Commission finds that the proposal to exclude research reports concerning only exchange-listed securities from the filing requirements for certain retail communications is consistent with the provisions of Section 15A(b)(6) of the Act,[39] which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. The proposed exclusion should reduce the burdens imposed on member firms that would otherwise have to file research reports on exchange-listed securities with FINRA, while continuing to protect investors through the protections provided by FINRA Rule 2210 and NASD Rules 1022, 1050 and 2711.

The Commission also finds that the proposed clarification (consistent with FINRA's current interpretation of Rule 2210) regarding the application of Rule 2210's filing and content standards to free writing prospectuses that are exempt from filing with the SEC is consistent with the provisions of Section 15A(b)(6) of the Act.[40] The Commission further finds that the proposed correction of the rule cross-reference in FINRA Rule 2214 is consistent with the provisions of Section 15A(b)(6) of the Act.[41] The correction of the cross-reference is consistent with the Rule's intent and purpose and will reduce any potential confusion due to the current incorrect cross-reference.

In general, the Commission believes that FINRA has responded to the comments adequately, and has explained how the proposed rule change is consistent with the requirements of the Act, and the rules and regulations thereunder that are applicable to a national securities association.

V. Conclusions

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[42] that the proposed rule change (SR–FINRA–2014–012) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[43]

Kevin M. O'Neill,

Deputy Secretary.

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efficiency, competition, and capital formation. *See* 15 U.S.C. 17c(f).

[39] 15 U.S.C. 78*o*–3(b)(6).

[40] 15 U.S.C. 78*o*–3(b)(6).

[41] 15 U.S.C. 78*o*–3(b)(6).

[42] 15 U.S.C. 78s(b)(2).

[43] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72477; File No. SR–BOX–2014–16]

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing of Proposed Rule Change To Adopt New Trade Allocation Algorithms for Matching Trades at the Conclusion of the PIP and COPIP

June 26, 2014.

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 June 16, 2014, BOX Options Exchange LLC ("Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend BOX Rules 7150 (Price Improvement Period ("PIP")) and 7245 (Complex Order Price Improvement Period ("COPIP")) to adopt new trade allocation algorithms for matching trades at the conclusion of the PIP and COPIP. 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 Web site at *http://boxexchange.com.*

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend BOX Rules 7150 (Price Improvement Period ("PIP")) and 7245 (Complex Order Price Improvement Period ("COPIP")) to adopt new trade allocation algorithms for matching trades at the conclusion of the PIP and COPIP. This is a competitive filing based on the rules of NASDAQ OMX PHLX LLC ("Phlx").[3]

PIP

The Exchange currently offers Participants the possibility of price improvement via its innovative electronic auction process known as the PIP. The PIP has saved investors more than $467 million versus the prevailing NBBO since 2004, a monthly average of more than $3.8 million. BOX believes that the proposed rule change will result in additional PIP transactions, and give customers a greater opportunity to benefit from price improvement.

Options Participants executing agency orders for single options series instruments may designate Customer Orders for price improvement and submission to the PIP. Customer Orders designated for the PIP ("PIP Orders") may be submitted to BOX with a matching contra order ("Primary Improvement Order") equal to the full size of the PIP Order. The Primary Improvement Order is on the opposite side of the market from the PIP Order and at a price equal to or better than that of the National Best Bid Offer ("NBBO") at the time of the commencement of the PIP (the "PIP Start Price"). BOX begins a PIP by broadcasting a message to market participants via the Exchange's High Speed Vendor Feed ("HSVF"). During the PIP, order flow providers ("OFPs") and Market Makers (other than the Initiating Participant) may submit competing orders ("Improvement Orders") for their own account and OFPs may also provide access to the PIP for the account of a Public Customer[4] or for any account except Market Maker. Options Participants may continually

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

[2] 17 CFR 240.19b–4.

[3] *See* Phlx Rule 1080(n).

[4] The term "Public Customer" means a person that is not a broker or dealer in securities. *See* BOX Rule 100(a)(51).

submit competing Improvement Orders during the PIP and Improvement Orders are disseminated to market participants.

Unrelated Orders [5] and Legging Orders [6] on the same side as the PIP Order received during the PIP may cause the PIP to terminate early under certain circumstances.[7] During a PIP, when an Unrelated Order is submitted to BOX or a Legging Order is generated on the same side as the PIP Order that would cause an execution to occur prior to the end of the PIP, the PIP ends early and the PIP Order is matched as if the PIP terminated on its regular schedule. Following the execution of the PIP Order, any remaining Improvement Orders are cancelled and the Unrelated Order or Legging Order is filtered normally.[8]

Unrelated Orders and Legging Orders on the opposite side of the PIP Order received during the PIP may be immediately executed under certain circumstances.[9] During a PIP, when such an Unrelated Order is submitted to BOX or a Legging Order is generated on the opposite side of the PIP Order such that it would cause an execution to occur prior to the end of the PIP, the Unrelated Order or Legging Order is immediately executed against the PIP Order. Any remaining portion of the Unrelated Order or Legging Order is filtered normally.[10] Any remaining portion of the PIP Order is executed at the conclusion of the PIP normally.[11] Following the execution of the PIP Order, any remaining Improvement Orders are cancelled.

Current PIP Allocation

At the conclusion of a PIP, the PIP Order is currently matched against the best prevailing quote(s) or order(s) on BOX (except any pre-PIP Broadcast proprietary quote or order from the Initiating Participant), in accordance with price/time priority as set forth in Rule 7130, whether Improvement Order(s) or Unrelated Order(s) received by BOX, or Legging Orders generated, during the PIP (excluding Unrelated Orders that were immediately executed during the interval of the PIP). Such orders may include agency orders on behalf of Public Customers, Market Makers at away exchanges and non-BOX Options Participant broker-dealers, as well as non-PIP proprietary orders submitted by Options Participants.

The Exchange's Rules currently provide certain exceptions to the price/time priority set forth in Rule 7130. Specifically, Rule 7150(f)(4)(i) provides that no order for a non-market maker broker-dealer account of an Options Participant may be executed before all Public Customer orders, whether an Improvement Order, including a CPO, or an Unrelated Order, and all non- BOX Options Participant broker-dealer orders at the same price have been filled.

Rules 7150(g)(1) and (2) provide the Initiating Participant with certain priority and trade allocation privileges upon conclusion of the PIP, subject to certain exceptions.[12] In instances in which a Single-Priced Primary Improvement Order, as modified (if at all), is matched by or matches any competing Improvement Orders and/or non-Public Customers' Unrelated Orders at any price level, the Initiating Participant retains priority for only forty percent (40%) of the original size of the PIP Order. However, if only one competing order matches the Initiating Participant's Single-Priced Primary Improvement Order then the Initiating Participant may retain priority for up to fifty percent (50%) of the original size of the PIP Order.

In instances in which a Max Improvement Primary Improvement Order is submitted by the Initiating Participant, the Initiating Participant shall be allocated its full size at each price level, except where restricted by the designated limit price and subject to the limitations in 7150(g)(3), until a price level is reached where the balance of the PIP Order can be fully executed. Only at such a price level will the Initiating Participant retain priority for only forty percent (40%) of the remaining size of the PIP Order. However, if only one competing order matches the Initiating Participant at the final price level, then the Initiating Participant may retain priority for up to fifty percent (50%) of the remaining size of the PIP Order.

At its option, the Initiating Participant may designate a lower amount for which it retains certain priority and trade allocation privileges upon the conclusion of the PIP auction than it is entitled to pursuant to the provisions of 7150(h)(1) [sic] or 7150(h)(2) [sic], mentioned above.[13] When starting a PIP, the Initiating Participant may submit to the Exchange the Primary Improvement Order with a designation of the total amount of the PIP Order it is willing to ''surrender'' to the other PIP Participants (''PIP Surrender Quantity''). Under no circumstances will the Initiating Participant receive an allocation percentage of more than 50% with one competing order or 40% with multiple competing orders. Upon the conclusion of the PIP auction, when the Trading Host determines the priority and trade allocation amounts for the Initiating Participant pursuant to 7150(h)(1) [sic] or 7150(h)(2) [sic], the Trading Host will automatically adjust the trade allocations to the other PIP Participants, according to the priority set forth in 7150(g) [sic], up to the PIP Surrender Quantity. The Primary Improvement Order is allocated the remaining size of the PIP Order above the PIP Surrender Quantity, if any, pursuant to 7150(g). If the aggregate size of other PIP Participants' contra orders is not equal to or greater than the PIP Surrender Quantity, then the remaining PIP Surrender Quantity shall be left unfilled and the Primary Improvement Order shall be allocated the remaining size of the PIP Order pursuant to 7150(h)(1) [sic] or 7150(h)(2) [sic].

Proposed PIP Allocation

The Exchange is now proposing to amend the trade allocation algorithm for matching orders at the conclusion of the PIP. The PIP Order will continue to be matched with opposite side competing orders and quotes in price priority. While quotes and orders on the BOX Book will continue to execute in price/

[5] As defined in Rule 7150(a), the term ''Unrelated Order'' with respect to a PIP means a non-Improvement Order entered into the BOX market during a PIP.

[6] As defined in Rule 7240(c)(1), the term ''Legging Order'' means a Limit Order on the BOX Book that represents one side of a Complex Order that is to buy or sell an equal quantity of two options series resting on the Complex Order Book.

[7] *See* Rule 7150(i).

[8] *See* Rule 7130(b).

[9] *See* Rule 7150(j).

[10] *See* Rule 7130(b).

[11] *See* Rule 7150(f)(3).

[12] Rule 7150(g)(4) provides that the Primary Improvement Orders shall yield priority to certain competing orders in the following circumstances: (i) When a Single-Priced or Max Improvement Primary Improvement Order for the proprietary account of an OFP is matched by or matches any competing Public Customer order(s), whether an Improvement Order, including a CPO, or Unrelated Order, or any non-BOX Options Participant broker-dealer order(s) at any price level, it shall yield priority to them, including any priority provided pursuant to 7150(g)(1) or (2), (ii) when the unmodified Single-Priced Primary Improvement Order for the account of a Market Maker is matched by any competing Public Customer order(s), whether an Improvement Order, including a CPO, or Unrelated Order, or any non-BOX Options Participant broker-dealer order(s) at the initial PIP price level, it shall yield priority to all competing Public Customer order(s) or non-BOX Options Participant broker-dealer order(s), including any priority provided pursuant to 7150(g)(1) or (2), or (iii) when the Max Improvement or the modified Single-Priced Primary Improvement Order for the account of a Market Maker matches any competing Public Customer order(s), whether an Improvement Order, including a CPO, or Unrelated Order, or any non-BOX Options Participant broker-dealer order(s) at subsequent price levels, it shall yield priority to all competing Public Customer order(s) or non-BOX Options Participant broker-dealer order(s), including any priority provided pursuant to 7150(g)(1) or (2).

[13] *See* Rule 7150(g)(6)(i).

time priority, in the event an execution opportunity occurs for a quote or order on the BOX Book against a PIP Order at the end of a PIP, the PIP execution will occur according to the priority algorithm described below. Specifically, if the total quantity of orders, quotes, Improvement Orders, Legging Orders and the Primary Improvement Order is equal to or less than the quantity of the PIP Order at a given price level, all orders at the price will be filled and the balance of the PIP Order will be executed at the next best price. If the total quantity of orders, quotes, Improvement Orders, Legging Orders and the Primary Improvement Order is greater than the quantity of the PIP Order at a given price level, the allocation will be as follows:

Public Customer Allocation

Whereas, currently, Public Customers do not have absolute execution priority when certain orders have time priority at the same price, the Exchange now proposes that all orders, other than Legging Orders and the Primary Improvement Order, for the account of Public Customers,[14] whether Improvement Orders or Unrelated Orders, including quotes and orders on the BOX Book prior to the PIP Broadcast, will be allocated for execution against the PIP Order first.[15] Where there are multiple such orders for the account of Public Customers at the same price, the trade allocation will be by time priority. The Exchange notes that this is the same as Phlx.[16]

If, at the end of the Public Customer allocation, there remains any unallocated quantity of the PIP Order, the balance will be allocated as described below.

Example 1: Primary Improvement Order for the Account of a Public Customer

Suppose at the end of a PIP to sell 100 contracts, where the Primary Improvement Order is for the account of a Public Customer that has elected a PIP Surrender Quantity of 80, the BOX Book is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.08
Public Customer 1 order to buy 20 at 2.04 Public Customer 2 Primary Improvement Order to buy 100 at 2.04 Market Maker Improvement Order to buy 30 at 2.04 Public Customer 3 Improvement Order to buy 30 at 2.04 Trade allocation is as follows: Public Customer 1: 20 at 2.04 Public Customer 3: 30 at 2.04 Public Customer 2 Primary Improvement Order: 20 at 2.04 (the PIP Surrender Quantity of 80 contracts results in Public Customer 2 receiving an allocation of 20 contracts, which is less than 50% of the remaining 50 contracts (50%*50=25) to which the Primary Improvement Order would otherwise be entitled since there is only one responder) Market Maker: 30 at 2.04	PIP Order to sell 100.

Allocation among all Public Customers, other than the Initiating Participant, at the same price is by time priority.

Example 2: PIP Trade Allocation When Primary Improvement Order is for the Account of a Public Customer

Suppose the Primary Improvement Order, in a PIP to sell 100 contracts of options instrument A, is for the account of a Public Customer. At the end of the PIP, the BOX Book for instrument A is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.08
Public Customer 1 order to buy 10 at 2.03 Public Customer 2 Primary Improvement order to buy 100 at 2.03 Market Maker order to buy 100 at 2.03 At the end of the PIP, the trade allocation is as follows: Public Customer 1: 10 at 2.03 Public Customer 2 Primary Improvement Order: 45 at 2.03 (50% of the remaining 90 contracts since there is only one responder) Market Maker: 45 at 2.03	PIP Order to sell 100.

Primary Improvement Order Allocation

After the Public Customer allocation, the applicable trade allocation described below will be allocated to the Primary Improvement Order.[17] If the Primary Improvement Order has designated a PIP Surrender Quantity, the Primary Improvement Order allocation will be reduced, if necessary, in accordance with the PIP Surrender Quantity.

When a Single-Priced Primary Improvement Order is matched by or matches any competing Improvement Orders and/or non-Public Customers' Unrelated Orders at the final price level, the Initiating Participant retains priority for up to forty percent (40%) of the remaining size of the PIP Order after Public Customer orders are satisfied. However, if only one competing order matches the Initiating Participant's Single-Priced Primary Improvement Order at the final price level, then the Initiating Participant may retain priority for up to fifty percent (50%) of the remaining size of the PIP Order after Public Customer orders are satisfied.[18] When a Max Improvement Primary Improvement Order is submitted by the Initiating Participant, the Initiating Participant shall be allocated its full size at each price level, except where restricted by the designated limit price, until a price level is reached where the balance of the PIP Order can be fully executed. At such price level, the

[14] As discussed below under the heading ''Professional Customers,'' upon approval of the proposed Rule change, Professionals would be treated in the same manner as broker-dealers for purposes of the PIP and COPIP, and not in the same manner as non-Professional Public Customers. *See* proposed Rules 100(a)(50), 7150(a)(2) and 7245(a)(4).

[15] *See* proposed Rule 7150(g)(1).

[16] *See* Phlx Rule 1080(n)(ii)(E).

[17] *See* proposed Rule 7150(g)(2).

[18] *See* proposed Rule 7150(h)(1).

Initiating Participant will be entitled to receive up to forty percent (40%) of the remaining size of the PIP Order after Public Customer orders are satisfied. However, if only one competing order matches the Initiating Participant's Max Improvement Primary Improvement Order at the final price level, then the Initiating Participant may retain priority for up to fifty percent (50%) of the remaining size of the PIP Order after Public Customer orders are satisfied.[19] Neither Public Customer orders nor Legging Orders will be considered when determining whether the Initiating Participant retains 40% or 50% in proposed Rule 7150(h) because neither Public Customer order allocation (which are executed in priority over the Initiating Participant) nor Legging Order allocation (which receive allocations at the final price level only when the Initiating Participant declines its full allocation by electing a PIP Surrender Quantity) will be affected by the Initiating Participant retaining the difference between 40% and 50%. The Exchange notes that this is similar to Phlx in treatment of Public Customer orders.[20]

The balance will be allocated as described below.

Example 3: PIP with Auto-Matching

Suppose a PIP Order to sell 150 contracts of options instrument A. Suppose, further, at the end of the PIP auction, the BOX Book is as follows in order of price/time priority:

NBBO Buy at 2.00	Sell at 2.09
Broker-dealer 1 order to buy 10 at 2.06	PIP Order to sell 150.
Market Maker 1 Improvement Order to buy 8 at 2.05	Order to sell 10 at 2.09.
Market Maker 2 Improvement Order to buy 2 at 2.05	
Broker-dealer 2 Improvement Order to buy 5 at 2.05	
Primary Improvement Order to buy 150 at 2.04	
Broker-dealer 3 Improvement Order to buy 8 at 2.04	
Market Maker 3 Improvement Order to buy 25 at 2.04	
Public Customer order to buy 10 at 2.04	
Suppose the Primary Improvement Order specified an auto-match limit price of 2.05. The trade allocation at the best available price (at 2.06) is as follows:	
Broker-dealer 1 order: 10 contracts at 2.06	140 remaining to allocate.
The Primary Improvement Order is not willing to auto-match the 2.06 price level, so it goes to the next price available. The trade allocation at the 2.05 price level is as follows:	
Market Maker 1 Improvement Order: 8 contracts at 2.05	
Market Maker 2 Improvement Order: 2 contracts at 2.05	
Broker-dealer 2 Improvement Order: 5 contracts at 2.05	
Primary Improvement Order: auto-match 15 contracts at 2.05	110 remaining to allocate
As there is a remaining PIP Order quantity to be filled, it goes to the next price available. The trade allocation at the 2.04 price level is as follows (this is the price level where the PIP Order will be completely filled):	
Public Customer Order: 10 contracts at 2.04	
Primary Improvement Order: 40 contracts at 2.04 (40% of 100 = 40, use 40% because there are 2 responders at this price level)	
Market Maker 3 Improvement Order: 25 contracts at 2.04	
Broker-dealer 3 Improvement Order: 8 contracts at 2.04	
Primary Improvement Order will take the remaining 27 contracts at 2.04 (for a total of 67 contracts at 2.04)	

Example 4: Allocating 50%, Rather than 40%, to Primary Improvement Order

Suppose a PIP Order to sell 100 contracts of options instrument A. Suppose, further, at the end of the PIP auction, the BOX Book is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.07
Public Customer 1 order to buy 10 at 2.02	PIP Order to sell 100.
Public Customer 2 order to buy 15 at 2.02	
Primary Improvement Order to buy 100 at 2.02	
Market Maker order to buy 100 at 2.02	
At the end of the PIP, the trade allocation is as follows:	
10 contracts at 2.02 to Public Customer 1	
15 contracts at 2.02 to Public Customer 2	
37 contracts at 2.02 to Primary Improvement Order (50% allocation)	
38 contracts at 2.02 to Market Maker	

Note that the Primary Improvement Order received an allocation priority of 50% of the remaining PIP Order size (50%*(100 − 25) = 37, rounded down)[21] in this case because Public Customer orders are not included in the determination of the 50%/40% allocation rule.

Market Maker Allocation

After the Primary Improvement Order allocation, any remaining unallocated quantity of the PIP Order will be allocated to orders and quotes, including Improvement Orders and quotes and orders on the BOX Book prior to the PIP Broadcast for the account of Market Makers.[22] Where

[19] *See* proposed Rule 7150(h)(2).

[20] *See* Phlx Rule 1080(n)(ii)(E). Note that, in its Rule 1080(n)(ii)(E)(2)(b), the Phlx auto-match feature limits the Initiating Participant to 40% allocation and that Phlx does not address Legging Orders.

[21] Contracts are allocated in whole numbers and, to ensure the allocation priority to Primary Improvement Orders does not exceed the applicable 40% or 50% specified in proposed Rule 7150(h), allocations of fractional contracts to the Primary Improvement Order in the Primary Improvement Order allocation step are rounded down.

[22] *See* proposed Rule 7150(g)(3).

there are orders/quotes for the accounts of more than one Market Maker at the same price, the trade allocation formula for Market Makers will provide for the allocation of contracts among Market Makers based on size pro rata for the remaining contracts. The proposed Market Maker allocation would follow the formula: B * C where component B is derived by dividing the quantity of contracts for the Market Maker at the price level by the total quantity of contracts of all Market Makers at the price level, and component C is the remaining quantity of the PIP Order to be allocated after the Primary Improvement Order allocation. If the quantity of contracts for the Market Maker order in B is greater than the original quantity of the PIP Order, the Market Maker's quantity will be capped at the size of the original PIP Order for purposes of calculating B. If the trade allocation for a Market Maker would be greater than the quantity of the Market Maker order/quote at the price level, the Market Maker's trade allocation will not exceed the size of the Market Maker order/quote at the price level. If the trade allocation for a Market Maker would result in a fraction of a contract, it will be rounded down.

Example 5: Market Maker Allocation Formula

In certain circumstances, due to rounding down, it is possible that some Market Maker orders will not be filled even though there is sufficient quantity of the PIP Order to be allocated. Suppose at the end of a PIP Order to sell 200 contracts of options instrument A, the BOX Book is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.06
Primary Improvement Order to buy 200 at 2.02 Market Maker 1 order to buy 2 at 2.02 Market Maker 2 order to buy 20 at 2.02 Market Maker 3 order to buy 80 at 2.02 Market Maker 4 order to buy 120 at 2.02 Professional Customer to buy 20 at 2.02 At the end of the PIP, the trade allocation will be as follows: First, to the Primary Improvement Order for 80 contracts and then to the Market Makers, pursuant to the formula provided in Rule 7150(g)(3), as follows: Market Maker 1–1 contract [23] Market Maker 2–10 contracts Market Maker 3–43 contracts Market Maker 4–64 contracts	PIP Order to sell 200.

As a result, a total of 118 contracts are allocated to all Market Makers even though there were, in total, 120 contracts available to be allocated to Market Makers from the remaining PIP Order. The remaining PIP Order quantity of 2 contracts will be allocated to the Professional Customer order.

Remaining Orders Allocation

After the Market Maker allocation, any remaining unallocated quantity of the PIP Order will be allocated to any remaining orders, other than Legging Orders and Market Maker orders, including orders for the account of Professionals and orders on the BOX Book prior to the PIP Broadcast, not receiving allocation in the above rounds.[24]

Example 6: Comparison of Professional Customer PIP Trade Allocation (Before and After Proposed Rule Change)

Suppose at the end of a PIP to sell 100 contracts of Instrument A, where the Primary Improvement Order is for the account of a Market Maker, the BOX Book for Instrument A is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.07
Public Customer 1 order to buy 10 at 2.04 Professional Customer 1 order to buy 10 at 2.04 Primary Improvement Order to buy 100 at 2.04 Market Maker 1 Improvement Order to buy 30 at 2.04 Broker-dealer 1 Improvement Order to buy 20 at 2.04 Market Maker 2 Improvement Order to buy 30 at 2.04 Trade allocation at the end of the PIP under current BOX rules is as follows: **Current Rules** Public Customer 1: 10 contracts at 2.04 Professional Customer 1: 10 contracts at 2.04 Primary Improvement Order: 40 contracts at 2.04 Market Maker 1 Improvement Order: 30 contracts at 2.04 Broker-dealer 1 Improvement Order: 10 contracts at 2.04 Trade allocation at the end of the PIP under the proposed rules is as follows: **Proposed Rules** Public Customer 1: 10 contracts at 2.04 Primary Improvement Order: 36 contracts at 2.04	PIP Order to sell 100.

[23] The Market Maker allocation formula is: 2 contracts for Market Maker 1 divided by 222 contracts for all Market Makers, multiplied by 120 remaining contracts to be allocated from the PIP Order and rounded down = 1.

[24] *See* proposed Rule 7150(g)(4). Currently, Professionals are treated like Public Customers in circumstances where the Exchange yields priority to Public Customers under SEC Rule 11a1–1(T). Under the proposed rule change, pursuant to which Improvement Orders will not be broadcast, transactions executed on the Exchange will qualify under SEC Rule 11a2–2(T) as described below. As a result, Professionals will no longer be treated like Public Customers for purposes of priority.

NBBO Buy at 2.00	Sell at 2.07
Market Maker 1 Improvement Order: 27 contracts at 2.04 [25] Market Maker 2 Improvement Order: 27 contracts at 2.04	

Where there are more than one remaining unallocated orders, including Improvement Orders, at the same price, the trade allocation to each such order will follow the formula: B * C where component B is derived by dividing the quantity of contracts for the order at the price level by the total quantity of contracts for all remaining orders at the price level, and component C is the remaining quantity of the PIP Order to be allocated after the Market Maker allocation. If the quantity of contracts for the order in B is greater than the original quantity of the PIP Order, the quantity of contracts for the order will be capped at the size of the original PIP Order for purposes of calculating B. If the trade allocation for an order/quote would be greater than the quantity of the order/quote at the price level, the trade allocation will not exceed the size of the order/quote at the price level. If the trade allocation would result in a fraction of a contract, it will be rounded down.

If, at the end of the remaining orders allocation, there remains any unallocated quantity of the PIP Order, the balance will be allocated as described below.

Additional Allocation

The balance of the PIP Order will be allocated to all remaining quotes and orders, if any, other than Legging Orders and the Primary Improvement Order. The allocation method will be to allocate one contract of the PIP Order per quote/order in sequence until each remaining quote/order has received one contract or until the PIP Order is fully allocated. Allocation sequence among quotes/orders in this step will be in order of size with the largest remaining quote/order allocated first. Where two or more such quotes/orders are the same size, trade allocation sequence will be by time priority. If, at the end of the additional allocation, there remains any unallocated quantity of the PIP Order, the balance will be allocated as described in the Legging Order allocation below.[26]

Example 7: Additional Allocation When Limited by PIP Surrender Quantity With Multiple Market Maker Orders

Suppose at the end of a PIP to sell 177 contracts, where the PIP Surrender Quantity for the Primary Improvement Order is 177, the BOX Book is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.06
Public Customer 1 order to buy 10 at 2.04	PIP Order to sell 177.
Primary Improvement Order to buy 177 at 2.04	Order to sell 10 at 2.06.
Market Maker 1 Improvement Order to buy 114 at 2.04	
Market Maker 2 Improvement Order to buy 115 at 2.04	
Market Maker 3 Improvement Order to buy 117 at 2.04	
At the end of the PIP, the trade allocation is as follows:	
Public Customer 1: 10 contracts at 2.04	167 remaining to allocate.
Primary Improvement Order: 0 contracts (all are surrendered)	
Market Maker 1 Improvement Order: 55 contracts at 2.04	
Market Maker 2 Improvement Order: 55 contracts at 2.04	
Market Maker 3 Improvement Order: 56 contracts at 2.04	
The PIP Order has 1 remaining contract to allocate at 2.04.	
The Market Maker orders have the following contracts remaining to be filled at 2.04:	
Market Maker 1 Improvement Order: 59 contracts remaining at 2.04	
Market Maker 2 Improvement Order: 60 contracts remaining at 2.04	
Market Maker 3 Improvement Order: 61 contracts remaining at 2.04	
The Market Maker orders are ranked in order of size, with Market Maker 3 being the largest, and allocated on a rotating basis one by one until either the Market Maker order or the PIP Order is exhausted. In this case, the remaining 1 contract is allocated as follows:	
Market Maker 3 Improvement Order: 1 contract at 2.04	

Legging Order Allocation

If, after the allocation of all orders, quotes and Improvement Orders in proposed Rules 7150(g)(1) through (5), there remains any unallocated quantity of the PIP Order, to the extent of any Surrender Quantity, allocation will be made to any Legging Orders at the same price in time priority.[27]

Example 8: Primary Improvement Order's PIP Surrender Quantity Is Greater Than the Sum of Legging Orders at the Price Level

Suppose at the end of a PIP to sell 100 contracts, where the PIP Surrender Quantity for the Primary Improvement Order is 70 contracts, the BOX Book is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.06
Public Customer order to buy 10 at 2.04	PIP Order to sell 100.
Legging Order to buy 50 at 2.04	Order to sell 10 at 2.06.
Primary Improvement Order to buy 100 at 2.04	

[25] The Market Maker allocation formula is: 30 contracts for Market Maker 1 divided by 60 contracts for all Market Makers, multiplied by 54 remaining contracts to be allocated from the PIP Order = 27.

[26] *See* proposed Rule 7150(g)(5).

[27] *See* proposed Rule 7150(g)(6). Legging Orders may receive allocations of a PIP Order when the Legging Order is at a price better than the final price level or at the final price level in the event the Initiating Participant has specified a surrender quantity.

NBBO Buy at 2.00	Sell at 2.06
At the end of the PIP, the trade allocation is as follows:	
Public Customer: 10 contracts at 2.04	90 remaining to allocate
Primary Improvement Order: 30 contracts at 2.04	60 remaining to allocate.
Legging Order: 50 contracts at 2.04	10 remaining to allocate.
The remaining 10 contracts are allocated to the Primary Improvement Order at 2.04 (40 contracts total) because all other orders have been filled.	

Example 9: Primary Improvement Order's PIP Surrender Quantity is Less Than the Sum of Legging Orders at the Price Level

Suppose at the end of a PIP to sell 100 contracts, where the PIP Surrender Quantity for the Primary Improvement Order is 70 contracts, the BOX Book is as follows in order of time priority:

NBBO Buy at 2.00	Sell at 2.06
Public Customer order to buy 10 at 2.04	PIP Order to sell 100.
Legging Order to buy 100 at 2.04	Order to sell 10 at 2.06.
Primary Improvement Order to buy 100 at 2.04	
At the end of the PIP, the trade allocation is as follows:	
Public Customer: 10 contracts at 2.04	90 remaining to allocate.
Primary Improvement Order: 30 contracts at 2.04	60 remaining to allocate.
Legging Order: 60 contracts at 2.04	

If, at the end of the Legging Order allocation, there remains any unallocated quantity of the PIP Order, the balance will be allocated to the Initiating Participant regardless of any applicable PIP Surrender Quantity.

Example 10: Orders on the BOX Book Prior to the PIP Broadcast, Which are Eligible for Execution at the Conclusion of the PIP

Suppose the following orders (listed in time priority) are on the BOX Book prior to the broadcast of a PIP Order to sell 100 contracts of options instrument A.

NBBO Buy at 2.02	Sell at 2.09
Broker-dealer order to buy 100 at 2.02	Market Maker quote to sell 10 at 2.09.
Public Customer order to buy 5 at 2.02	
Market Maker quote to buy 15 at 2.02	
Public Customer order to buy 12 at 2.02	
Market Maker quote to buy 30 at 2.02	
Primary Improvement Order to buy 100 at 2.02	

Suppose at the end of the PIP, only one Improvement Order has been received from a Market Maker to buy 10 at 2.03 and one Unrelated Order from a Professional Customer to buy 15 at 2.03. The BOX Book, including the PIP Order, is as follows at the end of the PIP:

NBBO Buy at 2.02	Sell at 2.09
Market Maker Improvement Order to buy 10 at 2.03	PIP Order to sell 100.
Professional order to buy 15 at 2.03	Market Maker quote to sell 10 at 2.09.
Broker-dealer order to buy 100 at 2.02	
Public Customer order to buy 5 at 2.02	
Market Maker quote to buy 15 at 2.02	
Public Customer order to buy 12 at 2.02	
Market Maker quote to buy 30 at 2.02	
Primary Improvement Order to buy 100 at 2.02	
The trade allocation will be as follows:	
First, because the orders at the first/best price level are, in total, less than the size of the PIP Order, such orders are filled for their entire 25 contracts at 2.03.	
Second, at the next best price level (2.02), the remaining 75 contracts of the PIP Order will be allocated as follows:	
Public Customer Order to buy 5 at 2.02	
Public Customer Order to buy 12 at 2.02	
As the total of the orders for the account of Public Customers (17) is less than the remaining PIP Order quantity (75), the two Public Customer orders are filled, leaving 58 contracts remaining.	
Third, the remaining 58 contracts of the PIP Order are allocated as follows:	
Primary Improvement Order to buy 23 at 2.02.	
23 contracts (40% of the remaining quantity of 58) are allocated to the Primary Improvement Order at 2.02, leaving 35 contracts remaining.	

NBBO Buy at 2.02	Sell at 2.09
Fourth, the remaining 35 contracts of the PIP Order are allocated as follows: Market Maker quote to buy 15 at 2.02 Market Maker quote to buy 30 at 2.02 As there are remaining unallocated quotes and orders for the accounts of more than one Market Maker at the same price, the trade allocation to each Market Maker will follow the formula provided in proposed Rule 7150(g)(3). The first Market Maker quote will be allocated 33.3% (15/45) of the 35 contracts, which is 11 contracts (allocation of partial quantities are rounded down in this step). The second Market Maker quote will be allocated 66.67% (30/45) of the 35 contracts or 23. Fifth, the one remaining contract will be allocated to the broker-dealer Order to buy 100 at 2.02.	

Note: if the PIP Order had instead been a simple limit order to sell 100 contracts of A at 2.02, the broker-dealer order would have been filled first on the BOX Book due to its time priority.

Example 11: Valid Starting Prices for PIP Auctions

A Participant wishes to enter a PIP Order to sell 50 contracts of options instrument A:

(a) Suppose the NBBO and the BOX Book for instrument A are as follows:

NBBO Buy at 2.02	Sell at 2.09
Quote to buy 10 at 2.02 ...	Order to sell 5 at 2.09.

The PIP auction start price can be any price between 2.02 and 2.08 inclusive.[28]

(b) Suppose, instead, the NBBO and the BOX Book for instrument A are as follows:

NBBO Buy at 2.02	Sell at 2.09
Quote to buy 10 at 2.02 ...	Order to sell 5 at 2.10.

The PIP auction start price can be any price between 2.02 and 2.09 inclusive.[29]

Quotes and Orders on the BOX Book

Currently, all quotes and orders on the BOX Book prior to the PIP Broadcast, excluding any proprietary quotes or orders from the Initiating Participant, are filled at the end of the PIP in time priority before any other order at the same price.[30] Further, Rule 7150(g)(3) states that the Primary Improvement Order follows in time priority all quotes and orders on the BOX Book prior to the PIP Broadcast that are equal to the (A) Single-Priced Primary Improvement Order price; or (B) execution price of a Max Improvement Primary Improvement Order that results in the balance of the PIP Order being fully executed, except any proprietary quote or order from the Initiating Participant.

The Exchange is now proposing that quotes and orders on the BOX Book prior to the PIP Broadcast will no longer be allocated against the PIP Order at the end of the PIP in time priority before any other order at the same price. Specifically, quotes and orders on the BOX Book prior to the PIP Broadcast will now be considered alongside all other quotes and orders, whether Improvement Order(s), Legging Order(s), or Unrelated Order(s) received by BOX during the PIP (excluding all Legging Orders and Unrelated Orders that were immediately executed during the interval of the PIP), for matching at the conclusion of the PIP. Therefore, the Exchange is proposing to remove the exceptions for quotes and orders on the BOX Book prior to the PIP Broadcast in Rules 7150(f)(4)(i) and (g)(3). The Exchange notes that this is consistent with Phlx.[31] Proprietary quotes or orders from the Initiating Participant at the Primary Improvement Order price shall not be executed against the PIP Order during or at the conclusion of the PIP.

Market Maker Prime

Current Rule 7160 provides that at the commencement of each PIP, a single Market Maker Prime may be designated for that PIP only. The Market Maker Prime is a Market Maker participating in the PIP who has partial time priority over all other Market Maker Improvement Orders, CPOs, PPOs and Unrelated Orders at the same limit price in a single PIP. The Market Maker Prime must satisfy the following criteria: (i) The Market Maker must have a quote that is equal to or better than the NBBO on the same side of the market as the Primary Improvement Order at the instant the PIP is initiated, (ii) the Market Maker's quote must represent an order in the BOX Book with the best price/time priority, and (iii) the Market Maker Prime must not have submitted the Primary Improvement Order to commence the relevant PIP. If more than one Market Maker meets the criteria, the Market Maker whose quote has time priority would be the Market Maker Prime for that PIP.

When the PIP was first adopted the Exchange introduced the Market Maker Prime designation to encourage Market Makers to quote aggressively on the BOX Book and not wait for a PIP to begin.[32] The Exchange is now proposing to remove the Market Maker Prime designation from the Exchange's Rulebook as this designation is obsolete. Market Makers rarely use the Market Maker Prime functionality and the Exchange believes the continued presence of the designation will only complicate the Exchange's Rules, and provides little or no benefit.

Customer PIP Order

Current Rule 7150(h) provides for a Customer PIP Order (''CPO''). A CPO allows a Public Customer to submit an order on a single options series, through an OFP, specifying one price for entry on the BOX Book (in the applicable minimum increment for that series) and a different price for interaction with a PIP (in one cent increments).

The CPO was intended to provide access to the PIP on behalf of a Public Customer, however, CPOs are rarely submitted to the Exchange. The Exchange has determined that CPOs have not provided the desired benefit that they were intended to, therefore the Exchange is proposing to remove CPOs from its Rules. Public Customers may continue to submit orders to the Exchange and Improvement Orders to interact with a PIP.

Additional PIP Changes

The Exchange is proposing to remove various provisions of Rule 7150 to accommodate the proposed change in the PIP allocation. Currently, Rule 7150(f)(4) provides certain exceptions to the price/time priority currently applicable to the PIP allocation. Since

[28] The PIP Start Price shall, on the opposite side of the PIP Order, be equal to or better than the NBBO and, on the same side of the PIP Order, be equal to or better than NBBO, provided that, if BBO is equal to NBBO, then the PIP Start Price must also be better than BBO on the same side at the time of commencement of the PIP (Proposed Rule 7150(f)).

[29] *Id.*

[30] *See* Rule 7150(f)(4)(i).

[31] *See* Phlx Rule 1080(n)(ii)(E)(2).

[32] *See* Securities Exchange Act Release No. 47186 (January 14, 2003), 78 FR 3062 (January 22, 2003) (Notice of Filing SR–BSE–2002–15).

the Exchange is now proposing to change the allocation at the end of the PIP so it is no longer based on price/time priority, these exceptions are no longer applicable because transactions on the Exchange will comply with Rule 11a2–2(T) as described below; therefore the Exchange is proposing to remove these sections of Rule 7150.

As part of the proposed changes to the PIP allocation, the Exchange is also making various non-substantive changes to its rules to accommodate these proposed changes. Most of these are the renumbering of sections to account for a new subsection (g) being proposed to Rule 7150 and the removal of certain sections. The Exchange proposes to include language to provide clarity regarding the execution price in Rule 7130(b)(5) and the PIP Start Price in Rule 7150(f) to ensure that the PIP does not trade ahead of resting same-side orders. Additionally, the Exchange also proposes to amend various cross-references in Rules 7000, 7130 and 7150 to take into account the renumbering.

The Exchange must also correct references in two additional rules that reference provisions in the current Rule 7150 that are being renumbered. Specifically, Rule 7000(c)(6) references Rule 7150(g), which is being corrected to reference IM–7150–2, and Rule 7130(b)(5) references Rule 7150(i) which is being renumbered to Rule 7150(j). Additional detail is also being added to Rule 7130(b)(5) to provide clarity.

COPIP

The Exchange recently amended its Rules to permit Complex Orders to be submitted to a price improvement period auction mechanism similar to the existing PIP mechanism for single options series on BOX.[33]

Exchange Rule 7245 allows the submission of Complex Orders to a COPIP mechanism that is substantially similar to the PIP except as necessary to account for distinctions between regular orders on the BOX Book and Complex Orders or as otherwise noted below. References to Legging Orders do not appear in the COPIP rules because Legging Orders interact only with the PIP. However, the COPIP rules do include other provisions for interacting with interest on the BOX Book.

Current COPIP Allocation

At the conclusion of a COPIP, just as with a PIP,[34] the COPIP Order is executed against the best prevailing order(s) on BOX (except any pre-COPIP Broadcast proprietary order from the Initiating Participant), in accordance with price/time priority, whether Improvement Order(s) or Unrelated Order(s) received by BOX during the COPIP (excluding all Unrelated Orders that were immediately executed during the interval of the COPIP).[35] Such Unrelated Orders may include agency orders on behalf of Public Customers, Market Makers at away exchanges and non-BOX Options Participant broker-dealers, as well as non-COPIP proprietary orders submitted by Options Participants. Any portion of an Improvement Order left unfilled will be cancelled.

Notwithstanding the foregoing execution rules for a COPIP, BOX Book Interest is executed in priority over Complex Orders at the same price so as to preserve the already established execution priority of interest on the BOX Book over Complex Orders.[36]

Further, no Complex Order for a non-market maker broker-dealer account of an Options Participant is executed before any Public Customer Complex Order(s), whether Improvement Order(s) or non-Improvement Order(s), and all non-BOX Options Participant broker-dealer Complex Order(s) at the same price have been filled; provided however, that all Complex Orders on the Complex Order Book prior to the COPIP Broadcast, excluding any proprietary order(s) from the Initiating Participant, are filled in time priority before any other Complex Order at the same price.[37]

Subject to the execution priority of BOX Book Interest described above, the Initiating Participant retains certain priority and trade allocation privileges upon conclusion of a COPIP.[38]

In instances in which a Single-Priced Primary Improvement Order, as modified (if at all), is matched by or matches any Complex Order(s) or BOX Book Interest at any price level, the Initiating Participant would retain priority for up to forty percent (40%) of the original size of the COPIP Order, notwithstanding the time priority of the Primary Improvement Order or Complex Order(s). However, if only one Complex Order or BOX Book Interest matches or is better than the Initiating Participant's Single-Priced Primary Improvement Order, then the Initiating Participant may retain priority for up to fifty percent (50%) of the original size of the COPIP Order. The Initiating Participant will receive additional allocation only after all other Complex Orders have been filled at that price level. For purposes of calculating the Initiating Participant's priority allocation, BOX Book Interest is included as competing orders in a COPIP.

In instances in which a Max Improvement Primary Improvement Order is submitted by the Initiating Participant, the Initiating Participant is allocated its full size at each price level, except where restricted by the designated limit price and subject to the limitations discussed in the following paragraph, until a price level is reached where the balance of the COPIP Order can be fully executed. Only at such price level will the Initiating Participant retain priority for up to forty percent (40%) of the remaining size of the COPIP Order. However, if only one competing Complex Order or BOX Book Interest matches the Initiating Participant at the final price level, then the Initiating Participant may retain priority for up to fifty percent (50%) of the remaining size of the COPIP Order. As with Single-Priced Primary Improvement Orders discussed above, for purposes of calculating the Initiating Participant's priority allocation, BOX Book Interest is included as competing orders in a COPIP.

At its option, the Initiating Participant may designate a lower amount for which it retains certain priority and trade allocation privileges upon the conclusion of the COPIP auction than it is entitled to pursuant to the provisions of Rule 7245(h)(1) or (2) [sic] mentioned above. When starting a COPIP, the Initiating Participant may submit to the Exchange the Primary Improvement Order with a designation of the total amount of the COPIP Order it is willing to ''surrender'' to the other COPIP Participants (''COPIP Surrender Quantity''). Under no circumstances does the Initiating Participant receive an allocation percentage preference of more than 50% with one competing order, including counting BOX Book Interest as a competing order, or 40% with multiple competing orders, including counting BOX Book Interest as a competing order. The COPIP Surrender Quantity function will not result in more than the maximum allowable allocation percentage to the Initiating Participant than that which the Initiating Participant would have otherwise received in accordance with the allocation procedures set forth in Rule 7245.

Upon the conclusion of the COPIP auction, when the Trading Host determines the priority and trade allocation amounts for the Initiating

[33] *See* Securities Exchange Act Release No. 71148 (December 19, 2013), 78 FR 78437 (December 26, 2013) (Order Approving SR–BOX–2013–43).

[34] *See* Rule 7150(f)(3).

[35] *See* Rule 7245(f)(3).

[36] *See* Rule 7245(f)(3)(i).

[37] *See* Rule 7245(f)(3)(ii).

[38] *See* Rule 7245(g).

Participant pursuant to Rule 7245(h)(1) or (2) [sic], the Trading Host will automatically adjust the trade allocations to the other COPIP Participants, according to the priority set forth in Rule 7245(g) [sic], up to the COPIP Surrender Quantity. The Primary Improvement Order shall be allocated the remaining size of the COPIP Order above the COPIP Surrender Quantity, if any, pursuant to Rule 7245(g). If the aggregate size of other COPIP Participants' contra Complex Orders is not equal to or greater than the COPIP Surrender Quantity, then the remaining COPIP Surrender Quantity shall be left unfilled and the Primary Improvement Order shall be allocated the remaining size of the COPIP Order pursuant to Rule 7245(h)(1) or (2) [sic].

As in a PIP, the Primary Improvement Order follows, in time priority, all Complex Orders on the Complex Order Book prior to the COPIP Broadcast that are equal to the Single Priced Primary Improvement Order price; or the execution price of a Max Improvement Primary Improvement Order that results in the balance of the COPIP Order being fully executed, except any proprietary order(s) from the Initiating Participant. Such proprietary order(s) do no execute against the COPIP Order during or at the conclusion of the COPIP.

The Primary Improvement Order yields priority to certain competing Complex Orders, including the priority of the Initiating Participant described above, as follows.

When a Single-Priced or Max Improvement Primary Improvement Order for the proprietary account of an OFP is matched by or matches any competing Public Customer Complex Order(s), whether Improvement Order(s), Unrelated Order(s) or any non-BOX Options Participant broker-dealer Complex Order(s) at any price level, it yields priority to them.

When an unmodified Single-Priced Primary Improvement Order for the account of a Market Maker is matched by any competing Public Customer Complex Order(s), whether Improvement Order(s), Unrelated Order(s) or any non-BOX Options Participant broker-dealer Complex Order(s) at the initial COPIP price level, it will yield priority to them.

When a Max Improvement or a modified Single-Priced Primary Improvement Order for the account of a Market Maker matches any competing Public Customer Complex Order(s), whether Improvement Order(s), Unrelated Order(s) or any non-BOX Options Participant broker-dealer Complex Order(s) at subsequent price levels, it yields priority to them.

Proposed COPIP Allocation

Similar to the changes being proposed to the PIP allocation above, the Exchange is now proposing to amend the COPIP allocation. While Complex Orders on the Complex Order Book will continue to execute in price/time priority, in the event an execution opportunity occurs for a Complex Order on the Complex Order Book against a COPIP Order at the end of a COPIP, the COPIP execution will occur according to the priority algorithm described below. Specifically, the Exchange is proposing that, at the end of the COPIP, the COPIP Order will continue to be matched with opposite side competing orders in price priority. If the total quantity of orders, Improvement Orders, BOX Book Interest and the Primary Improvement Order is equal to or less than the quantity of the COPIP Order at a given price level, all orders at the price will be filled and the balance of the COPIP Order will be executed at the next best price. If the total quantity of orders, Improvement Orders, BOX Book Interest and the Primary Improvement Order is greater than the quantity of the COPIP Order at a given price level, the allocation will be as follows:

BOX Book Interest Allocation

BOX Book Interest is executed in priority over Complex Orders. Accordingly, BOX Book Interest [39] will continue to be allocated for execution against the COPIP Order in priority over Complex Orders and in time priority.[40] If, after the BOX Book Interest allocation, there remains any unallocated quantity of the COPIP Order, the balance will be allocated as described below.

Example 12: BOX Book Interest at Multiple Price Levels is Eligible for Execution at the End of a COPIP

Suppose at the end of a COPIP to sell 100 Strategies A+B, the orders on BOX for Strategy A+B are as follows:

cNNBO Buy at 2.00	Sell at 2.10
BOX Book Interest to buy 10 at 2.03 Public Customer 1 order to buy 20 at 2.03 Primary Improvement Order to buy 100 at 2.02 Market Maker 1 Improvement Order to buy 30 at 2.02 At the end of the COPIP, both the BOX Book Interest and the Public Customer order (each at 2.03) are executed against the COPIP Order, leaving 70 contracts to be executed at 2.02. Prior to the execution of any order at 2.02, the BOX trading engine determines that BOX Book Interest exists to buy 10 contracts at 2.02. Only after the execution of this BOX Book Interest will any other trades at the same price occur.	COPIP Order to sell 100.

Trade allocation is as follows:

BOX Book Interest: 10 Strategies at 2.03	90 remaining to allocate.
Public Customer 1: 20 Strategies at 2.03	70 remaining to allocate.
BOX Book Interest: 10 Strategies at 2.02	60 remaining to allocate.
Primary Improvement Order: 30 Strategies (50%) at 2.02	30 remaining to allocate.
Market Maker 1: 30 Strategies at 2.02	

[39] "BOX Book Interest" is defined as bids and offers on the BOX Book for the individual legs of a Strategy. *See* Rule 7245(a)(3).

[40] *See* proposed Rule 7245(g)(1).

Public Customer Allocation

After the BOX Book Interest allocation, Complex Orders, other than the Primary Improvement Order, for the account of Public Customers, including Improvement Orders and orders on the Complex Order Book prior to the COPIP Broadcast, will be allocated for execution against the COPIP Order in priority over other Complex Orders.[41] Where there are multiple such Complex Orders for the account of Public Customers at the same price, the trade allocation will be by time priority.

If, at the end of the Public Customer allocation, there remains any unallocated quantity of the COPIP Order, the balance will be allocated as described below.

Example 13: Primary Improvement Order for the Account of a Public Customer

Suppose at the end of a COPIP to sell 100 Strategies, where the Primary Improvement Order is for the account of a Public Customer that has elected a COPIP Surrender Quantity of 80, the Complex Order Book is as follows in order of time priority:

cNBBO Buy at 2.00	Sell at 2.08
Public Customer 1 order to buy 20 at 2.04 Public Customer 2 Primary Improvement Order to buy 100 at 2.04 Market Maker Improvement Order to buy 30 at 2.04 Public Customer 3 Improvement Order to buy 30 at 2.04 Trade allocation is as follows: Public Customer 1: 20 at 2.04 Public Customer 3: 30 at 2.04 Public Customer 2 Primary Improvement Order: 20 at 2.04 (the COPIP Surrender Quantity of 80 Strategies results in Public Customer 2 receiving an allocation of 20 Strategies, which is less than 50% of the remaining 50 Strategies (50%*50 = 25) to which the Primary Improvement Order would otherwise be entitled since there is only one responder) Market Maker: 30 at 2.04 Allocation among all Public Customers, other than the Initiating Participant, at the same price is by time priority.	COPIP Order to sell 100.

Example 14: COPIP Trade Allocation When Primary Improvement Order is for the Account of a Public Customer

Suppose the Primary Improvement Order, in a COPIP to sell 100 of Strategy A+B, is for the account of a Public Customer. At the end of the COPIP, the Complex Order Book for Strategy A+B is as follows in order of time priority:

cNNBO Buy at 2.00	Sell at 2.10
Public Customer 1 order to buy 10 at 2.03 Public Customer 2 Primary Improvement Order to buy 100 at 2.03 Market Maker order to buy 100 at 2.03 At the end of the COPIP, the trade allocation is as follows: Public Customer 1: 10 at 2.03 Public Customer 2 Primary Improvement Order: 45 at 2.03 (50% of the remaining 90 Strategies since there is only one responder) Market Maker: 45 at 2.03	COPIP Order to sell 100.

Primary Improvement Order Allocation

After the Public Customer allocation, the applicable trade allocation described below will be allocated to the Primary Improvement Order.[42] If the Primary Improvement Order has designated a COPIP Surrender Quantity, the Primary Improvement Order allocation will be reduced, if necessary, in accordance with the COPIP Surrender Quantity.

When a Single-Priced Primary Improvement Order is matched by or matches any Complex Order(s) at the final price level, the Initiating Participant retains priority for up to forty percent (40%) of the remaining size of the COPIP Order after BOX Book Interest and Public Customer orders are satisfied. However, if only one Complex Order matches the Initiating Participant's Single-Priced Primary Improvement Order at the final price level, then the Initiating Participant may retain priority for up to fifty percent (50%) of the remaining size of the COPIP Order after BOX Book Interest and Public Customer orders are satisfied.[43] When a Max Improvement Primary Improvement Order is submitted by the Initiating Participant, the Initiating Participant shall be allocated its full size at each price level, except where restricted by the designated limit price, until a price level is reached where the balance of the COPIP Order can be fully executed. At such price level, the Initiating Participant will be entitled to receive up to forty percent (40%) of the remaining size of the COPIP Order after BOX Book Interest and Public Customer orders are satisfied. However, if only one competing Complex Order matches the Initiating Participant's Max Improvement Primary Improvement Order at the final price level, then the Initiating Participant may retain priority for up to fifty percent (50%) of the remaining size of the COPIP Order after BOX Book Interest and Public Customer orders are satisfied.[44] Neither Public Customer orders nor BOX Book Interest will be considered when determining whether the Initiating Participant retains 40% or 50% in proposed Rule 7245(h) because neither Public Customer order allocation nor BOX Book Interest allocation (which are executed in priority over the Initiating Participant) will be affected by the Initiating Participant retaining the difference between 40% and 50%.[45] The Exchange notes that this is similar

[41] *See* proposed Rule 7245(g)(2).

[42] *See* proposed Rule 7150(h).

[43] *See* proposed Rule 7245(h)(1).

[44] *See* proposed Rule 7245(h)(2).

[45] The first sentence of proposed Rule 7245(h)(1) deletes from the current rule the words "or BOX Book Interest" in order to be consistent with the proposal not to consider BOX Book Interest for purposes of determining the Primary Improvement Order's preference percentage.

to Phlx in treatment of Public Customer orders.[46] The balance will be allocated as described below.

Example 15: COPIP with Auto-Matching

Suppose a COPIP Order to sell 150 Strategies on A+B. Suppose, further, at the end of the COPIP auction, the Complex Order Book is as follows in order of price/time priority:

cNBBO Buy at 2.00	Sell at 2.09
Broker-dealer 1 order to buy 10 at 2.06	COPIP Order to sell 150
Market Maker 1 Improvement Order to buy 8 at 2.05	Order to sell 10 at 2.09.
Market Maker 2 Improvement Order to buy 2 at 2.05	
Broker-dealer 2 Improvement Order to buy 5 at 2.05	
Primary Improvement Order to buy 150 at 2.04	
Broker Dealer 3 Improvement Order to buy 8 at 2.04	
Market Maker 3 Improvement Order to buy 25 at 2.04	
Public Customer Order to buy 10 at 2.04	
Suppose the Primary Improvement Order specified an auto-match limit price of 2.05. The trade allocation at the best available price (at 2.06) is as follows:	
Broker-dealer 1 order: 10 Strategies at 2.06	140 remaining to allocate.
The Primary Improvement Order is not willing to auto-match the 2.06 price level, so it goes to the next price available. The trade allocation at the 2.05 price level is as follows:	
Market Maker 1 Improvement Order: 8 Strategies at 2.05	
Market Maker 2 Improvement Order: 2 Strategies at 2.05	
Broker-dealer 2 Improvement Order: 5 Strategies at 2.05	
Primary Improvement Order: auto-match 15 Strategies at 2.05 110 remaining to allocate	
As there is remaining COPIP Order quantity to be filled, it goes to the next price available. The trade allocation at the 2.04 price level is as follows (this is the price level where the COPIP Order will be completely filled):	
Public Customer order: 10 Strategies at 2.04	
Primary Improvement Order: 40 Strategies at 2.04 (40% of 100 = 40, use 40% because there are 2 responders at this price level)	
Market Maker 3 Improvement Order: 25 Strategies at 2.04	
Broker-dealer 3 Improvement Order: 8 Strategies at 2.04	
Primary Improvement Order will take the remaining 27 Strategies at 2.04 (for a total of 67 Strategies at 2.04)	

Example 16: Allocating 50%, Rather than 40%, to Primary Improvement Order

Suppose a COPIP Order to sell 100 of Strategy A+B. Suppose, further, at the end of the COPIP auction, the Complex Order Book is as follows in order of time priority:

cNNBO Buy at 2.00	Sell at 2.10
Public Customer 1 order to buy 10 at 2.02	COPIP Order to sell 100.
Public Customer 2 order to buy 15 at 2.02	
Primary Improvement Order to buy 100 at 2.02	
Market Maker order to buy 100 at 2.02	
At the end of the COPIP, the trade allocation is as follows:	
10 Strategies at 2.02 to Public Customer 1	
15 Strategies at 2.02 to Public Customer 2	
37 Strategies at 2.02 to Primary Improvement Order (50% allocation)	
38 Strategies at 2.02 to Market Maker	

Note that the Primary Improvement Order received an allocation priority of 50% of the remaining COPIP Order size (50%*(100 − 25) = 38, rounded down)[47] in this case because Public Customer orders are not included in the determination of the 50%/40% allocation rule.

Example 17: COPIP Allocation

Suppose a COPIP to sell 150 contracts of Strategy A+B. At the end of the COPIP, the Complex Order Book for Strategy A+B is as follows in order of time priority:

cNBBO Buy at 2.00	Sell at 2.06
Public Customer order to buy 10 at 2.04	COPIP Order to sell 150.
Primary Improvement Order to buy 150 at 2.04	Order to sell 10 at 2.06.
Market Maker 1 Improvement Order to buy 5 at 2.04	
Market Maker 2 Improvement Order to buy 25 at 2.04	
Market Maker 3 Improvement Order to buy 60 at 2.04	
Market Maker 4 Improvement Order to buy 5 at 2.04	
Market Maker 5 Improvement Order to buy 5 at 2.04	
Broker-dealer 1 Improvement Order to buy 8 at 2.04	
Trade allocation (all at 2.04) is as follows:	
Public Customer order: 10 Strategies	140 remaining to allocate.

[46] *See* Phlx Rule 1080(n)(ii)(E). Note that, in its Rule 1080(n)(ii)(E)(2)(b), the Phlx auto-match feature limits the Initiating Participant to 40% allocation.

[47] Strategies are allocated in whole numbers and, to ensure the allocation priority to Primary Improvement Orders does not exceed the applicable 40% or 50% specified in proposed Rule 7245(h), allocations of fractional Strategies to the Primary Improvement Order in the Primary Improvement Order allocation step are rounded down.

cNBBO Buy at 2.00	Sell at 2.06
Primary Improvement Order: 56 Strategies	84 remaining to allocate.
Market Maker 1 Improvement Order: 4 Strategies	
Market Maker 2 Improvement Order: 21 Strategies	
Market Maker 3 Improvement Order: 50 Strategies	
Market Maker 4 Improvement Order: 4 Strategies	
Market Maker 4 Improvement Order: 4 Strategies	1 remaining to allocate
Broker-dealer 1 Improvement Order: 1 Strategy	

Market Maker Allocation

After the Primary Improvement Order allocation, any remaining unallocated quantity of the COPIP Order will be allocated to Complex Orders, including Improvement Orders and orders on the Complex Order Book prior to the COPIP Broadcast, for the account of Market Makers.[48] Where there are Complex Orders for the accounts of more than one Market Maker at the same price, the trade allocation formula for Market Makers will provide for the allocation of contracts among Market Makers based on size pro rata for the remaining Strategies. The proposed Market Maker allocation would follow the formula: B * C where component B is derived by dividing the quantity of Strategies for the Market Maker at the price level by the total quantity of Strategies for all Market Makers at the price level, and component C is the remaining quantity of the COPIP Order to be allocated after the Primary Improvement Order allocation. If the quantity of Strategies for the Market Maker order in B is greater than the original quantity of the COPIP Order, the Market Maker's quantity will be capped at the size of the original COPIP Order for purposes of calculating B. If the trade allocation for a Market Maker would be greater than the quantity of the Market Maker order at the price level, the Market Maker's trade allocation will not exceed the size of the Market Maker order at the price level. If the trade allocation for a Market Maker would result in a fraction of a Strategy, it will be rounded down.

Example 18: Market Maker Allocation Formula

In certain circumstances, due to rounding down, it is possible that some Market Maker orders will not be filled even though there is sufficient quantity of the COPIP Order to be allocated. Suppose at the end of a COPIP Order to sell 200 Strategies of A+B, the Complex Order Book is as follows in order of time priority:

cNNBO Buy at 2.00	Sell at 2.10
Primary Improvement Order to buy 200 at 2.02	COPIP Order to sell 200.
Market Maker 1 order to buy 2 at 2.02	
Market Maker 2 order to buy 20 at 2.02	
Market Maker 3 order to buy 80 at 2.02	
Market Maker 4 order to buy 120 at 2.02	
Professional Customer order to buy 20 at 2.02	
At the end of the COPIP, the trade allocation will be as follows:	
First, to the Primary Improvement Order for 80 Strategies and then to the Market Makers, pursuant to the formula provided in Rule 7245(g)(4), as follows:	
Market Maker 1–1 Strategy[49]	
Market Maker 2–10 Strategies	
Market Maker 3–43 Strategies	
Market Maker 4–64 Strategies	
As a result, a total of 118 Strategies are allocated to all Market Makers even though there were, in total, 120 Strategies available to be allocated to Market Makers from the remaining COPIP Order. The remaining COPIP Order quantity of 2 Strategies will be allocated to the Professional Customer order.	

Remaining Complex Orders Allocation

After the Market Maker allocation, any remaining unallocated quantity of the COPIP Order will be allocated to any remaining Complex Orders, other than Market Maker orders, including orders for the account of Professionals and orders on the Complex Order Book prior to the COPIP Broadcast, not receiving allocation above.[50]

Example 19: Comparison of Professional Customer COPIP Trade Allocation (Before and After Proposed Rule Change)

Suppose at the end of a COPIP to sell 100 Strategies on A+B, where the Primary Improvement Order is for the account of a Market Maker, the Complex Order Book for Strategy A+B is as follows in order of time priority:

cNBBO Buy at 2.00	Sell at 2.07
Public Customer 1 order to buy 10 at 2.04	COPIP Order to sell 100.
Professional Customer 1 order to buy 10 at 2.04	
Primary Improvement Order to buy 100 at 2.04	
Market Maker 1 Improvement Order to buy 30 at 2.04	
Broker-dealer 1 Improvement Order to buy 20 at 2.04	
Market Maker 2 Improvement Order to buy 30 at 2.04	
Trade allocation at the end of the COPIP under current BOX rules is as follows:	

[48] *See* proposed Rule 7245(g)(4).

[49] The Market Maker allocation formula is: 2 Strategies for Market Maker 1 divided by 222 Strategies for all Market Makers, multiplied by 120 remaining Strategies to be allocated from the COPIP Order and rounded down = 1.

[50] *See* Proposed Rule 7245(g)(5).

cNBBO Buy at 2.00	Sell at 2.07
Current Rules	
Public Customer 1: 10 Strategies at 2.04	
Professional Customer 1: 10 Strategies at 2.04	
Primary Improvement Order: 40 Strategies at 2.04	
Market Maker 1 Improvement Order: 30 Strategies at 2.04	
Broker-dealer 1 Improvement Order: 10 Strategies at 2.04	
Trade allocation at the end of the COPIP under the proposed rules is as follows:	
Proposed Rules	
Public Customer 1: 10 Strategies at 2.04	
Primary Improvement Order: 36 Strategies at 2.04	
Market Maker 1 Improvement Order: 27 Strategies at 2.04 [51]	
Market Maker 2 Improvement Order: 27 Strategies at 2.04	

Where there are more than one remaining unallocated Complex Orders, including Improvement Orders, at the same price, the trade allocation to each such Complex Order will follow the formula: B * C where component B is derived by dividing the quantity of Strategies for the Complex Order at the price level by the total quantity of Strategies for all remaining Complex Orders at the price level, and component C is the remaining quantity of the COPIP Order to be allocated after the Market Maker allocation. If the quantity of Strategies for the Complex Order in B is greater than the original quantity of the COPIP Order, the quantity of Strategies for the Complex Order will be capped at the size of the original COPIP Order for purposes of calculating B. If the trade allocation for a Complex Order would be greater than the quantity of Strategies for the Complex Order at the price level, the trade allocation will not exceed the quantity of Strategies for the Complex Order at the price level. If the trade allocation would result in a fraction of a Strategy, it will be rounded down.

If, at the end of the remaining Complex Orders allocation, there remains any unallocated quantity of the COPIP Order, the balance will be allocated as described below.

Additional Allocation

The balance of the COPIP Order will be allocated to all remaining orders, if any, other than the Primary Improvement Order. The allocation method will be to allocate one Strategy of the COPIP Order per order in sequence until each remaining order has received one Strategy or until the COPIP Order is fully allocated. Allocation sequence among orders in this step will be in order of size with the largest remaining order allocated first. Where two or more such orders are the same size, trade allocation sequence will be by time priority.

If, at the end of the additional allocation, there remains any unallocated quantity of the COPIP Order, the balance will be allocated to the Initiating Participant regardless of any applicable COPIP Surrender Quantity.[52]

Example 20: Additional Allocation When Limited by COPIP Surrender Quantity with Multiple Market Maker Orders

Suppose at the end of a COPIP to sell 177 Strategies on A+B, where the COPIP Surrender Quantity for the Primary Improvement Order is 177, the Complex Order Book for Strategy A+B is as follows in order of time priority:

cNBBO Buy at 2.00	Sell at 2.06
Public Customer 1 order to buy 10 at 2.04	COPIP Order to sell 177.
Primary Improvement Order to buy 177 at 2.04	Order to sell 10 at 2.06.
Market Maker 1 Improvement Order to buy 114 at 2.04	
Market Maker 2 Improvement Order to buy 115 at 2.04	
Market Maker 3 Improvement Order to buy 117 at 2.04	
At the end of the COPIP, the trade allocation is as follows:	
Public Customer 1: 10 Strategies at 2.04	167 remaining to allocate.
Primary Improvement Order: 0 Strategies (all are surrendered)	
Market Maker 1 Improvement Order: 55 Strategies at 2.04	
Market Maker 2 Improvement Order: 55 Strategies at 2.04	
Market Maker 3 Improvement Order: 56 Strategies at 2.04	
The COPIP Order has 1 remaining Strategy to allocate at 2.04.	
The Market Maker orders have the following Strategies remaining to be filled at 2.04:	
Market Maker 1 Improvement Order: 59 Strategies remaining at 2.04	
Market Maker 2 Improvement Order: 60 Strategies remaining at 2.04	
Market Maker 3 Improvement Order: 61 Strategies remaining at 2.04	
The Market Maker orders are ranked in order of size, with Market Maker 3 being the largest, and allocated on a rotating basis one by one until either the Market Maker order or the COPIP Order is exhausted. In this case, the remaining 1 Strategy is allocated as follows:	
Market Maker 3 Improvement Order: 1 Strategy at 2.04	

Example 21: Orders on the Complex Order Book Prior to the COPIP Broadcast, Which are Eligible for Execution at the Conclusion of the COPIP

[51] The Market Maker allocation formula is: 30 Strategies for Market Maker 1 divided by 60 Strategies for all Market Makers, multiplied by 54 remaining Strategies to be allocated from the PIP Order = 27.

[52] *See* proposed Rule 7245(g)(6).

Suppose the following Complex Orders (listed in order of time priority) are on the Complex Order Book prior to the broadcast of a COPIP Order to sell 100 Strategies of A+B.

cNBBO Buy at 2.02	Sell at 2.09
Broker-dealer order to buy 100 at 2.02 Public Customer order to buy 5 at 2.02 Market Maker order to buy 15 at 2.02 Public Customer order to buy 12 at 2.02 Market Maker order to buy 30 at 2.02 Primary Improvement Order to buy 100 at 2.02	Market Maker order to sell 10 at 2.09.

Suppose at the end of the COPIP, only one Improvement Order has been received from a Market Maker to buy 10 at 2.03 and one Unrelated Order from a Professional Customer to buy 15 at 2.03. The Complex Order Book, including the COPIP Order, is as follows at the end of the COPIP:

cNBBO Buy at 2.02	Sell at 2.09
Market Maker Improvement Order to buy 10 at 2.03 Professional order to buy 15 at 2.03 Broker-dealer order to buy 100 at 2.02 Public Customer order to buy 5 at 2.02 Market Maker order to buy 15 at 2.02 Public Customer order to buy 12 at 2.02 Market Maker order to buy 30 at 2.02 Primary Improvement Order to buy 100 at 2.02 The trade allocation will be as follows: First, because the orders at the first/best price level are, in total, less than the size of the COPIP Order, such orders are filled for their entire 25 Strategies at 2.03. Second, at the next best price level (2.02), the remaining 75 Strategies of the COPIP Order will be allocated as follows: Public Customer order to buy 5 at 2.02 Public Customer order to buy 12 at 2.02 As the total of the orders for the account of Public Customers (17) is less than the remaining COPIP Order quantity (75), the two Public Customer orders are filled, leaving 58 Strategies remaining. Third, the remaining 58 Strategies of the COPIP Order are allocated as follows: Primary Improvement Order to buy 23 at 2.02. 23 Strategies (40% of the remaining quantity of 58) are allocated to the Primary Improvement Order at 2.02, leaving 35 Strategies remaining. Fourth, the remaining 35 Strategies of the COPIP Order are allocated as follows: Market Maker order to buy 15 at 2.02 Market Maker order to buy 30 at 2.02	COPIP Order to sell 100. Market Maker order to sell 10 at 2.09.

As there are remaining unallocated orders for the accounts of more than one Market Maker at the same price, the trade allocation to each Market Maker will follow the formula provided in proposed Rule 7245(g)(4). The first Market Maker order will be allocated 33.3% (15/45) of the 35 Strategies, which is 11 Strategies (allocation of partial quantities are rounded down in this step). The second Market Maker order will be allocated 66.67% (30/45) of the 35 Strategies or 23.

Fifth, the one remaining contract will be allocated to the broker-dealer Order to buy 100 at 2.02. Note: if the COPIP Order had instead been a simple limit order to sell 100 Strategies of A+B at 2.02, the broker-dealer Order would have been filled first on the Complex Order Book due to its time priority.

Example 22: Valid Starting Prices for COPIP Auctions

A Participant wishes to enter a COPIP Order to sell 50 of Strategy A+B.

(a) Suppose the cNBBO and the Complex Order Book for Strategy A+B are as follows:

cNBBO Buy at 2.02	Sell at 2.09
Quote to buy 10 at 2.02	Order to sell 5 at 2.09

The COPIP auction start price can be any price between 2.02 and 2.08 inclusive.[53]

(b) Suppose, instead, that the cNBBO, cBBO and the Complex Order Book for Strategy A+B are as follows:

cNBBO Buy at 2.02	Sell at 2.09
cBBO Buy at 2.02 Quote to buy 10 at 2.02	Sell at 2.09 Order to sell 5 at 2.07.

The COPIP auction start price can be any price between 2.02 and 2.06 inclusive.[54]

(c) Suppose, instead, that there is no BOX Book Interest that could generate a sell price of 2.09 and the cNBBO and the Complex Order Book for Strategy A+B are as follows:

[53] The COPIP Start Price shall, on the opposite side of the COPIP Order, be equal to or better than the best of the BBO on the Complex Order Book for the Strategy, the cNBBO, and the cBBO and, on the same side of the COPIP Order, be equal to or better than the cNBBO. In addition to the foregoing requirements, if the better of the BBO on the Complex Order Book for the Strategy and the cBBO is equal to or better than cNBBO on the same side of the COPIP Order, the COPIP Start Price must also be better than the better of the BBO on the Complex Order Book for the Strategy and the cBBO on the same side on the Complex Order Book for the Strategy at the time of commencement of the COPIP (Proposed Rule 7245(f)).

[54] *Id.*

cNBBO Buy at 2.02	Sell at 2.09
Quote to buy 10 at 2.02 ...	Order to sell 5 at 2.10.

The COPIP auction start price can be any price between 2.02 and 2.09 inclusive.[55]

Complex Orders on the Complex Order Book

Currently, all Complex Orders on the Complex Order Book prior to the COPIP Broadcast, excluding any proprietary orders from the Initiating Participant, are filled at the end of the COPIP in time priority before any other Complex Orders at the same price.[56] Further, Rule 7245(g)(3) states that the Primary Improvement Order follows in time priority all Complex Orders on the Complex Order Book prior to the COPIP Broadcast that are equal to the (A) Single Priced Primary Improvement Order price; or (B) execution price of a Max Improvement Primary Improvement Order that results in the balance of the COPIP Order being fully executed, except any proprietary order(s) from the Initiating Participant.

The Exchange is now proposing that quotes and orders on the Complex Order Book prior to the COPIP Broadcast will no longer be allocated against the COPIP Order at the end of the COPIP in time priority before any other order at the same price. Specifically, quotes and orders on the Complex Order Book prior to the COPIP Broadcast will now be considered alongside all other orders, whether Improvement Order(s), including Unrelated Order(s) received by BOX during the COPIP (excluding all Unrelated Orders that were immediately executed during the interval of the COPIP), for matching at the conclusion of the COPIP. Therefore, the Exchange is proposing to remove the exceptions for quotes and orders on the BOX Book prior to the COPIP Broadcast in Rules 7245(f)(3)(ii) and (g)(3). The Exchange notes that this proposed change is consistent with Phlx.[57] Proprietary quotes or orders from the Initiating Participant at the Primary Improvement Order price shall not be executed against the COPIP Order during or at the conclusion of the COPIP.

Additional COPIP Changes

The Exchange is proposing to amend various provisions of Rule 7245 to accommodate the proposed change in the COPIP allocation and amend certain sections that are no longer relevant with the proposed changes. The Exchange is also making various non-substantive changes to its rules to accommodate the changes to the COPIP allocation. Most of these changes deal with renumbering of sections to account for the new subsection (g) being proposed to Rule 7245 and the removal of certain sections. The Exchange proposes to include language to provide clarity regarding the COPIP Start Price in Rule 7245(f) to ensure that the COPIP does not trade ahead of resting same-side orders. Additionally, the Exchange must amend various cross-references within Rule 7245 to take into account the renumbering of sections.

Professional Customers

The Exchange proposes to amend Rule 100(a)(50) to distinguish between Professionals and other Public Customers (''non-Professional, Public Customers'') for proposes of the Exchange's priority rules in the PIP and COPIP auctions. Pursuant to Rule 100(a)(50), a ''Professional'' is a person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

Under existing Exchange rules, Public Customers benefit from certain order priority advantages in PIP and COPIP transactions on the Exchange (''Order Priority''). Rule 7150(f)(4) currently provides that, at the conclusion of a PIP, Public Customer orders have Order Priority. Rule 7245(f)(3)(ii) currently provides that, at the conclusion of a COPIP, Public Customer Complex Orders have Order Priority. Rules 7150(g)(4) and 7245(g)(4) currently provide that Public Customer orders have priority over Primary Improvement Orders.

Order Priority is a marketplace advantage provided to Public Customers on the Exchange. Order Priority means that Public Customer orders are given execution priority over non-Public Customer orders as provided in the Exchange rules. The purpose of providing Order Priority to Public Customers is to attract retail order flow to the Exchange by leveling the playing field for retail investors as compared with market professionals.

Professionals in today's marketplace are more akin to broker-dealers in some respects than to non-Professional, Public Customers.[58] As a result, the Exchange believes that providing Order Priority simply based upon whether the order is for the account of a Public Customer is no longer appropriate in today's marketplace. Professionals now have access to information and technology that enables them to trade listed options in the same manner as broker-dealers. Moreover, because Professionals are included in the definition of Public Customers under Exchange rules, Professionals currently have the same priority in PIP and COPIP transactions as non-Professional, Public Customers. Therefore, non-Professional, Public Customers are prevented from benefitting fully from the intended Order Priority advantage when Professionals are afforded the same Order Priority.

Accordingly, the Exchange proposes to amend Rule 100(a)(50), and related cross references in Rules 7150(a)(2) and 7145(a)(4), to more appropriately limit the availability of Order Priority advantages in PIP and COPIP transactions to non-Professional, Public Customers on the Exchange.[59] Under the proposal, a Professional will now be treated like non-Public Customers for Order Priority in PIP and COPIP transactions. The effect of the enactment of this proposal will be that Professionals will no longer receive the same Order Priority that is afforded to non-Professional, Public Customers in PIP and COPIP transactions and, instead, will be treated like broker-dealers in this regard.

The order-sending behavior and trading activity of Professionals tend to be more similar to broker-dealers trading on a proprietary basis. This is particularly true of orders placed in response to the Exchange's PIP and COPIP mechanisms. Accordingly, the Exchange believes it is not unfairly discriminatory to give Professional orders the same priority as broker-dealers for allocation purposes. The Exchange notes that it is not a novel proposal to treat Professional's as non-Public Customers for Order Priority in auction transactions and that other exchanges currently do this.[60]

[55] *Id.*

[56] *See* Rule 7245(f)(3)(ii).

[57] *See* Phlx Rule 1080(n)(ii)(E)(2)(d).

[58] Professionals have access to sophisticated trading systems that contain functionality not available to retail customers, including things such as continuously updated pricing models based upon real-time streaming data, access to multiple markets simultaneously and order and risk management tools.

[59] *See* proposed Rule 7150(g)(4). Currently, Professionals are treated like Public Customers in circumstances where the Exchange yields priority to Public Customers under SEC Rule 11a1–1(T). Under the proposed rule change, pursuant to which Improvement Orders will not be broadcast, transactions executed on the Exchange will qualify under SEC Rule 11a2–2(T) as described below. As a result, Professionals will no longer be treated like Public Customers for purposes of priority.

[60] *See* Phlx Rule 1000(b)(14).

Cancel Improvement Orders

The Exchange is proposing to allow Participants to cancel their Improvement Orders at any time up to the end of the PIP or COPIP. Currently, the Exchange does not allow Participants to cancel their Improvement Orders and only allows them to decrease the size of their Improvement Order by improving the price of that order.[61]

The Exchange believes that since the PIP Order is guaranteed to execute at a price that is at least equal to, if not better than, the NBBO, that allowing Participants to cancel their Improvement Orders will not affect the ability of an order to receive an execution at the NBBO. Additionally, the Exchange believes that not allowing Participants to cancel their Improvement Order during a PIP or COPIP exposes a Participant to the risk of the market moving against them after they submit their Improvement Order. The Exchange believes that by allowing a Participant to cancel their Improvement Order Participants will be more willing to enter aggressively priced responses. The Exchange notes that this proposed change is consistent with Phlx's Rules.[62]

Additionally, the Exchange is proposing that Participants will no longer be able to decrease the size of their Improvement Order by improving the price of that order. The Exchange believes that this is no longer needed now that Participants can cancel their Improvement Orders because under the proposal a Participant will be able to cancel their Improvement Order and submit a new Improvement Order with a better price and a smaller size, therefore achieving the same result as they can under the current rule.

Removal of Broadcast

Currently, during a PIP and COPIP, Improvement Orders are broadcast via the HSVF but are not disseminated through OPRA.[63] The Exchange is proposing that it will no longer broadcast Improvement Orders received during and PIP and COPIP via the HSVF.

The Exchange believes that this proposed change will encourage greater participation in the PIP and COPIP which should lead to greater price improvement. The Exchange believes that this should encourage Participants to submit Improvement Orders at the best possible price at which the Participant is willing to participate. This, in turn, should result in better execution prices, which is the ''price improvement'' that the PIP and COPIP functionalities offer. The Exchange notes that this is similar to the rules of other exchanges.[64]

Section 11(a)

As discussed above, the rule changes proposed herein would change the Exchange's PIP and COPIP auction processes to blind auctions by eliminating the broadcast of Improvement Orders. As a result, responses to the PIP and COPIP auctions would no longer be visible to Participants. Upon implementing this change, the Exchange believes that transactions executed through the PIP and COPIP processes will be consistent with the requirements in Section 11(a) of the Act by satisfying what is known as the ''effect versus execute'' exemption provided by Rule 11a2–2(T) (''the Effect Versus Execute Rule'').

Section 11(a)(1) of the Act[65] prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or an account over which it or its associated person exercises discretion (collectively, ''covered accounts''), unless an exception applies. The purpose of Section 11(a) is to address trading advantages enjoyed by the exchange members and conflicts of interest in money management.[66] In particular, as the Commission has stated, Congress enacted Section 11(a) out of concern about members benefiting in their principal transactions from special ''time and place'' advantages associated with floor trading—such as the ability to ''execute decisions faster than public investors.''[67]

Section 11(a) includes several exceptions from the general prohibition for principal transactions that contribute to the fairness and orderliness of exchange transactions or do not reflect any time and place advantages. For example, Section 11(a)(1) provides that the prohibition on principal transactions does not apply to transactions by a dealer acting in the capacity of a market maker,[68] bona fide arbitrage, risk arbitrage or hedge transactions,[69] transactions by an odd lot dealer,[70] and transactions made to offset errors.[71]

The Commission has previously stated that it believes that transactions effected through the BOX PIP and COPIP are consistent with the requirements in Section 11(a) of the Act, relying in part upon Rule 11a1–1(T) and in part upon Rule 11a2–2(T) thereunder.[72]

For the reasons set forth below, under the proposed rule change, the Exchange believes that BOX Options Participants effecting transactions through the PIP and COPIP, including executions of PIP Orders and COPIP Orders against orders on the BOX Book and the Complex Order Book (whether prior to or after the respective PIP or COPIP Broadcast), are consistent with the requirements of Section 11(a) of the Act by satisfying the conditions of Rule 11a2–2(T) under the Act.

Effect Versus Execute—Rule 11a2–2(T)

The Commission previously has found that the priority and allocation rules for electronic trading on the Exchange are consistent with Section 11(a) of the Act because such rules satisfy the Effect Versus Execute Rule.[73] The Commission also found that executions of PIP Orders and COPIP Orders against orders on the BOX Book and the Complex Order Book, excluding certain executions of PIP Orders and COPIP Orders permitted pursuant to Rule 11a1–1(T), satisfy the conditions of the Effect Versus Execute Rule.[74] Under the proposed rule changes, as described above, the Exchange believes the procedures for the execution of orders submitted through the PIP and COPIP, including the execution of PIP Orders and COPIP Orders against orders on the BOX Book or on the Complex Order Book (whether prior to or after the respective PIP or COPIP Broadcast), would satisfy the conditions of the

[61] *See* Rules 7150(f)(2) and 7245(f)(2).

[62] *See* Phlx Rule 1080(n)(ii)(6).

[63] *See* Rules 7150(f)(1) and 7245(f)(1).

[64] *See* Phlx Rule 1080(n)(ii)(A)(6) and CBOE Rule 6.74A(b)(1)(F).

[65] 15 U.S.C. 78k(a)(1).

[66] *See* Securities Reform Act of 1975, Report of the House Comm. On Interstate and Foreign Commerce, H.R. Rep. No. 94–123, 94th Cong., 1st Sess. (1975); Securities Acts Amendments of 1975, Report of the Senate Comm. on Banking, Housing, and Urban Affairs, S. Rep. No. 94–75, 94th Cong., 1st Sess. (1975).

[67] *See* Securities Exchange Act Release Nos. 14563 (March 14, 1978), 43 FR 11542, 11543 (March 17, 1978); 14713 (April 27, 1978), 43 FR 18557 (''April 1978 Release''); 15533 (January 29, 1979), 44 FR 6084 (''1979 Release'').

[68] Section 11(a)(1)(A).

[69] Section 11(a)(1)(D).

[70] Section 11(a)(1)(B).

[71] Section 11(a)(1)(F).

[72] *See* Securities Exchange Act Release No. 68177 (November 7, 2012), 77 FR 67851, at 67851 (November 14, 2012) (the ''November 2012 Order''). *See* Securities Exchange Act Release No. 71148 (December 19, 2013), 78 FR 78437, at 78442 (December 26, 2013).

[73] *See* Securities Exchange Act Release No. 66871 (April 27, 2012), 77 FR 26323, at 26336 (May 3, 2012), In the Matter of the Application of BOX Options Exchange LLC for Registration as a National Securities Exchange Findings, Opinion, and Order of the Commission (the ''BOX Approval Order'').

[74] *See* November 2012 Order.

Effect Versus Execute Rule for the same reasons previously determined by the Commission for other categories of electronic trading on the Exchange.

The Effect Versus Execute Rule provides exchange members with an exemption from the Section 11(a)(1) prohibition on principal trading, in addition to the exceptions delineated in the statute. The Effect Versus Execute Rule permits an exchange member, subject to certain conditions, to effect transactions for covered accounts by arranging for an unaffiliated member to execute the transactions on the exchange. To comply with the Effect Versus Execute Rule's conditions, a member: (1) May not be affiliated with the executing member; (2) must transmit the order from off the exchange floor; (3) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[75] and (4) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the rule.

The Commission has stated that these four requirements of the Effect Versus Execute Rule are ''designed to put members and non-members on the same footing, to the extent practicable, in light of the purposes of Section 11(a).''[76] If a transaction meets the four conditions of the Effect Versus Execute Rule, it will be deemed to be in compliance with Section 11(a)(1) consistent with the protection of investors and the maintenance of fair and orderly markets.[77] The Exchange believes the proposed structural and operational characteristics of the PIP and COPIP are consistent with the stated objectives of Section 11(a) of the Act, and that all users would be placed on the ''same footing,'' as intended by the Effect Versus Execute Rule, for the execution of orders submitted through the PIP and COPIP, including the execution of PIP Orders and COPIP Orders against orders on the BOX Book or on the Complex Order Book (whether prior to or after the respective PIP or COPIP Broadcast).

The Commission has recognized and accommodated the functioning of electronic exchange facilities under the Effect Versus Execute Rule.[78] In addition, the Commission and its staff have permitted exchanges to sponsor innovative trading systems in reliance on the Effect Versus Execute Rule, based on the exchanges' representations that such facilities, by design, do not provide any special time and place advantage to members.[79] In particular, the Commission has stated, in the context of certain automated execution systems, that where the execution is performed on an automated basis by the facility itself, ''the member would not retain any ability to control the timing of the execution or otherwise enjoy the kind of special order-handling advantages inherent in being on an exchange floor.[80] The Commission has applied the Effect Versus Execute Rule in a functional manner, taking into account the structural characteristics that distinguish the operation of an automated execution system from traditional exchange floor activities. This approach represents the sensible conclusion by the Commission and its Staff that implementation of Section 11(a) should reflect the ''continuing rapid pace of economic, technological and regulatory changes in the market.''[81]

The Effect Versus Execute Rule's first condition is that the order be executed by an exchange member that is unaffiliated with the member initiating the order.[82] The Commission has stated that this requirement is satisfied when automated exchange facilities, such as BOX, are used, so long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the system.[83] In considering the operation of NOM and C2, the Commission noted, while there is no independent executing exchange member, the execution of an order is automatic once it has been transmitted to the system.[84] Because the design of these systems ensures members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated executions obtained through these systems satisfy the independent execution requirement of Rule 11a2–2(T).[85]

This principle is directly applicable to BOX, including the execution of PIP Orders and COPIP Orders under the proposed rule change. The design of the PIP and COPIP, as proposed, ensures that broker-dealers do not have any special or unique trading advantages in handling their orders after transmission to BOX. Accordingly, the Exchange believes that a broker-dealer effecting the execution of PIP Orders and COPIP Orders under the proposed rule change, including against orders on the BOX Book or the Complex Order Book, satisfies the requirement for execution through an unaffiliated member.

The design of BOX ensures that no BOX Options Participant will enjoy any special control over the timing of execution or special order handling advantages after order transmission. All orders submitted to BOX, including orders on the Complex Order Book and on the BOX Book, are centrally processed and executed automatically by BOX. Orders sent to BOX are transmitted from remote terminals directly to the system by electronic means. Once an order is submitted to BOX, the order is executed against one or more other orders based on the

[75] The member may, however, participate in clearing and settling the transaction. *See* Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978) (regarding the NYSE's Designated Order Turnaround System (''1978 Release'')).

[76] April 1978 Release at 18560.

[77] 17 C.F.R. 240.11a2–2(T)(e).

[78] *See* Securities Exchange Act Release Nos. 61152 (December 10, 2009), 74 FR 66699 (December 16, 2009) (File No. 10–191) (Findings, Opinion, and Order of the Commission In the Matter of the Application of C2 Options Exchange, Incorporated for Registration as a National Securities Exchange) (''C2 Approval Order'') at note 170; 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (File No. SR–NASDAQ–2007–004) (approval order concerning the establishment of the NASDAQ Options Market LLC (''NOM'')) (''NOM Approval Order''); Order approving the rules of the Boston Options Exchange, supra n.11; 54552 (September 29, 2006) (AMEX AEMI trading system), 71 FR 59546 (October 10, 2006); 54550 (September 29, 2006), 71 FR 59563 (October 10, 2006) (Chicago Stock Exchange trading system); 54528 (September 28, 2006), 71 FR 58650 (October 4, 2006) (International Securities Exchange trading system); and 49747 (May 20, 2004), 69 FR 30344 (May 27, 2004) (AMEX electronic options trading system)

[79] *See e.g.,* Securities Exchange Act Release No. 44983 (October 25, 2001) (Archipelago Exchange), citing Letter from Paula R. Jensen, Deputy Chief Counsel, Division of Market Regulation, SEC, to Kathryn L. Beck, Senior Vice President, Special Counsel and Antitrust Compliance Officer, Pacific Exchange, Inc. (October 25, 2001); Letter from Larry E. Bergmann, Senior Associate Director, Division of Market Regulation, SEC, to Edith Hallahan, Associate General Counsel, Philadelphia Stock Exchange, Inc. (March 24, 1999); Letter from Catherine McGuire, Chief Counsel, Division of Market Regulation, SEC, to David E. Rosedahl, PCX (November 30. 1998); Letter from Brandon Becker, Director, Division of Market Regulation, SEC, to George T. Simon, Partner, Foley & Lardner (November 30, 1994); Securities Exchange Act Release No. 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (NYSE's Off-Hours Trading Facility (October 25, 2001).

[80] *See* 1979 Release at 6087.

[81] *See* 1979 Release at 6087.

[82] 17 C.F.R. 240.11a2–2(T)(a)(2)(i).

[83] *See, e.g.,* C2 Approval Order, NOM Approval Order and Securities Exchange Act Release No. 49068 (January 13, 2004), 69 FR 2775, at 2790 (January 20, 2004) (establishing, among other things, the Boston Options Exchange, LLC options trading facility of BSE).

[84] *See* NOM Approval Order and C2 Approval Order.

[85] *See* NOM Approval Order and C2 Approval Order.

established matching algorithms of the Exchange. Under the proposed rules, orders on the BOX Book or on the Complex Order Book may also trade with one or more other orders, including PIP Orders and COPIP Orders, based on the established matching algorithms of the Exchange. The execution in each combination does not depend on the Options Participant but rather upon what other orders are entered into BOX at or around the same time as the subject order, what orders are on the BOX Book and on the Complex Order Book, whether a PIP or COPIP is initiated and where the order is ranked based on the priority ranking algorithm. At no time following its submission of an order to BOX will an Options Participant be able to acquire control or influence over the result or timing of order execution. Accordingly, Participants do not control or influence the result or timing of execution of orders submitted to BOX, including PIP Orders and COPIP Orders. Orders will be ranked and maintained on the BOX Book, the Complex Order Book, the PIP and the COPIP according to established automatic priority rules. A Participant relinquishes any ability to influence or guide the execution of its order at the time the order is transmitted into the BOX system. Trades will execute when orders or quotations entered on BOX match one another, and the priority of orders at the same price will be determined, according to an established algorithm based on the order's characteristics determined at time it is entered.[86]

Upon adoption of the proposal, the execution of a PIP Order or a COPIP Order against orders on the BOX Book or on the Complex Order Book will be determined automatically, according to the proposed matching, priority and allocation rules described in detail above. The Exchange notes that existing BOX rules provide that a Participant initiating a PIP or a COPIP is prohibited from subsequently entering an Order on the BOX Book for the purpose of disrupting or manipulating the ongoing COPIP.[87]

Under the proposal, no Participant has any special or unique trading advantage in the execution of PIP Orders and COPIP Orders, including against orders on the BOX Book and the Complex Order Book. As a result, the Exchange believes the proposal satisfies this requirement.

Second, the Effect Versus Execute Rule requires that orders for a covered account transaction be transmitted from off the exchange floor.[88] Again, the Commission has considered this requirement in the context of various automated trading and electronic order-handling facilities operated by national securities exchanges.[89] In these contexts, the Commission determined that a covered account order sent through such an exchange facility would be deemed to be transmitted from off the floor. Like these other automated systems, orders sent to BOX, regardless of where it executes within the BOX system, including the Complex Order Book, the BOX Book, a PIP or a COPIP, will be transmitted from remote terminals directly to BOX by electronic means. OFPs and BOX Market Makers will only submit orders and quotes to BOX from electronic systems from remote locations, separate from BOX. There are no other Options Participants that are able to submit orders to BOX other than OFPs or Market Makers. Therefore, the Exchange believes that Participants' orders electronically received by BOX satisfy the off-floor transmission requirement for the purposes of the Effect Versus Execute Rule.[90]

Third, the Effect Versus Execute Rule provides that the exchange member and his associated person not participate in the execution of the order once it has been transmitted.[91] This requirement originally was intended to prevent members with their own floor brokers from using those persons to influence or guide their orders' executions.[92] A member is not precluded from canceling or modifying orders, or from modifying instructions for executing orders, after they have been transmitted; provided, however, such cancellations or modifications are transmitted from off the exchange floor.[93]

In analyzing the application of the non-participation requirement to automated execution facilities, the Commission has specifically noted, in regard to BOX, that the execution does not depend on the Participant but rather upon what other orders are entered into BOX at or around the same time as the subject order, what orders are on the BOX Book, and where the order is ranked based on the priority ranking and execution algorithm.[94] Orders submitted electronically to the BOX Book will similarly meet the non-participation requirement. Upon submission to BOX, an order is executed against one or more other orders on the BOX Book or the Complex Order Book or with orders submitted through the PIP or the COPIP based on an established matching algorithm. The execution does not depend on the Participant but rather upon what other orders are entered into BOX at or around the same time as the subject order, what orders are on the Complex Order Book and on the BOX Book, whether a PIP or COPIP is initiated and where the order is ranked based on the priority ranking algorithm. At no time following the submission of an order to BOX is an Options Participant able to acquire control or influence over the result or timing of order execution. Accordingly, Participants do not control or influence the result or timing of the execution of orders submitted to BOX through the PIP or the COPIP, including whether such Participant's order executes against an order on the BOX Book or the Complex Order Book. As such, the Exchange believes the non-participation requirement is met with respect to all orders submitted to BOX, including orders on the BOX Book, the Complex Order Book, a PIP or a COPIP.

Fourth, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2–2(T).[95] Participants trading for

[86] *See* November 2012 Order.

[87] *See* IM–7150(b) and IM–7245–2(b).

[88] 17 C.F.R. 240.11a2–2(T)(a)(2)(ii).

[89] *See e.g.,* Release Nos. 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (File Nos. SR–NYSE–90–52 and SR–NYSE–90–53) (regarding NYSE's Off-Hours Trading Facility); 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (SR–BATS–2009–031) (approving BATS options trading); 59154 (December 28, 2008), 73 FR 80468 (December 31, 2008) (SR–BSE–2008–48) (approving equity securities listing and trading on BSE); NOM Approval Order; 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10–131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR–PCX–00–25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR–NYSE–90–52 and SR–NYSE–90–53) (approving NYSE's Off-Hours Trading Facility); and 1979 Release.

[90] The Commission has not considered the lack of a traditional physical floor to be an impediment to the satisfaction of the off-floor requirement. *See, e.g.,* 1979 Release. Also see November 2012 Order.

[91] 17 C.F.R. 240.11a2–2(T)(a)(2)(iii).

[92] *See* April 1978 Release.

[93] *See* April 1978 Release.

[94] *See* November 2012 Order.

[95] 17 C.F.R. 240.11a2–2(T)(a)(2)(iv). In addition, Rule 11a2–2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for covered accounts over which such member or associated person thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the

covered accounts over which they exercise investment discretion must comply with this condition in order to rely on the rule's exemption and the Exchange will enforce this requirement pursuant to its obligation under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

In light of the automated execution of orders submitted to BOX, no Options Participant will enjoy any special control over the timing and execution or special order handling advantages in effecting transactions in orders submitted to BOX. All orders are electronically executed, rather than being handled manually by an Options Participant. Because these processes prevent Options Participants from gaining any time and place advantage once an order is submitted to BOX, the Exchange believes that the execution of orders submitted through the PIP and COPIP, including the execution of PIP Orders and COPIP Orders against orders on the BOX Book or on the Complex Order Book, will satisfy three of the four conditions of the Effect Versus Execute Rule. The Exchange notes that BOX Options Participants also must comply with the fourth condition of the Effect Versus Execute Rule with respect to discretionary accounts and the Exchange will enforce this requirement pursuant to its obligation under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

The Exchange believes the proposal promotes just and equitable principles of trade and is consistent with the general policy objectives of Section 11(a) of the Act. The Exchange believes that the execution of orders submitted through the PIP and COPIP, including the execution of PIP Orders and COPIP Orders against orders on the BOX Book or on the Complex Order Book (whether prior to or after the respective PIP or COPIP Broadcast) satisfy the requirements of the Effect Versus Execute Rule. Further, the Exchange believes the policy concerns Congress sought to address in Section 11(a) of the Act, the time and place advantage members on exchange floors have over non-members off the floor and the general public, are not present for transactions entered into BOX whether the transaction is executed on the BOX Book, the Complex Order Book, through a PIP or through a COPIP.

2. Statutory Basis

The Exchange believes that the proposal is consistent with the requirements of Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),[96] in general, and Section 6(b)(5) of the Act,[97] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

In particular, the Exchange believes this proposed rule change is a reasonable modification designed to provide additional opportunities for Participants to obtain executions with price improvement for their customers while continuing to provide meaningful competition within the PIP and COPIP. The Exchange also believes that the proposed rule change will increase the number of PIP and COPIP transactions on the Exchange and participation in the PIP and COPIP, which will ultimately enhance competition and provide customers with additional opportunities for price improvement. The Exchange believes these changes are consistent with the goals to remove impediments to and to perfect the mechanism for a free and open market and a national market system.

Specifically, the Exchange believes that the proposal will result in increased liquidity available at improved prices, with competitive pricing outside the control of the Initiating Participant. The proposed rule change should promote and foster competition and provide more options contracts with the opportunity for price improvement. As a result of the increased opportunities for price improvement, the Exchange believes that Participants will increasingly use the PIP and COPIP so that more customer orders are provided the opportunity to receive price improvement.

PIP and COPIP Allocation

The Exchange believes the proposed changes to the PIP and COPIP allocations is an improvement over the current allocations, and will benefit all market participants submitting PIP and COPIP orders on the Exchange. As a result of the proposed changes, the Exchange believes that additional Participants will use the PIP and COPIP to increase the number of orders that are provided with the opportunity to receive price improvement. Additionally, the Exchange believes that the proposed allocation algorithm will encourage greater participation in the PIP and COPIP process by encouraging additional Participants to respond to the PIP and COPIP. The Exchange believes that the proposed pro rata allocation encourages additional Participants to respond at a particular price in size, even if that Participant did not set the price. These additional responses should encourage greater competition in the PIP and COPIP, which should, in turn, benefit and protect investors and the public interest through the potential for greater price improvement.

The proposed rule changes preserve the priority of Public Customer orders over non-Public Customer orders at the same price. The Exchange believes this priority remains consistent with the purposes of the Act. The Exchange believes that the new PIP and COPIP allocations are designed to promote just and equitable principles of trade and to protect investors and the public interest, because it continues to recognizes the unique status of customers in the marketplace by continuing to afford Public Customers certain priority advantages.

The Exchange believes that the proposed Primary Improvement Order allocation is reasonable, equitable and not unfairly discriminatory to customers and Participants. Giving Primary Improvement Orders allocation priority for 40% or 50% of the remaining quantity of the PIP or COPIP Order will continue to provide incentive for Participants to initiate PIP and COPIP auctions on BOX, which provides greater opportunity to receive price improvement by encouraging participation in the PIP and COPIP process. The Exchange believes that disregarding Public Customer orders and Legging Orders when determining whether the Initiating Participant retains 40% or 50% under proposed Rule 7150(h) is reasonable, equitable and not unfairly discriminatory to customers and Participants because neither Public Customer order allocation nor Legging Order allocation will be affected by the Initiating Participant retaining the difference between 40% or 50% as discussed above.

The Exchange believes that the Market Maker Allocation is designed to promote just and equitable principles of trade and to protect investors and the

account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement. See 17 C.F.R. 240.11a2–2(T)(d). See also 1978 Release (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

[96] 15 U.S.C. 78f(b).

[97] 15 U.S.C. 78f(b)(5).

public interest, because it strikes a reasonable balance between encouraging vigorous price competition and rewarding Market Makers for their unique obligations. Overall, the proposed PIP and COPIP allocations represent a careful balancing by the Exchange of the rewards and obligations of various types of market participants.

The Exchange believes that the proposal to give Legging Orders last priority is reasonable, equitable and not unfairly discriminatory to customers and Participants. Giving Legging Orders last priority preserves the established priority of Legging Orders since they currently have last priority during the current PIP allocation.

The Exchange believes that providing priority to BOX Book Interest in the proposed COPIP allocation is reasonable as it preserves the established priority of BOX Book Interest when executing with Complex Orders. Therefore the Exchange believes the proposal will reduce investor confusion when executing orders on the Exchange.

Orders and Quotes on the BOX Book

The Exchange believes its proposal to no longer give quotes and orders on the BOX Book prior to the PIP Broadcast priority for purposes of the PIP allocation is reasonable, equitable and not unfairly discriminatory. As stated above, with the current PIP allocation, orders and quotes on the BOX Book prior to the PIP Broadcast have time priority and therefore execute before PIP responses. Since, with this proposal, the Exchange is changing the allocation at the end of the PIP from a price/time allocation to a pro rata allocation, the Exchange believes that continuing to give orders and quotes on the BOX Book prior to the commencement of a PIP priority would contradict the new PIP allocation. Therefore the Exchange believes it is reasonable to remove the provisions of the rules that give interest on the BOX Book prior to the commencement of a PIP priority in order to avoid investor confusion.

Additionally, the Exchange believes its proposal to no longer give Complex Orders on the Complex Order Book prior to the COPIP Broadcast priority for purposes of the COPIP allocation is reasonable, equitable and not unfairly discriminatory. As mentioned above, with the proposed changes to the COPIP allocation from a price/time allocation to a pro rata allocation, the Exchange believes that continuing to give Complex Orders on the Complex Order Book prior to the COPIP Broadcast priority would contradict the new COPIP allocations. Therefore the Exchange believes it is reasonable to remove the provisions of the rules that give Complex Orders on the Complex Order Book prior to the COPIP Broadcast priority in order to avoid investor confusion.

Additionally, the Exchange believes these proposed changes will encourage additional Participants to response to the PIP and COPIP. The Exchange believes that under the current rules Participants are discouraged from responding to the PIP and COPIP since certain orders on the book were executed before a Participants response at the same price level. By no longer giving interest on the book priority, the Exchange believes that additional Participants will respond to the PIP and COPIP. These additional responses should encourage greater competition, which should, in turn, benefit and protect investors and the public interest through greater price improvement.

Broadcast of Improvement Orders

The Exchange believes the proposal to remove the broadcast of Improvement Orders via the HSVF is reasonable, equitable and not unfairly discriminatory to customers and Participants because under the proposal no market participants will be able to receive broadcast notification of Improvement Orders. As a result, no Participants will have an information advantage, therefore the proposal serves to promote just and equitable principles of trade and to remove impediments to and perfect the mechanism of a free and open market and a national market system. Additionally, the Exchange believes that this proposed change will encourage greater participation in the PIP and COPIP which should lead to greater price improvement. The Exchange believes that this should encourage Participants to submit Improvement Orders at the best possible price that the Participant is willing to participate. This, in turn, should result in better execution prices which should, in turn, benefit and protect investors and the public interest through greater price improvement. The Exchange notes that this is similar to the rules of other exchanges.[98]

Cancel Improvement Orders

The Exchange believes that the proposal to allow Participants to cancel Improvement Orders during the PIP and COPIP is reasonable, equitable and not unfairly discriminatory. The Exchange believes that since the PIP and COPIP Orders are guaranteed to execute at a price that is at least equal to, if not better, than the NBBO, that allowing Participants to cancel their Improvement Orders will not affect the ability of an order to receive an execution at the NBBO. Additionally, the Exchange believes that allowing Participants to cancel Improvement Orders will protect Participants from the risk of the market moving against them. The Exchange believes that this protection for Participants should lead to more aggressive responses, which, should lead to greater price improvement for investors. Therefore the Exchange believes that the proposed change will not affect investor protection and investors will continue to benefit from the potential for price improvement. The Exchange notes that this is consistent with the rules of Phlx.[99]

Removal of Market Maker Prime

As stated above, the Exchange is removing the Market Maker Prime designation because it has not achieved the intended results. Specifically, the Market Maker Prime designation has not incentivized Market Makers to quote aggressively on the BOX Book as it was intended. The Exchange believes that the continued presence of the Market Maker Prime designation will only serve to confuse and complicate the Exchange's Rules, while providing little or no benefit. Therefore the Exchange believes that removing the Market Maker Prime will promote just and equitable principles of trade and protect investors and the public interest.

Customer PIP Order

The Exchange is removing the CPO functionality because it has not achieved the intended results. The Exchange believes that the continued presence of the CPO will only serve to confuse and complicate the Exchange's Rules, while providing little or no benefit. The Exchange notes that Public Customers will continue to have opportunities to participate in PIP auctions without limits imposed by CPOs. Therefore, the Exchange believes that removing the CPO will avoid investor confusion when executing orders on the Exchange.

Professional Priority

The Exchange believes the proposal to treat Professionals as broker-dealers for the purposes of the PIP and COPIP will ensure that non-Professional, Public Customers continue to receive the appropriate order priority marketplace advantages on BOX, while furthering

[98] *See* Phlx Rule 1080(n)(ii)(A)(6) and CBOE Rule 6.74A(b)(1)(F).

[99] *See* Phlx Rule 1080(n)(ii)(A)(9).

fair competition among marketplace professionals.

The Exchange believes the proposed change to the priority rules for Professionals in the PIP and COPIP is reasonable, equitable and not unfairly discriminatory because it treats Professionals, whose activity on BOX is akin to the order flow activity and system usage of broker-dealers, the same priority for competing in the PIP and COPIP as the priority given to broker-dealers. As noted above, the order sending behavior, trading activity and available technology and information of Professionals tend to be more similar to broker-dealers trading on a proprietary basis than to non-Professional, Public Customers. This can be particularly true of orders placed in response to the PIP and COPIP. As such, the Exchange believes it is not unfairly discriminatory to treat Professionals like broker-dealers for order priority purposes when competing for customer order flow in auction transactions.

Further, the Exchange believes the proposed change to the priority rules is equitable and not unfairly discriminatory because it will assure that non-Professional, Public Customers continue to receive the appropriate order priority marketplace advantages on BOX, while furthering fair competition among marketplace professionals (both Professionals and Broker-Dealers) by treating them equally in order priority when they compete for these desirable customer orders. The Exchange believes it is reasonable and equitable to treat Professionals in the PIP and COPIP like broker-dealers because it applies an order priority structure that groups these sophisticated market participants together when they are competing in this manner.

The Exchange believes it is equitable and not unfairly discriminatory for non-Professional, Public Customers to have priority over Professionals and broker-dealers for the PIP and COPIP. The securities markets generally, and the Exchange in particular, have historically aimed to improve markets for retail investors and develop various features within the market structure for the benefit of non-Professional, Public Customers.

The Exchange proposes to make certain miscellaneous conforming and clarifying changes to Rules 7000, 7130, 7150, and 7245 to make them consistent with the adoption of the proposed PIP and COPIP allocations. These conforming and clarifying changes are required to make the rules consistent and are necessary to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

For the foregoing reasons, the Exchange believes this proposal is a reasonable modification to its rules, designed to facilitate increased interaction of PIP and COPIP on the Exchange, and to do so in a manner that ensures a dynamic, real-time trading mechanism that maximizes opportunities for trade executions for orders. The Exchange believes it is appropriate and consistent with the Act to adopt the proposed rule changes.

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

The Exchange does not believe the proposed rule change represents any undue burden on competition or will impose any burden on competition among exchanges in the listed options marketplace not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposal is pro-competitive because it will enable the Exchange to better compete with another options exchange that provides a similar allocation algorithm within its auctions.[100]

With respect to intra-market competition, the PIP and COPIP will still be available to all Participants. The Exchange believes that the proposal should encourage Participants to compete amongst each other by responding with the best price in each auction. Submitting an order to the PIP or a Complex Order to the COPIP is entirely voluntary and Participants will determine whether they wish to submit these orders to the Exchange. The Exchange operates in a highly competitive marketplace with other competing exchanges and market participants can readily direct their order flow to other exchanges if they so choose.

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

The Exchange has neither solicited nor received comments on the proposed rule change.

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

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

(A) By order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov*. Please include File Number SR–BOX–2014–16 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–2014–16. This file number should be included on the subject line if email 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 Web site (*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 Web site 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

[100] *See supra,* note 3.

available publicly. All submissions should refer to File Number SR–BOX–2014–16 and should be submitted on or before July 23, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[101]

Kevin M. O'Neill,

Deputy Secretary.

[FR Doc. 2014–15472 Filed 7–1–14; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72483; File No. SR–BOX–2014–18]

Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Interpretive Material to Rule 5050 (Series of Options Contracts Open for Trading) and Rule 6090 (Terms of Index Options Contracts) To Introduce Finer Strike Price Intervals for Standard Expiration Contracts in Option Classes That Also Have Short Term Options Listed on Them

June 26, 2014.

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 June, 25, 2014, BOX Options Exchange LLC (the ''Exchange'') 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 amend interpretive material to Rule 5050 (Series of Options Contracts Open for Trading) and Rule 6090 (Terms of Index Options Contracts) to introduce finer strike price intervals for standard expiration contracts in option classes that also have short term options listed on them (''related non-short term options''). 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 Web site at *http://boxexchange.com.*

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend interpretive material to Rule 5050 and Rule 6090 to introduce finer strike price intervals for related non-short term options. In particular, the Exchange proposes to amend its rules to permit the listing of related non-short term options during the month prior to expiration in the same strike price intervals as allowed for short term option series. This is a competitive filing that is based on a proposal recently submitted by the International Securities Exchange, LLC (''ISE'').[3]

Under the Exchange's current rules, the Exchange may list options in the Short Term Option (''STO'' or ''weekly'') Program in up to fifty option classes,[4] including up to thirty index option classes,[5] in addition to option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each of these option classes, the Exchange may list five short term option expiration dates at any given time, not counting monthly or quarterly expirations.[6] Specifically, on any Thursday or Friday that is a business day, the Exchange may list short term option series in designated option classes that expire at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly or quarterly options expire.[7] These short term option series, which can be several weeks or more from expiration, may be listed in strike price intervals of $0.50, $1, or $2.50, with the finer strike price intervals being offered for lower priced securities, and for options that trade in the Exchange's dollar strike program.[8] More specifically, the Exchange may list short term options in $0.50 intervals for strike prices less than $75, or for option classes that trade in one dollar increments in the related non-short term option, $1 intervals for strike prices that are between $75 and $150, and $2.50 intervals for strike prices above $150.[9]

The Exchange may also list standard expiration contracts, which are listed in accordance with the regular monthly expiration cycle. These standard expiration contracts must be listed in wider strike price intervals of $2.50, $5, or $10,[10] though the Exchange also operates strike price programs, such as the dollar strike program mentioned above,[11] that allow the Exchange to list a limited number of option classes in finer strike price intervals. In general, the Exchange must list standard expiration contracts in $2.50 intervals for strike prices of $25 or less, $5 intervals for strike prices greater than $25, and $10 intervals for strike prices greater than $200.[12] During the week prior to expiration only, the Exchange is permitted to list related non-short term option contracts in the narrower strike price intervals available for short term option series.[13] Since this exception to the standard strike price intervals is available only during the week prior to expiration, however, standard expiration contracts regularly trade at significantly wider intervals than their weekly counterparts, as illustrated below.

For example, assume ABC is trading at $56.54 and the monthly expiration contract is three weeks to expiration. Assume also that the Exchange has listed all available short term option expirations and thus has short term option series listed on ABC for weeks one, two, four, five, and six. Each of the

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[101] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 72098 (May 6, 2014), 79 FR 27006 (May 12, 2014) (Notice of Filing SR–ISE–2014–23).

[4] *See* IM–5050–6(b)(1) to Rule 5050.

[5] *See* IM–6090–2(b)(1) to Rule 6090.

[6] *See* IM–5050–6(a) to Rule 5050 and IM–6090–2(a) to Rule 6090.

[7] *Id.*

[8] *See* IM–5050–6(b)(5) to Rule 5050 and IM–6090–2(b)(5) to Rule 6090.

[9] *Id.* Strike price intervals of $2.50 are only available for non-index options. Short term index option contracts are subject to the same strike price intervals as non-short term options for strike prices above $150. *See* Securities Exchange Act Release No. 71188 (December 26, 2013), 79 FR 166 (January 2, 2014) (Notice of Filing SR–BOX–2013–59).

[10] *See* Rule 5050(d).

[11] *See* IM–5050–2 to Rule 5050, which allows the Exchange to designate up to 150 option classes on individual stocks to be traded in $1 strike price intervals where the strike price is between $50 and $1. *See* also IM–5050–3 to Rule 5050 ($2.50 Strike Price Program) and IM–5050–5 to Rule 5050 ($0.50 Strike Program).

[12] *See* Rule 5050(d).

[13] *See* IM–5050–6(b)(5) to Rule 5050 and IM–6090–2(b)(5) to Rule 6090.