



FLEX Equity Options on the BOX Trading Floor

TO: BOX Options Market Participants
FROM: BOX Exchange LLC
SUBJECT: FLEX Equity Options on the BOX Trading Floor
DATE: November 6, 2023

BOX Exchange LLC (the "Exchange") is issuing this Notice to inform Floor Participants of certain Exchange requirements regarding the trading of FLEX Equity Options.¹ FLEX Equity Options will trade only as FLEX Open Outcry ("FOO") Orders on the BOX Trading Floor.

Introduction

The introduction of FLEX Equity Options is described in proposed Rules 5055 (FLEX Equity Options) and 7605 (FLEX Open Outcry Orders ("FOO Orders")). Pursuant to Rule 5055(a), trading of FLEX Equity Options is subject to all other Rules applicable to the trading of options on the Exchange, unless the context otherwise requires or specifically stated in the FLEX Rules.

- (1) The BOX Book and Complex Order Book shall not be available for transactions in FLEX Equity Options.
- (2) Options Exchange Officials have the same duties and ability to enforce rules applicable to the trading of FLEX Equity Options as they do for all other activity on the Trading Floor.

Further pursuant to Rule 5055, FLEX Equity Options shall not be traded other than as FOO Orders. There shall be no trading rotations in FLEX Equity Options. FLEX Equity Options shall not be preestablished for trading. The minimum quoting and trading increment for FLEX Equity Option contracts will be one cent (\$0.01) for all series.

¹ The launch of FLEX Equity Option trading on the BOX Trading Floor is pending regulatory approval. For more information, please see [SR-BOX-2023-20](#).

Clearing Authorization Forms

All BOX Floor Participants seeking to trade FLEX Equity Options, as a Floor Broker or a FLEX Floor Market Maker, must complete and submit the appropriate FLEX Equity Options Participant Clearing Authorization form available on the [Exchange Website](#).

FLEX Floor Exam

All BOX Floor Participants seeking to trade FLEX Equity Options must complete the FLEX Floor Exam administered by the Exchange. Note, all registered trading permit holders and registered on-floor persons of the BOX Floor Participant seeking to trade FLEX Equity Options must pass the FLEX Floor Exam.

To register to take the exam, please reach out to membership@boxexchange.com. For any other Trading Floor related questions, please reach out to tradingfloor@boxexchange.com.

FLEX Market Makers

The Exchange must qualify at least three Market Makers, which are currently registered Floor Market Makers under the Exchange Rules, to perform as FLEX Market Makers on the Trading Floor for FOO Orders to begin trading. To be qualified as a FLEX Market Maker, a Floor Participant must: (i) have passed the FLEX Floor Exam; (ii) submitted a Flex Equity Options Participant Clearing Authorization (Market Maker) to the Exchange; (iii) be registered under Rule 8000; and (iv) must be a Floor Market Maker in good standing under Rule 8500.

FLEX Market Maker-related Regulatory Consideration(s)

Pursuant to proposed Rule 7605(h), FLEX Market Makers have an obligation to quote a FLEX Equity Option in response to any request for quote by a Floor Broker or Options Exchange Official and must provide a two-sided market.

FLEX Floor Brokers

To trade FLEX Equity Options on the Trading Floor, a Floor Broker must: (i) be registered as a Floor Broker under Exchange Rules; (ii) have passed the FLEX Floor Exam; and (iii) have submitted a Flex Equity Options Participant Clearing Authorization (Non-Market Maker) to the Exchange.

Announcement Time – New Requirement

After announcing a FOO Order to the trading crowd, the executing Floor Broker must give Floor Participants a reasonable amount of time to respond.² ***The Exchange has determined that the***

² See proposed BOX Rule 7605 for more information.

minimum period of time that qualifies as a reasonable amount of time under proposed Rule 7605 shall be three (3) seconds.

Such threshold will constitute the minimum possible time that a Floor Broker must give to the trading crowd to respond to a FOO Order; however, based on the characteristics and circumstances of each specific FOO Order, a reasonable amount of time, as provided in Rule 100(b)(5), may require a response interval longer than the minimum threshold. An Options Exchange Official may not waive the minimum threshold established by the Exchange.

In order to confirm a Floor Broker provides Floor Participants with at least the minimum required time to respond to a FOO Order announcement, FLEX Floor Brokers are required to submit the Announcement Time of each FOO Order, Complex FOO Order, and Multi-Leg FOO Order in the Systematization file sent to the Exchange at the end of each trading day.³

Other FLEX Floor Broker-related Regulatory Considerations

Pursuant to proposed Rule 7605(e)(3), Floor Brokers are required to ascertain that at least one FLEX Market Maker is present in the Crowd Area prior to announcing a FOO Order for execution.

Pursuant to Rule 5055(f), if a Standard Non-FLEX Option is created and it matches an existing FLEX Option intraday, the holder or writer of a FLEX Equity Option position established under the FLEX trading procedures would be permitted to close such position under the FLEX trading procedures against another closing only FLEX Equity Option position for the balance of the trading day on which the series is added. The system will enforce “Closing Only” position data during continuous trading but not for post-trade entries. In such instances when a FLEX Equity Option has been set to “Closing Only” intraday, FLEX Floor Brokers are not permitted, and should not use post-trade submissions, to submit “Open” position entries for the remainder of the trading day.

Pursuant to proposed Rule 5055(i) (Position Limits), except as provided in subsection (2) of this rule section and noted here, there shall be no position limits for FLEX Equity Options and positions in FLEX Equity Options shall not be taken into account when calculating position limits for Non-FLEX Equity Options. Pursuant to subsection (2), as long as the options positions remain open, positions in FLEX Equity Options that expire on a third Friday-of-the-month shall be aggregated with positions in Non-FLEX Equity Options on the same underlying security and shall be subject to the position limits set forth in Rule 3120, and the exercise limits set forth in Rule 3140.

³ See [Notice-2023-370](#) for the technical requirements of submitting announcement time.

Minor Rule Violation Plan

The FLEX Rule Filing amends Rule 12140 (Minor Rule Violation Plan) to adopt violations and sanctions applicable to the trading of FOO Orders on the BOX Trading Floor. The following violations have been incorporated into the MRVP:

- Failure to Properly Execute a FOO Order (Rule 7605). Violations of Rule 7605 shall be subject to the fines listed below.

Number of Violations Within Any Rolling 24-Month Period	Sanction
First Violation	\$500
Second Violation	\$1,000
Third Violation	\$2,000
Subsequent Violations	Formal Disciplinary Action

- FLEX Market Maker Failure to Comply with Quotation Requirements (7605(h)). Violations of Rule 7605(h) shall be subject to the fines listed below.

Number of Violations Within Any Rolling 24-Month Period	Sanction
First Violation	\$1,000
Second Violation	\$2,500
Third Violation	\$3,500
Subsequent Violations	Formal Disciplinary Action

Policies and Procedures

Floor Participants are further reminded that they must establish, maintain, and enforce written supervisory procedures that are reasonably designed to achieve compliance with applicable securities laws and regulations and with the applicable rules of the Exchange and therefore should make necessary updates related to activities addressed in this Notice.

Contact

Please review the information provided herein. If you have any questions regarding this information, please contact BOX Regulation at BOXMRC@boxexchange.com.