)(B).

periods implemented by the Exchange and other exchanges. The Exchange proposes to amend the exposure period language in Rule 7240(b)(3)(iii)(B) to state that the exposure period will be a time period established by the Exchange, not to exceed one second. This change conforms to language previously proposed by the Exchange with respect to Rule 7130(b)(4)(ii) for orders on single option series.<sup>11</sup> The Exchange will notify Participants of the duration of the exposure period, and any changes to the duration, via regulatory circular.

Currently, a Participant may voluntarily cancel a Complex Order at any time, including during the exposure period, and no change to that ability is proposed. However, the Exchange now proposes to permit Participants the additional flexibility to specify, when submitting a Complex Order, whether or not the Complex Order will be subject to exposure before being entered on the Complex Order Book. If a Participant so elects, the exposure period in the proposed Complex Order Filter may be skipped for a specified Complex Order. If no preference is specified, the Complex Order will be exposed by default.

The Exchange proposes that any unexecuted portion of a Complex Order remaining at the conclusion of the exposure period (or after the initial execution step, if the submitting Participant elects to forego the exposure period) then will be either entered on the Complex Order Book or cancelled.

Complex Orders will be cancelled if (i) the Participant submitting the Complex Order provides instructions that the Complex Order is to be cancelled at that point, (ii) the Complex Order is a Market Order, (iii) the Complex Order is a BOX-Top Order, no part of which has been executed, or (iv) the Complex Order is a BOX-Top or Limit Order at a limit price that otherwise

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<sup>11</sup> See SR-BOX-2013-32.

could execute against interest on BOX but only at a price that is not equal to or better than cNBBO.<sup>12</sup>

The Exchange proposes that any unexecuted Limit or BOX-Top Complex Orders will be entered on the Complex Order Book at the end of the exposure period (or after the initial execution step, if the submitting Participant elects to forego the exposure period) unless it is cancelled pursuant to proposed Rule 7240(b)(3)(iii)(C).<sup>13</sup>

The Exchange further proposes to amend its Rule 7130 to clarify that the HSVF is made available to market participants, rather than displayed to Options Participants<sup>14</sup> and that exposed Complex Orders are included in the HSVF.<sup>15</sup> The proposed changes to Rule 7130 do not represent changes to the operation of the Exchange but are simply clarifications of the rule text. The HSVF is made available to market participants but neither market participants nor Options Participants are required to receive the display.

## 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”),<sup>16</sup> in general, and Section 6(b)(5) of the Act,<sup>17</sup> 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

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<sup>12</sup> See proposed Rule 7240(b)(3)(iii)(C).

<sup>13</sup> See proposed Rule 7240(b)(3)(iii)(D).

<sup>14</sup> See proposed change to Rule 7130(a).

<sup>15</sup> See proposed change to Rule 7130(a)(2)(vii).

<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

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 rule filing is reasonable, equitable and not unfairly discriminatory because the benefits of simplicity, flexibility, visibility and increased opportunities for execution and better pricing are equally available to all Participants.

The proposed Complex Order Filter differs from the existing Complex Order Filter by allowing Limit Complex Orders that are not executable on BOX but are executable against the cNBBO to be subject to the exposure period. The Exchange believes that broadening the range of Complex Orders that may be exposed will result in higher numbers of exposed Complex Orders, increase visibility and provide flexibility and thereby improve order execution opportunities for Participants. As a result, the Exchange believes the proposed rule changes 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.

The Exchange proposes to permit Participants the additional flexibility to choose, when submitting a Complex Order, whether or not the Complex Order will be subject to exposure before being entered on the Complex Order Book. If a Participant so elects, the exposure period in the proposed Complex Order Filter may be skipped for a specified Complex Order. Providing this additional tool to Participants serves to promote just and equitable principles of trade, 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 the proposed amendment of Rule 7130, while it does not change Exchange operations, adds clarity to its existing rule text by providing that the HSVF is made

available to market participants, and not limited to BOX Options Participants, but neither market participants nor Options Participants are required to receive the display, which wider distribution and choice for market participants serves to promote just and equitable principles of trade and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

For the foregoing reasons, the Exchange believes this proposal is a reasonable modification to its rules, designed to facilitate increased interaction of Complex Orders on the Exchange, and to do so in a manner that ensures a dynamic, real-time trading mechanism that maximizes opportunities for trade executions for Complex Orders. The Exchange believes it is appropriate and consistent with the Act, for the purpose of clarity and in the public interest, to adopt the proposed amendments to Rule 7240(b)(3)(iii).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe the proposed rule change represents any undue burden on competition or will impose any burden on competition among exchanges in the listed options marketplace not necessary or appropriate in furtherance of the purposes of the Act. The features of the proposed rule change will apply equally to all Participants and are available to all Participants.

Submitting a Complex Order is entirely voluntary and Participants will determine which type of order they wish to submit, if any, to the Exchange. The Exchange operates in a highly competitive marketplace with other competing exchanges and market participants can readily direct their Complex Order flow to any these exchanges if they so choose.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be 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-2013-38 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-2013-38. 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 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 offices 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-2013-38, 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>18</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).