



January 2, 2018

**Via E-mail and FedEx**

Mr. Brent J. Fields, Secretary  
U.S. Securities and Exchange Commission  
100 F St., N.E.,  
Washington, DC 20549

*Re: Pilot Program to suspend Obvious and Catastrophic Errors during Limit or Straddle States*

Dear Mr. Fields:

As part of the Pilot Program to suspend certain Obvious and Catastrophic Error Rules during Limit and Straddle States ("States") in securities that underlie options traded on the Exchange (the "Pilot"), BOX Options Exchange ("BOX" or "the Exchange") has agreed to conduct an analysis on the impact of the Pilot and the Limit Up-Limit Down ("LULD") mechanism.<sup>1</sup> Specifically, the Exchange agreed to: evaluate the options market quality during Limit and Straddle States, assess the character of incoming order flow and transactions during Limit and Straddle States, and review any complaints from members and their customers concerning executions during Limit and Straddle States.

Analysis of the Pilot

The Exchange does not believe the Pilot negatively impacted Participants on the Exchange, or the quality and liquidity of the options market as a whole. While an underlying security may move in and out of a Limit or Straddle State during the normal course of trading day, in most instances no trades occur while the security is within one of these States. In fact, in the fifty-seven (57) months that the Pilot has been in effect,<sup>2</sup> the frequency of trading during a LULD occurrence varied greatly from month to month (from one trade to two hundred and fifty-six trades).

The Exchange has conducted an assessment of option trades that occurred when the underlying security was in a Limit or Straddle state ranging from December 2016 to November of 2017. During this eleven month period, there were no complaints and no requests for review on trades executed while the underlying was in a Limit or Straddle State.

The Exchange has also evaluated whether adding a provision to the Obvious Error Rule, allowing the Exchange the ability to review trades on its own motion, is necessary and appropriate. The Exchange does not believe this provision is necessary because there have been no complaints during the Pilot Program and that such a provision would undermine the objective nature of the Obvious Error Rule in normal market conditions.

Analysis of the LULD Mechanism

The Exchange used the data gathered from December 2016 through November 2017 to evaluate the quality of the options market during Limit and Straddle States. Hereafter, a trade occurring when the underlying security was in a Limit or Straddle State will be referred to a "LULD Trade." During this eleven month period, the Exchange observed 20 LULD Trades across 10 securities for a total quantity of 214 contracts. Specifically, there were 9 transactions that occurred during a Straddle state, and 11 transactions that occurred during a Limit state.

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<sup>1</sup> See Securities Exchange Act Release No. 76233 (October 22, 2015), 80 FR 66087 (October 28, 2015)(Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Extend the Pilot Program That Suspends Certain Obvious Error Provisions During Limit Up-Limit Down States in Securities That Underlie Options Traded on the Exchange).

<sup>2</sup> April 2013 through November 2017.



Of these 20 LULD Trades, the Exchange observed three (3) transactions that had a price change exceeding 30% of the last recorded trade price prior to the LULD phase; and two (2) transactions for which the trade price exceeded 30% of the last trade price within five (5) minutes of leaving the Limit or Straddle State.

The tables below summarize the information contained in the Limit Up-Limit Down Pilot Reports submitted to the Commission on a monthly basis. The Pilot Reports can be found at <http://boxexchange.com/regulatory-circulars/pilot-reports/>

Month	Total LULD Trades	LULD Trade where Trade Price Exceeds 30% of Last OPRA Price	LULD Trade where Post L/S State Price Exceeds 30% of Last OPRA Price
December- 16	4	0	2
January- 17	7	0	0
February- 17	1	0	0
March- 17	1	0	0
April- 17	3	0	0
May- 17	3	2	0
June- 17	-	-	-
July- 17	-	-	-
August- 17	-	-	-
September- 17	1	1	0
October- 17	-	-	-

Stock Symbol	Total LULD Volume	Total LULD Trades	Average Trade Size
AFSI	35	1	35
AKRX	46	2	23
ANF	4	1	4
CACC	2	1	2
FSLR	10	1	10
IMMU	5	1	5
PBYI	2	2	1
RAD	102	6	17
SRPT	1	1	1
WYNN	7	4	2

### Conclusion

As stated above, the Exchange does not believe the Pilot negatively impacted Participants on the Exchange, or the quality and liquidity of the options market as a whole. However, the Exchange also believes that there is insufficient data to make a reliable statistical and economic evaluation of market quality in the options market during Limit and Straddle States.

Finally, the Exchange believes the percentage parameters used to define the Limit or Straddle States are reasonable and the historical data does not justify changing the existing parameters. The current parameters ensure market stability by allowing for reasonable volatility changes in the underlying security, while protecting the options market from extreme movements.

If you have any questions, please contact me at 617-235-2022 or [BGoodhue@boxregulation.com](mailto:BGoodhue@boxregulation.com).



Sincerely,

A handwritten signature in blue ink that reads "Bruce Goodhue". The signature is written in a cursive style with a large initial "B" and a long, sweeping tail.

Bruce Goodhue  
Chief Regulatory Officer  
BOX Options Exchange, LLC