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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-77778; File No. SR-BOX-2016-21)

May 6, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule on the BOX Market LLC (“BOX”) Options Facility

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 April 29, 2016, 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 Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. 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 the Substance of the Proposed Rule Change

The Exchange is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend the Fee Schedule on the BOX Market LLC (“BOX”) options facility. While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on May 2, 2016. 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>.

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

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

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

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

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 Exchange 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 Exchange 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 the Fee Schedule for trading on BOX.

PIP and COPIP Transactions

The Exchange first proposes to amend certain PIP and COPIP Transaction fees for Professional Customers, Broker Dealer and Market Makers in Section I.B of the BOX Fee Schedule. Specifically, the Exchange proposes to reduce the PIP and COPIP Order fees for Professional Customers and Broker Dealers from \$0.37 to \$0.15 and the PIP and COPIP Order Fees for Market Makers from \$0.20 to \$0.15.

The revised pricing structure for PIP and COPIP Transactions will be as follows:

|                                   | <b>Account Type</b> |                       |                    |                    |
|-----------------------------------|---------------------|-----------------------|--------------------|--------------------|
|                                   | Public Customer     | Professional Customer | Broker Dealer      | Market Maker       |
| PIP Order or COPIP Order          | \$0.00              | \$0.15                | \$0.15             | \$0.15             |
| Improvement Order in PIP or COPIP | \$0.15              | \$0.37                | \$0.37             | \$0.30             |
| Primary Improvement Order         | See Section I. B.1  | See Section I. B.1    | See Section I. B.1 | See Section I. B.1 |

The Exchange also proposes to make a clerical correction to Section I.B. of the BOX Fee

Schedule. Specifically, the Primary Improvement Order row references ADV (Average Daily Volume). The Exchange no longer uses a Participant's ADV to determine volume based tiers for rebates and fees. Instead, the qualification thresholds are based on a percentage of the Participant's volume relative to the account type's overall total industry equity and ETF option volume. Therefore, the Exchange proposes to remove the reference ADV and only refer to Section I.B.1.

### BVR

Under the BVR, the Exchange offers a tiered per contract rebate for all PIP Orders and COPIP orders of 100 contracts and under that do not trade solely with their contra order. Percentage thresholds are calculated on a monthly basis by totaling the Participant's PIP and COPIP volume submitted to BOX, relative to the total national Customer volume in multiply-listed options classes.

The Exchange proposes to establish an additional tier within the BVR for percentage thresholds of 1.250% and above. Participants whose PIP and COPIP volume submitted to BOX, relative to the total national Customer volume in multiply-listed options classes, is 1.250% or above will receive a per contract rebate of \$0.18 in PIP transactions and \$0.06 in COPIP transactions. With this, the Exchange also proposes to adjust the threshold in Tier 4 to end at 1.249%.

The new BVR set forth in Section I.B.2 of the BOX Fee Schedule will be as follows:

| Tier | Percentage<br>Thresholds of National Customer<br>Volume in Multiply-Listed Options<br>Classes (Monthly) | Per Contract Rebate<br>(All Account Types) |              |
|------|---|--|--------------|
|      |   | <u>PIP</u>                                 | <u>COPIP</u> |
| 1    | 0.000% to 0.159%  | (\$0.00)                                   | (\$0.00)     |
| 2    | 0.160% to 0.339%  | (\$0.04)                                   | (\$0.02)     |
| 3    | 0.340% to 0.999%  | (\$0.11)                                   | (\$0.04)     |
| 4    | 1.000% to 1.249%  | (\$0.14)                                   | (\$0.06)     |
| 5    | 1.250% and Above  | (\$0.18)                                   | (\$0.06)     |

### Complex Orders

The Exchange then proposes to adjust certain fees within the Complex Order Pricing Structure in Section III.A. of the BOX Fee Schedule (All Complex Orders). The Exchange recently introduced a pricing structure where Complex Orders are assessed transaction fees and credits dependent upon three factors: (i) the account type of the Participant submitting the order; (ii) whether the Participant is a liquidity provider or liquidity taker; and (iii) the account type of the contra party.<sup>5</sup>

The Exchange now proposes to adjust certain fees and rebates within the new pricing structure. Specifically, the Exchange proposes to replace the \$0.10 credit applied to Market Makers, Professional Customer and Broker Dealers making liquidity against a Public Customer in Penny Pilot Classes. The Exchange proposes to instead assess Professional Customers or Broker Dealers \$0.45 and Market Makers \$0.40 when their Penny Pilot Complex Order makes liquidity against a Public Customer Complex Order.

For Complex Orders in Non-Penny Pilot Classes, the Exchange proposes to replace the \$0.10 credit applied to Market Makers, Professional Customer and Broker Dealers making liquidity against a Public Customer. The Exchange proposes to instead assess Professional Customers and Broker Dealers \$0.80 and Market Makers \$0.75 when their Non-Penny Pilot

<sup>5</sup> See Securities Exchange Act Release No. 77568 (April 8, 2016), 81 FR 22151 (April 14, 2016) (SR-BOX-2016-15).

Complex Order makes liquidity against a Public Customer Complex Order.

The revised Complex Order Pricing Structure will be as follows:

| <b>Account Type</b>                           | <b>Contra Party</b>                     | <b>Penny Pilot Classes</b> |                         | <b>Non-Penny Pilot Classes</b> |                         |
|---|---|----------------------------|-------------------------|--------------------------------|-------------------------|
|   |   | <b>Maker Fee/Credit</b>    | <b>Taker Fee/Credit</b> | <b>Maker Fee/Credit</b>        | <b>Taker Fee/Credit</b> |
| <b>Public Customer</b>                        | Public Customer                         | \$0.00                     | \$0.00                  | \$0.00                         | \$0.00                  |
|   | Professional Customer/<br>Broker Dealer | (\$0.35)                   | (\$0.35)                | (\$0.70)                       | (\$0.70)                |
|   | Market Maker                            | (\$0.35)                   | (\$0.35)                | (\$0.70)                       | (\$0.70)                |
| <b>Professional Customer or Broker Dealer</b> | Public Customer                         | \$0.45                     | \$0.45                  | \$0.80                         | \$0.80                  |
|   | Professional Customer/<br>Broker Dealer | (\$0.10)                   | \$0.30                  | (\$0.10)                       | \$0.45                  |
|   | Market Maker                            | (\$0.10)                   | \$0.30                  | (\$0.10)                       | \$0.45                  |
| <b>Market Maker</b>                           | Public Customer                         | \$0.40                     | \$0.40                  | \$0.75                         | \$0.75                  |
|   | Professional Customer/<br>Broker Dealer | (\$0.10)                   | \$0.30                  | (\$0.10)                       | \$0.45                  |
|   | Market Maker                            | (\$0.10)                   | \$0.30                  | (\$0.10)                       | \$0.45                  |

For example, if a Market Maker's Complex Order in a Penny Pilot Class interacted with a Public Customer's Complex Order, regardless of whether the Complex Order was making or taking liquidity, the Market Maker would now be charged \$0.40 and the Public Customer would be credited \$0.35.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act, in general, and Section 6(b)(4) and 6(b)(5) of the Act,<sup>6</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among BOX

<sup>6</sup> 15 U.S.C. 78f(b)(4) and (5).

Participants and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Exchange believes that reducing the PIP and COPIP Order Fees to \$0.15 for Market Makers, Professional Customers and Broker Dealers is reasonable. Reducing these fees is meant to encourage auction order flow to the Exchange, which will benefit all market participants on the Exchange. BOX believes the \$0.15 fee is equitable and not unfairly discriminatory, as it applies to all Market Marker, Professional Customers and Broker Dealers submitting PIP and COPIP Orders to these auction mechanisms. Further, the Exchange believes it is equitable and not unfairly discriminatory to charge Public Customers less than Non-Public Customers for their PIP and COPIP Orders. The practice of incentivizing increased Public Customer order flow is common in the options markets.

The Exchange believes the proposed amendments to the BVR in Section I.B.2 of the BOX Fee Schedule are reasonable, equitable and non-discriminatory. The BVR was adopted to attract Public Customer order flow to the Exchange by offering these Participants incentives to submit their PIP and COPIP Orders to the Exchange and the Exchange believes it is appropriate to now amend the BVR. The Exchange believes it is equitable and not unfairly discriminatory to establish an additional tier within the BVR, as all Participants have the ability to qualify for a rebate, and rebates are provided equally to qualifying Participants. Finally, the Exchange believes it is reasonable and appropriate to continue to provide incentives for Public Customers, which will result in greater liquidity and ultimately benefit all Participants trading on the Exchange.

BOX believes it is reasonable, equitable and not unfairly discriminatory to adjust the monthly Percentage Thresholds of National Customer Volume in Multiply-Listed Options

Classes. The volume thresholds and applicable rebates are meant to incentivize Participants to direct order flow to the Exchange to obtain the benefit of the rebate, which will in turn benefit all market participants by increasing liquidity on the Exchange. Other exchanges employ similar incentive programs,<sup>7</sup> and the Exchange believes that the proposed changes to the volume thresholds and rebates are reasonable and competitive when compared to incentive structures at other exchanges.

The Exchange believes amending the Complex Order pricing structure is reasonable, equitable and not unfairly discriminatory. The fee structure for Complex Orders was recently adopted and the Exchange believes it is now appropriate to adjust certain fees and credits. The Complex Order fee structure is generally intended to attract order flow to the Exchange by offering all market participants incentives to submit their Complex Orders to the Exchange.

The Exchange believes that the proposed fees for Professional Customers, Broker Dealers and Market Makers interacting with Public Customer Complex Orders are reasonable. A Professional Customer or Broker Dealer interacting against a Public Customer will now be charged \$0.45 in Penny Pilot Classes and \$0.80 Non-Penny Pilot Classes, regardless if it is making or taking liquidity. A Market Maker interacting against a Public Customer will now be charged \$0.40 in Penny Pilot Classes and \$0.75 Non-Penny Pilot Classes, regardless of whether it is making or taking liquidity. The Exchange believes these proposed Complex Order fees remain competitive when compared to the Complex Order fees on another exchange.<sup>8</sup>

The Exchange believes that charging Professional Customers and Broker Dealers higher

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<sup>7</sup> See Section B of the PHLX Pricing Schedule entitled “Customer Rebate Program;” ISE Gemini’s Qualifying Tier Thresholds (page 6 of the ISE Gemini Fee Schedule); and CBOE’s Volume Incentive Program (VIP).

<sup>8</sup> Comparative Complex Order fees at another exchanges [sic] range from \$0.30 [sic] to \$0.88. See Section II of the International Securities Exchange (“ISE”) Schedule of Fees entitled “Complex Order Fees and Rebates.”

fees than Public Customers for Complex Orders is equitable and not unfairly discriminatory. Professional Customers, while Public Customers by virtue of not being Broker Dealers, generally engage in trading activity more similar to Broker Dealer proprietary trading accounts (submitting more than 390 standard orders per day on average). The Exchange believes that the higher level of trading activity from these Participants will draw a greater amount of BOX system resources than that of non-professional, Public Customers. Because this higher level of trading activity will result in greater ongoing operational costs, the Exchange aims to recover its costs by assessing Professional Customers and Broker Dealers higher fees for transactions.

The Exchange also believes it is equitable and not unfairly discriminatory for BOX Market Makers to be assessed lower fees than Professional Customers and Broker Dealers for certain Complex Order executions because of the significant contributions to overall market quality that Market Makers provide. Specifically, Market Makers can provide higher volumes of liquidity and lowering their fees will help attract a higher level of Market Maker order flow to the BOX Book and create liquidity, which the Exchange believes will ultimately benefit all Participants trading on BOX. As such, the Exchange believes it is appropriate that Market Makers be charged lower transaction fees than Professional Customers and Broker Dealers for certain Complex Order executions.

The Exchange also believes it is reasonable, equitable and not unfairly discriminatory to charge Non-Public Customers a higher fee when their Complex Order interacts with a Public Customer's Complex Order, when compared to the fee assessed when their Complex Order interacts with a Non-Public Customer's Complex Order. To attract Public Customer order flow, Public Customers are given credit when their Complex Order executes against a non-Public Customer. The securities markets generally, and BOX in particular, have historically aimed to

improve markets for investors and develop various features within the market structure for Public Customer benefit. Similar to payment for order flow and other pricing models that have been adopted by the Exchange and other exchanges to attract Public Customer order flow, the Exchange increases fees to non-Public Customers to provide incentives for Public Customers. The Exchange believes that providing incentives for Complex Orders by Public Customers is reasonable and, ultimately, will benefit all Participants trading on the Exchange by attracting Public Customer order flow.

Finally, the Exchange also believes it is reasonable to charge Professional Customers, Broker Dealers, and Market Makers less for certain executions in Penny Pilot issues compared to Non-Penny Pilot issues because these classes are typically more actively traded; assessing lower fees will further incentivize order flow in Penny Pilot issues on the Exchange, ultimately benefiting all Participants trading on BOX.

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. The Exchange is simply proposing to reduce PIP and COPIP Order fees and establish a new qualification tier in the BVR. The Exchange believes doing so will increase intermarket and intramarket competition by incenting Participants to direct their order flow to the exchange, which benefits all participants by providing more trading opportunities and improves competition on the Exchange. The Exchange also believes amending certain Complex Order fees and credits will enhance competition between exchanges because it is designed to allow the Exchange to better compete with other exchanges for Complex Order flow.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing exchanges. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Exchange Act<sup>9</sup> and Rule 19b-4(f)(2) thereunder,<sup>10</sup> because it establishes or changes a due, or fee.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend the rule change if it appears to the Commission that the action is necessary or appropriate in the public interest, for the protection of investors, or would otherwise further 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:

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

<sup>10</sup> 17 CFR 240.19b-4(f)(2).

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-2016-21 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-BOX-2016-21. 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, DC 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-2016-21, 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

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

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