8011-01P

SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-91897; File No. SR-BOX-2021-11]

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Establish Rule 7135 (Execution and Pro Rata Priority) and Rule 8055 (Lead Market Makers)

May 14, 2021.

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 April 29, 2021, BOX Exchange LLC ("Exchange" or "BOX") 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 establish Rule 7135 (Execution and Pro Rata Priority) and Rule 8055 (Lead Market Makers). 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://boxoptions.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.

1 15 U.S.C. 78s(b)(1).

2 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 BOX Options Market launched on April 27, 2012 as a fully automated, Price/Time priority execution system.[3] Currently, BOX Rule 7130(a)(4) provides that the Trading Host[4] accepts buy and sell orders in the respective sequence in which the Trading Host receives such orders and will have a single execution algorithm based on Price/Time priority.[5] At this time, the Exchange proposes to establish Rule 7135 which will govern Pro Rata execution and priority on BOX. In order to make clear that only one of the two execution algorithms is applicable to a particular options class, BOX proposes to add introductory language to both Rule 7130(a)(4) and proposed Rule 7135 which states that that the Exchange will determine to apply, for each option class, one of the base execution algorithms described in Rule 7130(a)(4) (Price/Time Priority) or Rule 7135(b) (Pro Rata Priority). The Exchange will issue a Regulatory Circular specifying which execution algorithm will govern which options class any time it is modified.[6] The Exchange notes that the proposed Pro Rata execution algorithm and priority rules discussed herein will apply only to electronic orders on the Exchange. Qualified Open Outcry Orders ("QOO Orders") executed on the BOX Trading Floor will continue to be subject to the priority

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3 See Securities Exchange Act Release No. 66871 (April 27, 2012) (File No. 10-206). See Securities Exchange Act Release No. 66871 (April 27, 2012) 77 FR 26323 (May 3, 2012) (File No. 10-206).

4 See Rule 100(a)(68). The term "Trading Host" means the automated trading system used by BOX for the trading of options contracts.

5 The following criteria will determine order matching and trade execution for Price/Time priority: (i) *Price*. A buy order at the highest price and a sell order at the lowest price have priority over other orders in the same series/strategy; and (ii) *Time*. A buy/sell order at the best price will trade in sequence according to the time it was accepted by the Trading Host, from earliest time stamp to latest. (iii) *Trade*. A trade occurs when orders or quotations match in the Trading Host. An order entered into the Trading Host that matches an order in the Trading host will trade at the price of the order in the Trading Host up to the available size.

6 Price/Time Priority as described in Rule 7130(a)(4) will be in effect for all options classes until otherwise specified by the Exchange pursuant to a Regulatory Circular.

and allocation rules detailed in the 7600 rules series regardless of whether the options class is designated for Pro Rata or Price/Time priority in the electronic market.[7] All QOO Orders are processed through the BOX Trading Host system which enforces the rules detailed in the 7600 series.

Proposed Rule 7135(b) states that the System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at that price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If the result is not a whole number, it will be rounded down to the nearest whole number. The Exchange notes that proposed Rule 7135(a) and (b) are similar to rules that currently exist on another options exchange.[8]

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7 Currently, on the BOX Trading Floor, QOO Orders (1) may not trade through any equal or better priced Public Customer bids or offers on the BOX Book or any non-Public Customer bids or offers on the BOX Book that are ranked ahead of such equal or better priced Public Customer bids or offers, and (2) may not trade through any non-Public Customer bids or offers on the BOX Book that are priced better than the proposed execution price. See BOX Rule 7600(c)(1). In addition, QOO Orders are subject to the allocation provisions detailed in Rule 7600(d). The Exchange notes that QOO Orders will continue to execute pursuant to these rules**.** To illustrate, consider the following: Options on XYZ are designated to execute through the Pro Rata algorithm pursuant to proposed Rule 7135(b) for electronic orders. Two XYZ buy orders rest on the BOX Book as follows (in the order of which the orders were received by the Exchange). The first order is a Broker Dealer Order to buy 15 XYZ at $1.00 and the second order is a Public Customer Order to buy 7 XYZ at $1.00. An incoming QOO Order to sell 25 XYZ is received by BOX. Pursuant to 7600(c) and (d), the incoming QOO Order to sell 25 XYZ will execute against the orders as follows: Broker Dealer will trade 15 XYZ at $1.00 and Public Customer will trade 7 XYZ at $1.00. The remaining quantity of 3 will trade against the QOO contra-side order. The Exchange notes that in an electronic class designated as Pro Rata, the BOX system will continue to rank orders on the BOX Book in price-time priority in order for QOO Orders to execute against orders on the BOX Book pursuant to the priority and allocation provisions detailed in 7600(d);however, orders on BOX Book in such class will be ranked in Pro Rata priority at the time of an electronic order execution.

8 See Nasdaq BX LLC ("Nasdaq BX") Options 3, Section 10(a)(1) and (a)(1)(B) (Order Book Allocation).

Further, the Exchange proposes that (1) If there are residual contracts to be filled after the pro rata calculation has been completed, such contracts will be allocated, with no more than one contract per Participant, in the following sequence: (A) The Participant in the pool who has the largest fractional amount based on the pro rata calculation (trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price) will receive the first contract, and each successive contract (if any) will be allocated to each subsequent Participant who has the next largest fractional share; (B) If the last residual contracts are to be allocated between two or more Participants with the same fractional amount, then the Participant with the first time priority in the pro rata pool will be allocated the next contract. Each successive contract (if any) will be allocated in the same manner. The Exchange notes that a similar rule currently exists at another options exchange.[9]

The following example illustrates how the Exchange's system will execute with rounding and residual contracts:[10]

Market: $2.00 (86) x $2.03 (23)

Public Customer (PC): buy order 7 contracts @ $2.00

Market Maker A (MMA) Quote: $2.00 (55) x $2.03 (10)

Market Maker B (MMB) Quote: $2.00 (12) x $2.03 (5)

Market Maker C (MMC) Quote: $2.00 (12) x $2.03 (8)

Sell order received: 27 contracts @ $2.00

Public Customer Order is filled in its entirety and allocated 7 contracts at $2.00.

MMA's quote represents 69.62% (55/79) of all orders and quotes resting at $2.00

- 69.62% of 20 contracts executed for MMA = 13.92[11], rounded down to 13 contracts

9 See NYSE American LLC ("NYSE Amer") Rule 964NY(b)(3)(B).

10 The Exchange notes in the example, the orders and quotes listed are in the order in which they were received, and all Priority Overlays are in effect. The example is intended to illustrate how rounding and residual contracts work pursuant to this proposal.

11 MMA's fractional amount is 0.92.

MMB's quote represents 15.19% (12/79) of all orders and quotes resting at $2.00

- 15.19% of 20 contracts executed for MMB = 3.04[12], rounded down to 3 contracts

MMC's quote represents 15.19% (12/79) of all orders and quotes resting at $2.00

- 15.19% of 20 contracts executed for MMC = 3.04[13], rounded down to 3 contracts

The Exchange notes, due to rounding down, there will be 1 remaining residual contract from the incoming sell order (7 (Public Customer) + 13 (MMA) + 3 (MMB) + 3 (MMC) = 26 out of 27 contracts allocated pursuant to Pro Rata calculation). MMA was the Participant with the largest fractional amount pursuant to the Size Pro-Rata execution calculation, specifically, 0.92 contracts. Therefore, MMA would receive the 1 remaining residual contract.[14] The Exchange believes the proposed method for allocating residual contracts is a wholly sufficient process to fill any remaining contracts particularly because there is no theoretically plausible situation where the number of residual contracts is greater than the number of market participants being allocated under the priority scheme.

The Exchange next proposes Rule 7135(c) which governs the priority overlays applicable to the Size Pro Rata execution algorithm where the Exchange may apply designated Participant priority overlays detailed below when the Size Pro Rata execution algorithm is in effect. First, the Exchange proposes Rule 7135(c)(1) which details the Public Customer Priority. Specifically,

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12 MMB's fractional amount is 0.04.

13 MMC's fractional amount is 0.04.

14 See proposed Rule 7135(b)(1). The Exchange notes, in the aforementioned example MMB and MMC both had an equal fractional amount of 0.04 contracts. There could be instances where the calculation methodology results in more than 1 residual contract. In the example above, assume there was 2 residual contracts, in such a scenario MMB would have received the second (and last) residual contract because it was first in time priority. The Exchange believes the proposed rounding and residual contract method is appropriate and fair and will be clear to Participants. Rounding down is a more efficient way to calculate the distribution of non-whole number allocations because it avoids having the Exchange break ties when a Participant is entitled to half (0.5) of a contract. In addition, the Exchange believes Participants with the largest fractional shares should receive the first residual contracts because the allocation will more closely meet the fill expectations of market participants.

the Exchange proposes that the highest bid and lowest offer shall have priority on a Pro Rata basis except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. Public Customer Priority is always in effect when Size Pro-Rata execution algorithm is in effect. The Exchange notes that the proposed Public Customer Priority overlay is similar to a rule that currently exists at another exchange.[15]

Next, the Exchange proposes Rule 7135(c)(2) which details Lead Market Maker ("LMM") priority. An LMM may be assigned by the Exchange in each option class in accordance with proposed Rule 8055 detailed herein. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or improves on the Exchange's disseminated price, the LMM will be afforded a participation entitlement, unless the incoming order to be allocated is a Preferenced Order[16], in which case allocation would be pursuant to Rule 7135(c)(3) discussed below. The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the Opening Match. Rounding will be up or down to the nearest integer. The LMM participation entitlement is as follows (i) A BOX Options LMM shall receive the greatest of: (A) Lead Market Maker's Size Pro-Rata share under subparagraph (c)(4) ("Market Maker Priority"); (B) 50% of remaining interest if there is one or no other Market Maker at that price; (C) 40% of remaining interest if there is two other Market Makers at that price; or (D) 30% of remaining interest if there are more than two other Market Makers at that price. Further, the Exchange proposes Rule 7135(c)(2)(ii) which states that if the

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15 See Nasdaq BX Rule Options 3, Section 10(a)(1)(C)(2)(i).

16 The term "Preferenced Order" means any order, whether on a single option instrument or on a Complex Order Strategy, for which a Preferred Market Maker is designated with respect to such order, upon submission of such order to BOX. See BOX Rule 7300(a)(1).

LMM is also the Preferred Market Maker, the LMM may receive the greater of the Preferred Market Maker participation entitlement set forth in subsection (c)(3) below or the LMM participation entitlement set forth in (c)(2)(i).

Further, the Exchange proposes Rule 7135(c)(2)(iii) which states that orders for 5 contracts or fewer shall be allocated in their entirety to the LMM. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. The Exchange notes that proposed Rule 7135(c)(2)(i) - (iii) are similar to rules in place at another options exchange.[17]

The following example further illustrates how the Exchange's system will execute trades using the Pro-Rata allocation method including the PC, LMM, and MM priority overlays discussed herein:

Market: $1.00 (50) – $1.10 (50)

Public Customer: Sell 7 @ $1.10

Lead Market Maker A (LMMA) Quote: $1.00 (20) – $1.10 (10)

Market Maker B (MMB) Quote: $1.00 (10)– $1.10 (15)

Market Maker C (MMC) Quote: $1.00 (20) – $1.10 (18)

Buy order received: Buy 27 @ $1.10

Size Pro-Rata Results:

- PC order is filled in its entirety and is allocated 7 contracts at $1.10. There are 20 contracts remaining of the inbound order.
- LMMA's quote represents 23.26% (10/43) of all orders and quotes resting at $1.10
    - 23.26% of 20 contracts executed for LMMA = 4.65, rounded down to 4 contracts
- MMB's quote represents 34.88% (15/43) of all orders and quotes resting at $1.10

17 See Nasdaq BX Options 3, Section 10 (a)(1)(C)(2)(ii)

- 34.88% of 20 contracts executed for MMB = 6.97, rounded down to 6 contracts

- MMC's quote represents 41.86% (18/43) of all orders and quotes resting at $1.10
  - 41.86% of 20 contracts executed for MMC = 8.37, rounded down to 8 contracts

LMM Percentage Allocation Results:

- PC is allocated 7 contracts @$1.10. There are 20 contracts remaining of the inbound order.
- LMMA is allocated 8 contracts @$1.10.[18]

The LMM percentage allocation result prevails because the LMM will receive the higher quantity of 8 contracts.[19]

Market Makers will be allocated according to Size Pro-Rata as follows:

- MMB's quote represents 45.45% (15/33) of all orders and quotes resting at $1.10
  - 45.45% of 12 contracts (remaining from incoming Buy order of 27) executed for MMB = 5.45[20], rounded down to 5 contracts
- MMC's quote represents 54.54% (18/33) of all orders and quotes resting at $1.10
  - 54.54% of 12 contracts executed for MMC = 6.54[21], rounded down to 6 contracts

The Exchange notes, due to rounding down, there will be 1 remaining residual contract from the incoming order (12 (remaining) – 5 (MMB) – 6 (MMC) = 11 contracts). MMC was the Participant with the largest fractional amount pursuant to the Size Pro-Rata execution calculation, specifically, 0.54 contracts. Therefore, MMC would receive the 1 remaining residual contract.

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18 Pursuant to proposed Rule 7135(c)(2)(i)(C), LMMs participation entitlement is 40% because there are two other Market Makers at that the same price. Specifically, LMM receives 40% of the remaining 20 contracts, 8 contracts total.

19 See proposed Rule 7135(c)(2)(i).

20 MMB's fractional amount is 0.45.

21 MMC's fractional amount is 0.54.

Next, the Exchange proposes Rule 7135(c)(3) which details Preferred Market Maker[22] Priority. After all Public Customer orders at the same price or better have been fully executed, upon receipt of a Preferenced Order pursuant to Rule 7300, provided the Preferred Market Maker's quote is at the NBBO, the Preferred Market Maker will be afforded a participation entitlement. Preferred Market Maker participation entitlements will apply only after the Opening Match. When the Preferred Market Maker is at the same price as a non-Public Customer Order or Market Maker quote, pursuant to the Preferred Market Maker participation entitlement, the Preferred Market Maker shall receive, with respect to a Preferenced Order, the greatest of: (A) 60% of remaining interest if there is one other non-Public Customer Order or Market Maker quote at that price; (B) 40% of remaining interest if there are two or more other non-Public Customer Orders or Market Maker quotes at that price; or (C) the Preferred Market Maker's Size Pro Rata share under subparagraph (c)(4). The Exchange further proposes Rule 7135(c)(3)(ii) which states that the Preferred Market Maker is also entitled to orders of 5 contracts or fewer under subparagraph (c)(2)(iii) if the Preferred Market Maker is also the Lead Market Maker and the incoming Order is for 5 contracts or fewer. If the Preferred Market Maker is not the Lead Market Maker, the Preferred Market Maker will be afforded the participation entitlement detailed in Rule 7135(c)(3)(i). The Exchange notes that proposed Rule 7135(c)(3) is similar to rules at another options exchange in the industry.[23]

The following example further illustrates how the Exchange's system will execute trades using the Pro-Rata allocation method and the PMM priority overlay discussed herein:

Market: $1.00 (43) –$1.15 (16)

Public Customer: Sell 1@$1.15

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22 See BOX Rule 7300(a)(2). The term "Preferred Market Maker" or "PMM" means a Market Maker designated as such by a Participant with respect to an order submitted by such Participant to BOX

23 See Nasdaq ISE LLC ("ISE") Options 3, Section 10(c)(1)(C).

Preferred Market Maker A (PMMA)[24] Quote: $1.00 (10) – $1.15 (4)

Market Maker B (MMB) Quote: $1.00 (15)– $1.15 (5)

Market Maker C (MMC) Quote: $1.00 (18) – $1.15 (6)

Buy order received: Buy 5 @ $1.15

Size Pro-Rata Results:

- PC order is filled in its entirety and is allocated 1 contract. There are 4 contracts remaining of the inbound order.
- PMMA's quote represents 26.66% (4/15) of all orders and quotes resting at $1.15
  - 26.66% of 4 contracts executed for PMMA =1.06, rounded down to 1 contract
- MMB's quote represents 33.33% (5/15) of all orders and quotes resting at $1.15
  - 33.33% of 4 contracts executed for MMB = 1.33, rounded down to 1 contract
- MMC's quote represents 40.00% (6/15) of all orders and quotes resting at $1.15
  - 40.00% of 4 contracts executed for MMC = 1.60, rounded down to 1 contract

PMM Percentage Allocation Results:

- PC is allocated 1 contract @$1.15. There are 4 contracts remaining of the inbound order.
- PMMA is allocated 1.60 contracts – rounded down to 1 contract @$1.15.[25]

Based on the calculations above, the PMM percentage allocation result prevails because PMMA will receive the higher quantity of 1.60 contracts (rounded down to 1 contract).[26]

Market Makers allocated according to Size Pro-Rata as follows:

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24 In this example, assume PMMA is not a designated LMM in the class of the incoming order.

25 Pursuant to proposed Rule 7135(c)(3)(i), PMMAs participation entitlement is 40% because there are two other Market Makers at that the same price. Specifically, PMMA receives 40% of the remaining 4 contracts, 1.60 contracts total – rounded down to 1 contract.

26 See proposed Rule 7135(c)(3)(i). The Exchange notes that the PMM's allocation in Size Pro-Rata was 1.06 contracts. The system will take the greatest of the percentage allocation and the Size Pro-Rata calculation. Because the percentage allocation resulted in a higher allocation (by fractional amount), the percentage allocation prevails.

- MMB's quote represents 45.45% (5/11) of all orders and quotes resting at $1.15
    - 45.45% of 3 contracts (remaining from incoming order) executed for MMB = 1.36[27], rounded down to 1 contract
- MMC's quote represents 54.54% (6/11) of all orders and quotes resting at $1.10
    - 54.54% of 3 contracts executed for MMC = 1.63[28], rounded down to 1 contract

The Exchange notes, due to rounding down, there will be 1 remaining residual contract from the incoming order (5 (remaining) – 1 PC - 1 (PMMA) – 1 (MMB) – 1 (MMC) = 4 contracts). MMC was the Participant with the largest fractional amount pursuant to the Size Pro-Rata execution calculation, specifically, 0.63 contracts. Therefore, MMC would receive the 1 remaining residual contract.

The Exchange next proposes Rule 7135(c)(4) which details Market Maker Priority. After all Public Customer orders have been fully executed and LMM and Preferred Market Maker participation entitlement applied, if applicable, BOX Market Makers (excluding LMMs and Preferred Market Makers) shall have priority over all other Participant orders at the same price. If there are two or more BOX Market Maker quotes and orders for the same options series at the same price, those shall be executed based on the Size Pro Rata execution algorithm. Lastly, the Exchange proposes Rule 7135(c)(5) which states that if there are contracts, such contracts shall be executed based on the Size Pro-Rata execution algorithm. The Exchange notes that a similar rule currently exists at another options exchange.[29]

The Exchange next proposes to establish Rule 8055 which details designation and obligations of Lead Market Makers. First, the Exchange proposes 8055(a) (LMM Designation) which states that the Exchange may designate one Market Maker[30] in good standing with an

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27 MMB's fractional amount is 0.36.

28 MMC's fractional amount is 0.63.

29 See Nasdaq BX Options 3, Section 10 (a)(1)(C)(2)(iv).

30 Currently, Market Makers on BOX are subject to the rules and requirements detailed in the rule 8000 series. With respect to continuous quoting obligations, BOX Market

appointment in a class as an LMM. The term "Lead Market Maker" ("LMM") has the meaning set forth in this Rule 8055. The proposal provides that the Exchange will appoint an LMM for a term of no less than the time until the end of the then-current expiration cycle ("term"), and the Exchange may approve one Market Maker to act as an LMM in each class during regular trading hours for terms of at least one month.[31] In addition, the Exchange proposes factors for determining whether the Exchange will appoint a Market Maker as an LMM. Factors to be considered by the Exchange in selecting LMMs include: adequacy of capital, experience in trading options, and adherence to Exchange rules and ability to meet the obligations specified in this Rule 8055.[32]

Makers are required to "post valid quotes at least sixty percent (60%) of the time that the classes are open for trading. These obligations will apply to all of the Market Maker's appointed classes collectively, rather than on a class-by-class basis." See BOX Rule 8050(e).

31 The Exchange notes this is substantively identical to Cboe's rule, except that Cboe's rule text provides for the possibility of appointing more than one LMM to a particular class which BOX does not seek to establish at this time.

32 The Exchange notes the proposed rule 8055(a) is similar to Cboe Rule 3.55(a) with a few minor differences. Again, the Exchange proposes to only designate one (rather than one or more) Lead Market Maker in good standing per class. The Exchange believes appointing only one Lead Market Maker per class is appropriate at BOX. The Exchange also notes that another exchange allows only one Lead Market Maker per class for LMM designation. See Nasdaq BX, Inc ("Nasdaq BX") Rule Options 2, Section 3(A)(a). Further, in proposed Rule 8055(a), the Exchange did not copy any rule language that relates to Cboe's On-Floor LMMs because, under the current proposal, the Exchange only wishes to establish designations for electronic LMMs (referred to as "Off-Floor LMMs" at Cboe). If the Exchange seeks to establish Floor LMMs in the future, it will file another proposal with the Commission at that time. Further, with regard to proposed Rule 8055(a), the Exchange notes that it did not include any mention of the DPM account type as this account type does not exist on BOX. The Exchange notes, that while being different market participant types within Cboe's market, the LMMs and DPMs have substantially similar functions and obligations (i.e. adequacy of capital, experience trading options, historical adherence to exchange rules, willingness and ability to promote the exchange etc.). The primary difference between LMMs and DPMs relates to the length of their appointment terms (e.g. LMM receives an appointment for a limited term while a DPM serves until it resigns or is removed by the exchange). *Compare* Cboe Rule 3.53 (DPMs), *with* Cboe Rule 3.55 (LMMs). Given that the Exchange is proposing to adopt an electronic LMM (similar to Cboe "Off-Floor LMM" or "Off-Floor DPM") participant type, when considering the selection of electronic LMMs, the factors to be considered may also include, but are not limited to, any one or more of the following: (1) number and experience of support personnel performing functions related to LMM's business; (2) observance of generally accepted standards of conduct; (3) regulatory

Next, the Exchange proposes Rule 8055(b) which states that the Exchange may remove an LMM if the LMM fails to meet the obligations set forth in Rule 8055(c), or any other applicable Rule. An LMM removed under the proposed Rule may seek review of that decision under Rule Series 13000. If an LMM is removed or if for any reason an LMM is no longer eligible for or resigns its appointment or fails to perform its duties, the Exchange may designate an LMM for the remainder of the term or shorter time period designated by the Exchange. The Exchange notes that this proposed rule language is identical to a rule currently in place at another options exchange.[33]

The Exchange next proposes to adopt Rule 8055(c) which governs Lead Market Maker Obligations on BOX. Specifically, each LMM must fulfill all the obligations of a Market Maker under the rule series 8000 and satisfy each of the following requirements: (i) during regular trading hours, provide continuous electronic quotes by submitting continuous bids and offers in 99% of the non-adjusted option[34] series in a LMM's appointed class for 90% of the time the Exchange is open for trading in such options class. This obligation does not apply to any

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history of applicant LMM; (4) operational capacity; and (5) in the event one of more LMMs or associated persons is or has previously been an LMM or associated with an LMM, adherence by such LMM to the requirements set forth in proposed Rule 8055 during the time period in which such person(s) held such position with the LMM. These factors are substantially similar to the DPM factors listed on Cboe. See Cboe Rule 3.53(b). Because the obligations of the two participant types are substantially similar and the Exchange does not have and is not proposing to adopt a DPM participant type, it is not proposing to adopt any similar rule text related to DPM obligations within its proposed Rule 8055. The Exchange did not include language that states that "an LMM generally will operate on the Exchange's trading floor" as this statement is not an accurate representation of how LMMs will operate on BOX. Lastly, the Exchange notes that it did not include Cboe Rule 3.55(a)(1), (2) and (3) as these provisions provide for situations in which an LMM will operate on the trading floor, and BOX's current proposal only seeks to establish electronic LMMs at this time.

33 See Cboe Rule 3.55(b).

34 See BOX Rule 7300(a)(2). As defined under BOX Rule 7300, "[a]n "adjusted option series" is an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying stocks or Units." That definition has the same meaning within this proposal. Therefore, non-adjusted option series have not been modified as a result of a corporate action and therefore continue to represent the delivery of 100 shares.

adjusted series or intra-day add-on series on the day during which such series are added for trading. An LMM may receive a participation entitlement in intra-day add-on series on the day during which such series are added for trading if it elects to quote in such series provided the LMM satisfies the quoting obligations in this Rule. The Exchange notes that this rule is similar to a rule at another exchange.[35]

The Exchange further proposes the following obligations for LMMs in proposed Rule 8055(c)(2) make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the classes it trades;[36] (3) continue to act as an LMM and fulfill the obligations of an LMM until the end of its term or until the Exchange relieves the LMM of its approval to act as

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35 See Cboe Exchange Inc. ("Cboe") Rule 5.55(a)(1). First, the Exchange notes that it is only copying the "99% of the Non-Adjusted Option series" quoting obligation language and not including the "100% of the non-adjusted options series minus one call-put pair" language. The Exchange understands the 100% obligation to be a legacy Cboe rule that was put in place due to proprietary products traded on its exchange. As such, the Exchange does not believe it is appropriate to include in its proposal discussed herein. Furthermore, the Exchange believes this is reasonable because the proposal still requires the LMMs to continuously quote a significant part of the trading day in a significant percentage of the series. Next, the Exchange notes that it is not including Cboe Rule 5.55(a)(1)(B) as BOX intends to only appoint one Lead Market Maker per class. As such, the Cboe rule detailing that the LMM continuous quoting obligation may be satisfied individually or collectively with LMMs of the same Participant is unnecessary. The Exchange also notes that it is not copying Cboe Rule 5.55(a)(2) as the Exchange's proposal will not require its Lead Market Makers to enter opening quotes. The Exchange notes that another exchange does not require its Lead Market Makers to quote during the opening. See Securities Exchange Act Release No. 89731 (September 1, 2020), 85 FR 55524 (September 8, 2020)(SR-BX-2020-016). The BX filing states that "…BX Lead Market Makers are not required to quote during the opening, that will remain unchanged. Today, BX Lead Market Makers may quote during the opening, but they are not obligated to quote." Further, the Exchange notes that it is not copying Cboe Rule 5.55(a)(2)(A) and (B) as they relate to the opening quote obligation at Cboe which, as discussed above, BOX does not intend to require in this proposal.

36 The Exchange notes this obligation is substantially similar to the current requirement under the BOX Rules that obligate Market Makers to maintain a market in their appointed classes in a manner that enhances the depth, liquidity and competitiveness of the market. See BOX Rule 8040(a)(1). The Exchange does not believe the proposed rule text imposes a new obligation on LMMs, as the current rules require Market Makers to be competitive; rather, it is replicated for clarity and to support the easier readability of the Exchange's rulebook.

an LMM or of its appointment and obligations to act as an LMM in a particular class and (4) promptly inform the Exchange of any material change in financial or operational condition or in personnel. The Exchange notes that the proposed requirements discussed above are similar to requirements currently in place for LMMs at other options exchanges.[37]

Lastly, the Exchange proposes Rule 8055(d) which governs LMM Compliance. Rule 8055(d) states that compliance with LMM quoting obligation applies to all of an LMM's appointed classes collectively. The Exchange will determine compliance by an LMM with this quoting obligation on a monthly basis. However, determining compliance with this obligation on a monthly basis does not relieve an LMM from meeting this obligation on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an LMM for failing to meet this obligation each trading day. The Exchange notes that proposed Rule 8055(d) is similar to another rule in place at an options exchange.[38]

2. Statutory Basis

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37 See Cboe Rule 5.55(a)(3) through (4) and NYSE Arca Rule 6.82-O(c)(14). The Exchange notes that proposed Rule 8055(c)(1) (2) and (3) are identical to Cboe and proposed Rule 8055(c)(4) is identical to NYSE Arca. The Exchange believes that Arca's rule better aligns with the surveillance efforts currently in place at the Exchange. The Exchange notes, Market Makers are not currently subject to this notification obligation. The Exchange believes that imposing the proposed obligation to notify the Exchange upon any material changes in finances or operations will assist the Exchange in regulating LMMs and surveilling its marketplace. In particular, the Exchange will be able to more closely monitor LMM compliance with Exchange rules (e.g. position limits), ensure adequate capitalization levels of its Participants, and be made aware of any material organizational changes that may impact the Exchange's business operations or regulatory efforts (i.e. mergers/combinations, Participants acting as Market Makers for the first time, changes in ownership and control) so the Exchange may act as it deems necessary. The Exchange believes that the proposed obligation is appropriate for LMMs and not regular Market Makers on BOX because LMMs are held to a higher quoting obligation as discussed herein.

38 See Cboe Rule 5.55(e). The Exchange notes that it is not proposing to adopt subsections (1) and (2) of Cboe Rule 5.55(e) because as previously mentioned herein, the Exchange is only proposing to establish electronic LMMs and Cboe Rule 5.55(e)(1) and (2) account for varying obligations between their On-Floor LMMs and Off-Floor LMMs which are not applicable to the Exchange's proposal.

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Act,[39] in general, and Section 6(b)(5) of the Act,[40] in particular, in that it is 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 protect investors and the public interest, because it will provide additional execution algorithms and priority overlays on BOX, which currently operate on other exchanges, as explained in detail herein.[41] These additional execution algorithms and priority overlays provide Participants with additional choices among the many competing exchanges with regard to their execution needs and strategies and provision of liquidity and quoting. The Exchange believes that adding this flexibility to its rules will allow for greater customization, resulting in enhanced service to its Participants, which would continue to be a purely objective method for allocating option trades. The Exchange believes that, while the price/time execution algorithm encourages liquidity providers to set the price, the Size Pro Rata execution algorithm encourages liquidity providers to add size to a bid/offer at a particular price, even if that Participant did not set the price. Rewarding liquidity providers (through the proposed participation entitlements discussed herein) who add size should encourage larger displayed markets, which should, in turn, benefit and protect investors and the public interest.

Further, BOX operates in an intensely competitive environment and seeks to offer the same or similar services that its competitors offer and in which its Participants would find value. As such, the Exchange believes the proposed addition of the Pro Rata execution algorithm will remove impediments to and perfect the mechanism of a free and open market and a national market system by providing market participants an additional venue to execute trades and provide liquidity using the Pro Rata execution algorithm (if designated by the Exchange). The

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39 15 U.S.C. 78f(b).

40 15 U.S.C. 78f(b)(5).

41 See supra notes 8, 9, 15, 17, 23, and 29.

Exchange further notes that the Exchange's ability to determine which execution algorithm – Price/Time or Pro Rata - to apply to each option class is appropriate as the Commission has already found this practice consistent with the Act.[42] The Exchange believes the proposed priority overlays applicable to the Size Pro Rata execution algorithm are consistent with the Act. First, the Exchange notes that the Commission has already found that these priority overlays to be consistent with the Act as the overlays exist on other exchanges in the industry as discussed herein. The Exchange believes that the proposed Public Customer priority overlay is appropriate as it recognizes the unique status of Public Customers in the marketplace and the role their orders play in price competition and adding depth to the marketplace. Further, the Exchange believes the proposal seeks to incentivize Public Customer order flow to the Exchange in order to compete and interact with other market participants who are able to quote and submit orders in greater quantities. As such, the Exchange believes the proposed Public Customer priority overlay can increase price competition and add depth to the marketplace. For these reasons, the Exchange also believes that the Public Customer priority overlay is designed to promote just and equitable principles of trade and to protect investors and the public interest.

The Exchange believes that offering LMMs participation entitlements promotes just and equitable principles of trade because LMMs will be held to a higher standard as compared to other market participants including Market Makers. Currently, a Market Maker is required to quote at least 60% of the time that the classes are open for trading.[43] Under this proposal, LMMs are being held to a higher obligation and therefore are being rewarded with participation entitlements. The proposed rule change supports the quality of the Exchange's trading market by

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42 See Securities Exchange Act Release No. 62317 (June 17, 2010), 75 FR 36147 (June 24, 2010) (SR-CBOE-2010-038). In its Order Approving Cboe's proposal related to the hybrid matching algorithm, the Commission states that "…the incoming order will be allocated among market participants using the underlying matching algorithm – price-time or pro-rata – both of which the Commission already has found consistent with the Act." See also See Securities Exchange Act Release No. 51822 (June 10, 2005), 70 FR 35321 (June 17, 2005) (Adopting CBOE Rule 6.45B).

43 See BOX Rule 8050(e).

helping to incentivize that LMMs will be required to meet a higher quoting standard in order to reap the benefits of the proposed participation entitlement. The Exchange believes this proposed change to offer participation entitlements to LMMs is offset by LMMs' continued responsibilities to provide significant liquidity to the market to the benefit of market participants.

The Exchange believes that the Preferred Market Maker participation entitlement is designed to promote just and equitable principles of trade and to protect investors and the public interest, because it strikes a reasonable balance between encouraging vigorous price competition and rewarding Preferred Market Makers for their unique duties. In order to receive an allocation preference, Preferred Market Makers must meet heightened quoting requirements as Market Makers, and also be quoting at the NBBO at the time the Preferenced Order is received. Heightened quoting requirements mean that Preferred Market Makers must maintain a continuous two-sided market pursuant to Rule 8050(c)(1), throughout the trading day, in 99% of the non-adjusted option series of each class for which it accepts Preferenced Orders, for 90% of the time the Exchange is open for trading in each such option class; provided that it is not required to so quote in intra-day add-on series or series that have a time to expiration of nine months or more.[44] The Exchange also notes that Preferred Market Makers currently receive a Preferred Allocation in the Price/Time priority execution algorithm.[45] The Exchange believes that the proposed Preferred Market Maker participation entitlement is consistent with the Act because it will provide important incentives for Preferred Market Makers on BOX to provide liquidity which, in turn, provides for greater opportunity for executions, tighter spreads and better pricing for all Participants. Additionally, the Exchange believes that the proposed Preferred Market Maker participation entitlement percentages adequately balances the aim of rewarding the Preferred Market Maker with the aim of leaving a sizeable enough portion of the incoming Preferenced Order for the other Market Makers quoting at the same price. Further, the

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44 See Rule 7300(a)(2).

45 See BOX Rule 7300(c)(2).

Exchange notes that Preferred Market Makers at other exchanges receive the same participation entitlement when the Pro-Rata execution is designated by the respective exchange.[46]

The Exchange believes the Market Maker participation entitlement is appropriate as Market Makers are required to quote at least 60% of the time that the classes are open for trading. The Exchange believes the proposed participation entitlement strikes a reasonable balance between encouraging vigorous price competition and rewarding Market Makers for their unique duties. Further, the Exchange notes that a similar rule exists at another exchange when the Pro-Rata execution algorithm is enabled.[47]

The proposed rule relating to LMM Designation (proposed Rule 8055(a)) seek to establish and promote just and equitable principles of trade by allowing the Exchange to designate one Market Maker in good standing with an appointment in a class as an LMM. The Exchange intends to foster cooperation and coordination by taking into account certain factors to be considered in selecting an LMM including the LMM's experience and capitalization and other information to ensure that an LMM is qualified when allocated an options series. The Exchange again notes that a similar rule exists at another options exchange.[48]

With respect to an LMM's obligations, the Exchange would require LMMs be subject to heightened standards as compared to other Market Makers. Similar to Market Makers, LMMs add value through continuous quoting and the commitment of capital. In addition, the LMM quoting requirements promote liquidity and continuity in the marketplace in requiring LMMs to be held to a higher standard of quoting. The Exchange believes that the proposed rule change supports the quality of the Exchange's markets because it maintains the quoting obligations of Market Makers as LMMs at 99% of the non-adjusted option series in a LMM's appointed class for 90% of the time the Exchange is open for trading in such options class. LMM transactions

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46 See supra note 23.

47 See supra note 29.

48 See supra notes 31 and 32.

must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. The Exchange believes that the obligations set forth for LMMs in its proposed rules will promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. Further, the Exchange notes that a similar rule exists at another options exchange.[49] Therefore, the proposed rule change also protects investors and the public interest by creating more uniformity and consistency among the Exchange's rules related to LMM obligations.

Lastly, with respect to proposed Rule 8055(d), LMM Compliance, the Exchange believes that adopting the proposed standards will enhance compliance efforts by Lead Market Makers and the Exchange. The proposed rule text fosters cooperation and coordination with persons engaged in facilitating transactions in securities because it clearly identifies that LMM quoting obligations apply to all of the LMM's appointed classes collectively, and thereby promotes compliance with the proposed rules. Furthermore, the proposed rule text protects investors and the public interest by giving notice to potential LMMs that quoting obligations must be met on a daily basis and that disciplinary action may be taken against an LMM for failing to meet their obligations on each trading day. Specifically, any violation of the proposed heightened quoting standard for LMMs will be subject to potential discipline under Rule Series 12000. As such, the Exchange believes the proposed LMM Compliance rule detailed in Rule 8055(d) is reasonable and appropriate as it is substantially similar to a rule currently in place on another options exchange.[50]

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the

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49 See supra notes 35 and 37.

50 See supra note 38.

contrary, the proposal is pro-competitive because it will enable the Exchange to better compete with other options exchanges that provide similar execution algorithms and participation entitlements. The Exchange does not believe the proposed changes will cause any unnecessary burden on intra-market competition because all Exchange Participants may utilize the Pro Rata execution algorithm and priority overlays if the Pro Rata execution algorithm is designated to the applicable options class by the Exchange pursuant to proposed Rule 7135(a). Further, the Exchange does not believe the proposed changes will cause any unnecessary burden on intermarket competition as the proposed rules will allow BOX to compete with other options exchanges in the industry. The proposed rules discussed herein will allow BOX to offer competing functionality on the Exchange that could be attractive to market participants, thus enabling market participants to submit order flow to an additional venue to execute trades. The Exchange does not believe the proposal to establish Lead Market Makers will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes several competitors currently host this participant type on their exchange.[51] In addition, LMMs will be subject to quoting obligations which are similar to those of at least one other options exchange.[52] Further, Exchange believes that because this proposal establishes substantially similar quoting compliance standards that are already in place on other options exchanges, the proposal will not diminish market making activity on the Exchange and thereby may enhance intermarket competition. Moreover, the Exchange believes that the proposal will not burden intra-market competition because the LMM program on BOX is completely voluntary, and any Market Makers that choose to participate are subject to the same obligations under this proposal. All Market Makers that desire to become LMMs will be subject to the same review and scrutiny with respect to their LMM application and the ultimate assignment of options series. The Exchange believes that the proposed

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[51] See NYSEArca Rule 6.82-O. (Lead Market Makers) and NASDAQ BX Options 2, Section 3.

[52] See supra notes 35 and 37.

rule change will promote competition among Market Makers who desire to be assigned in options series and in turn promote trading activity on the Exchange to the benefit of the Exchange, its Participants, and market participants. The Exchange does not believe the proposed change will cause any unnecessary burden on inter-market competition because any qualifying LMM will be entitled to receive participation entitlements on options series they are obligated to meet higher quoting standards for under the proposed Rules.

Lastly, as discussed herein, the proposed rule changes are substantially similar to rules currently in place at other options exchanges in the industry. As such, 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.

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 Act[53] and Rule 19b-4(f)(6) thereunder.[54]

A proposed rule change filed under Rule 19b-4(f)(6)[55] normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)[56] permits

53 15 U.S.C. 78s(b)(3)(A).

54 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and 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. The Exchange has satisfied this requirement.

55 17 CFR 240.19b-4(f)(6).

56 17 CFR 240.19b-4(f)(6)(iii).

the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative immediately upon filing. The Exchange states that such waiver would allow BOX to immediately offer the proposed functionality to BOX Participants, which will allow for greater customization resulting in enhanced service to BOX Participants. The Exchange further states that similar execution algorithms and priority overlays are currently available to market participants at other options exchanges. For these reasons, and because the proposal does not raise any novel regulatory issues, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposed rule change as operative upon filing.[57]

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 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

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[57] For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2021-11 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-2021-11. 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., located at 100 F Street, NE, Washington, DC 20549. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2021-11 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].**

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[58]

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[58] 17 CFR 200.30-3(a)(12).

J. Matthew DeLesDernier,

Assistant Secretary.

[FR Doc. 2021-10579 Filed: 5/19/2021 8:45 am; Publication Date: 5/20/2021]