Via Electronic Mail

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F. Street, N.E.
Washington, D.C. 20549-1090

Re: File No. SR-BOX-2016-48

Dear Mr. Fields:

BOX Options Exchange LLC ("BOX" or "Exchange") appreciates the opportunity to respond to comments received in response to the above referenced rule filing (the "Proposal" or "Filing") to adopt rules for an open-outcry trading floor. The Securities and Exchange Commission ("SEC" or "Commission") received three comment letters in response to the Proposal.[1] Two comment letters are from competing organizations that operate trading floors, and thereby have a vested interest in the delay or disapproval of the Proposal. The third comes from a firm which has a history of objecting to certain aspects of trading floors in general. As explained in the Proposal and below, BOX believes that approval is entirely consistent with the Securities Exchange Act of 1934, as amended (the "Act").

Priority and Trade-Throughs

It appears that at least one of the commenters misunderstood certain aspects of the Proposal, as they requested clarity on whether the violations of priority and trade-through requirements will be systematically prevented.[2] As described in the Proposal, the functionality of the Trading Floor is specifically designed to prevent transactions from violating priority and trade-through requirements when the trade is received and processed by the Trading Host;[3] this is the same process as any other order received by BOX.[4]

The execution price of any QOO Order[5] must be equal to or better than the NBBO.[6] Additionally, the QOO Order (1) may not trade through any equal or better priced Public

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[1] Letter from Joan C. Conley, SVP and Corporate Secretary, Nasdaq (December 22, 2016)("Nasdaq Letter"). Nasdaq submitted the letter on behalf of Nasdaq Stock Market LLC, Nasdaq PHLX LLC, Nasdaq BX, Inc., International Securities Exchange, LLC, ISE Gemini, LLC, and ISE Mercury, LLC. Letter from Steve Crutchfield, Head of Market Structure, CTC Trading Group, LLC (December 31, 2016)("CTC Letter"), and Letter from Angelo Evangelou, Deputy General Counsel, CBOE (January 10, 2017)("CBOE Letter").

[2] Nasdaq Letter at 2.

[3] The term "Trading Host" means the automated trading system used by BOX for the trading of options contracts.

[4] See proposed Rule 7600(c).

[5] All orders executed on the Trading Floor will be Qualified Open Outcry ("QOO") Orders. For more information on the specifics of the QOO Order, see Rule 7600 of the Proposal.

[6] See proposed Rule 7600(c).

Customer bids or offers on the BOX Book[7] 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. These requirements are system enforced by BOX.

For Complex QOO Orders on the Trading Floor, the execution may occur at a price outside the NBBO for the individual leg components; however, Complex QOO Orders cannot trade through interest on the BOX Book. Allowing the legs of a Complex Orders to execute at a price that is not equal to or better than the NBBO is not a novel proposal and is currently available on at least one other exchange.[8]

Surveillance Procedures

BOX, like all SROs, has robust surveillance procedures in place to monitor compliance with the Exchange's rules. These surveillance procedures will be utilized to monitor transactions occurring on the Trading Floor in the same manner as all current transactions on BOX. BOX has developed and will implement all necessary procedures to adequately and effectively monitor all transactions on the Trading Floor. Additionally, BOX has specifically designed the Proposal to prevent trade-through violations and protect priority interest on the BOX Book. This comment appears to be nothing more than an attempt to require BOX to disclose confidential surveillance procedures to BOX's competitors and Participants.[9]

Crowd Areas or Pits

CTC erroneously claims that dividing the Trading Floor into multiple pits will impose an undue burden on competition.[10] To the contrary, having the ability to divide the Trading Floor into multiple pits or crowd areas will assist in maintaining a fair and orderly market. BOX currently has over 1600 classes listed for trading. The ability to divide those classes into pits will aid BOX in monitoring trading activity and providing an orderly operation on the Trading Floor. Additionally, having multiple crowd areas or pits is not a novel feature and is in line with trading floors on other exchanges.[11] The commenter is clearly trying to impose their view of how a trading floor should be designed by improperly claiming the Proposal would somehow impose a burden on Participants. As mentioned above, the opposite is true and this aspect of the Proposal is designed to ensure a smooth and seamless operation on the Trading Floor.

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[7] The term "BOX Book" or "Book" means the electronic book of orders on each single option series maintained by the BOX Trading Host.
[8] See ISE Rule 722(b)(3).
[9] Nasdaq Letter at 3.
[10] CTC Letter at 6.
[11] It is the Exchange's understanding that CBOE, PHLX and NYSE Arca all have multiple crowd areas or pits on their respective trading floors.

It is important to note that even if a pit may not have a Market Maker present when a Floor Broker crosses an order there are other protections in place. Specifically, orders must not trade at worse prices than the NBBO and must respect the BOX Book. To be clear, the absence of a Floor Market Maker in a pit does not give a Floor Broker *carte blanche* to execute an order on the Trading Floor. All orders executed on the Trading Floor must be represented to the trading crowd prior to submission to the BOG[12] for processing.[13] Additionally, Floor Brokers must not violate priority and trade-though rules, and must fulfill certain obligations to their customer, including best execution. The ability for a Floor Broker to execute an order when no Floor Market Maker is present is simply a safeguard to ensure that the Trading Floor operates efficiently without undue delays or interruptions.

CTC continues to criticize the Proposal by making meritless claims that the requirement that Floor Market Makers be present solely in the crowd area when the order is announced will discourage liquidity on the BOX Trading Floor.[14] Requiring Floor Market Makers to be in a single crowd area and necessitating that they are present when an order is announced is not novel as the commenter claims. It is indeed the case that the same is true on at least one other exchange.[15] BOX believes that the proposed presence requirement will promote a fair and orderly market and serves to further the purpose of the Act by ensuring that Floor Market Makers satisfy their requirements to the market.

Electronic Quoting Requirements

The commenter questions the benefit of the proposed requirement that Floor Market Makers quote electronically in all classes that a Floor Market Maker quotes on the Trading Floor.[16] The proposed electronic quoting requirement on Floor Market Makers is designed to provide the opportunity for strong electronic quoting in addition to robust activity on the Trading Floor. BOX believes that maintaining a healthy electronic market is an important aspect of the proposed Trading Floor and is not unduly burdensome. This requirement will help ensure that Market Making activity on the Trading Floor will not diminish electronic quoting on BOX.

Book Sweep Size

The assertion that the proposed book sweep size will restrict price improvement and harm investors is untrue and will in fact benefit investors and provide an opportunity for price improvement.[17] The book sweep size is a tool that will benefit Floor Brokers in fulfilling their

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[12] The BOX Order Gateway ("BOG") is a component of the Exchange designed to enable Floor Brokers and/or their employees to enter transactions on the Trading Floor.

[13] BOX is going a step beyond to ensure that all orders are represented to the trading crowds by requiring an Options Exchange Official to certify that all orders executed on the Trading Floor by Floor Brokers are adequately represented to the trading crowd. See proposed Rule 7600(b).

[14] CTC Letter at 6.

[15] See PHLX Rule 1014.05(c)(iv).

[16] CTC Letter at 5.

[17] CTC Letter at 7.

duties and responsibilities to their customers, including best execution. Specifically, if a Floor Broker requires the immediate execution of an order they may provide a book sweep size equal to the entire size of the order providing liquidity to the BOX Book, or provide an execution price that is better than the current best price on BOX providing the potential for price improvement. BOX believes that the proposed book sweep size will be extremely beneficial to Participants on and off the Trading Floor. As noted in the Filing, similar functionality is available on at least one other trading floor[18] and is not unique to BOX.

Liquidity Seeking

Commenters incorrectly assert that BOX's Trading Floor will not be a venue for seeking liquidity of unmatched orders.[19] A Floor Broker is welcome to bring any unmatched order to the Trading Floor in order to seek liquidity. Once liquidity is sourced on the Trading Floor the Floor Broker must simply enter the order into the BOX system using the QOO Order type. Floor Brokers may also enter single sided orders into the BOX Book using BOX's electronic interface.

General Comments

In addition to the specific questions about the Proposal, the comment letters raised questions about trading floors in general, including floor latency, electronic exposure of floor trades, finite resources of firms, and the overall success of the Trading Floor. BOX does not believe that these issues are within the scope of the Proposal. BOX strongly believes that any specific requirement placed on an exchange with a trading floor must apply equally to all exchanges with trading floors. It is paramount for the success of the options market that all options exchanges be treated equally by the Commission when it comes to reviewing and approving SRO rules. Any requirement levied on one exchange that is not also placed on the other exchanges will lead to an unfair competitive advantage and should not be tolerated.

BOX appreciates the opportunity to respond to the comments received on the Proposal. As described in this response letter, BOX believes that these concerns either lack merit or are an attempt to delay the approval of the Proposal. BOX continues to believe that approval of the Proposal is proper and is consistent with the Act.

Sincerely,

Lisa J. Fall
President
BOX Options

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[18] <u>See</u> PHLX Floor Broker Management System.
[19] CTC Letter at 8 and CBOE Letter at 2.