Informational Circular | **2011-007**

TO: **BOX Options Participants**

FROM: **BOX Market Operations Center**

SUBJECT: **New Solicitation and Facilitation Auction Mechanisms for Block Trades**

DATE: **September 30, 2011**

BOX Options Exchange is pleased to announce the release of its new Solicitation and Facilitation Auction Mechanisms for Block Trade executions.[1]

These new features will be available to all BOX Participants on Monday, October 3, 2011.

Note: Participants that do not wish to utilize these new features are still required to make the changes highlighted in the section 'Impact Summary'.

Overview

The **Facilitation Auction** will allow Order Flow Providers ("OFPs") to enter two-sided transactions of 50 contracts or more when the OFP represents an order on one side as agent ("Agency Order") and is trading against the Agency Order as Principal, and/or has solicited an order on the opposite side of the Agency Order. The Facilitation Auction will provide an Agency Order an opportunity for price improvement, with the Initiating Participant providing a guaranteed execution of the Agency Order through the submission of the contra side Facilitation Order. The Facilitation Auction also provides the Initiating Participant a participation guarantee of 40% of the Agency Order, but only after the Agency Order first trades against better priced orders and Public Customers on BOX.

The **Solicitation Auction** will provide additional execution capabilities for large blocks (trades of 500 or more contracts). The Solicitation Auction is a process where an Initiating Participant enters a two-sided order – one side it has solicited on the opposite side of an Agency Order. Each Agency Order entered into the Solicitation Auction shall be designated as all-or-none.

To enhance the possibility of executions, the Initiating Participant may specify a number of contracts it is willing to surrender ("Surrender Quantity") to the BOX Book. Use of the Surrender Quantity function will allow block-size Solicitation Auction trades in certain instances in which there would otherwise be no execution.

The following sections describe in more detail the changes and impacts on the existing BOX services.

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[1] See Securities Exchange Act Release No. 65387 (September 23, 2011) (SR-BX-2011-034) (Order Approving Amending Chapter V, Section 31 of the BOX Trading Rules to Establish Facilitation and Solicitation Auction Mechanisms).

Impact Summary

BOX Service	Impacts
SAIL Protocol	New protocol version. New message types. New values in existing fields. **All Participants using this service and implementing the SAIL Protocol 'A2' must support the new values added in the fields 'Special Trade Indicator' and 'Trade Type' in message types 'NT – Execution Notice' and 'NX – Execution Cancellation Notice'.**
FIX Protocol	New connection settings made by BOX MOC on Participant's request. New tags. New values in existing tags.
HSVF Market Data Feed	New protocol version. New fields in existing message types. New values in existing field. Impact on all supported protocol versions. **All Participants using this service must support one of the two alternatives for the gap message sequencing as described on page 7 of this notice.**
ATR Feed	New values in existing field. **All Participants using this service must implement the related modifications described in this notice.**
TMS	New values in existing field.
End-Of-Day Trade Report	New values in existing field. **All Participants using this service must implement the related modifications described in the present notice.**

Features of Solicitation and Facilitation Auctions

- Solicitation and Facilitation Auctions initialization are available in both FIX and SAIL protocols.
- Exposure period of 1 second.
- Account type of Initiating Participant cannot be Public Customer.
- Orders can be entered at any initial price and can be penny increments.
- The execution price can be outside the NBBO if the Solicitation/Facilitation Auction is flagged as being 'Contingent'. Otherwise, the execution price must be at or between the NBBO. In all cases, the execution price cannot trade outside the BOX Market, or ahead of a Public Customer booked order.
- The Initiating Participant cannot improve its initial price.
- The Initiating Participant can cancel its Solicitation/Facilitation Auction.
- Improvement Orders[2] are not broadcast in the HSVF Market Data Feed.
- Improvement Orders can be cancelled or reduced in price or size prior to execution.
- Cannot be initiated upon receipt of a Directed Order (DO).

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[2] Improvement Orders are the same as "Responses" as referenced in Chapter V, Sec. 31 of the BOX Rules.

Solicitation/Facilitation Comparison

Solicitation	Facilitation
Minimum size of 500 contracts.	Minimum size of 50 contracts.
The Initiating Participant can specify a number of contracts willing to be surrendered (Surrender Quantity) to the BOX Book.	No Surrender Quantity.
No guarantee that the Initiating Participant will participate in the execution of the Agency Order.	Initiating Participant is guaranteed execution against 40% of the Agency Order after better priced orders and after Public Customer orders at the same price.

For more details about the allocation for both auction types please refer to Chapter V, Sec. 31 of the BOX Trading Rules.

Detailed System Changes

SAIL Protocol
To be able to use all the features of the new Auction Types, Participants need to support the new protocol version "**A2**". All changes describe in the next section are part of version "A2" of the protocol.

IMPORTANT: Participants interested in supporting the new features included in the SAIL protocol version "A2" will need to incorporate the changes implemented in the SAIL protocol version "A1" as described in the following Technical Notices:
- **08-006: Make or Take Flag in the Execution Message**
- **08-042: Addendum – Make or Take Flag in the Execution Message.**
- **10-007: Max Improvement Price**

Impacted Message Types	Impacted Field/Tag	Values/Description	Apply To
XI – Improvement Order Cancellation	All	**New message** type to cancel an existing Improvement Order for a Solicitation/Facilitation Auction and for a Facilitation/Solicitation Auction entry. Same message format and structure as the "XE – Order Cancellation" message (see the SAIL Specifications for the complete details).	Solicitation Facilitation
KY – Auction or Improvement Cancellation Acknowledgment	All	**New message** type to acknowledge "XI – Improvement Order Cancellation". Same message format and structure as the "KZ – Order Cancellation Acknowledgment" message (see the SAIL Specifications for the complete details).	Solicitation Facilitation

Impacted Message Types	Impacted Field/Tag	Values/Description	Apply To
OA – Auction Entry	IML Handling	5: Contingent Order **New value** specifying that the Auction is contingent and should not be controlled against the NBBO for the execution price. Only used for Solicitation/Facilitation. The only values supported for Solicitation and Facilitation are 3 and 5.	Solicitation Facilitation
	Special Price Term	G: Regular PIP B: Solicitation Auction C: Facilitation Auction **New values** to specify the type of Auction to start.	PIP Solicitation Facilitation
	Additional Price	Must be left empty for Solicitation/Facilitation	PIP
	Quantity Term	B: Surrender Quantity for Solicitation **New value** indicating that the Initiating Participant is willing to surrender a portion of the total number of contract in the Solicitation auction. Must be left empty if not used. Must be blank for Facilitation.	Solicitation
	Additional Quantity	Indicates the number of contracts the Initiating Participant is willing to surrender. For Solicitation, used when the field "Quantity Term" is set to "B". It must contain a quantity less than or equal to the quantity being auctioned. Must be left empty if not used. Must be blank for Facilitation.	Solicitation PIP
NT – Execution Notice NX – Execution Cancellation Notice	Special Trade Indicator	g: Contingent Trade (Solicitation/Facilitation only) **New value** indicating that the trade was not controlled against the NBBO.	Solicitation Facilitation
	Trade Type	B: Solicitation Auction C: Facilitation Auction **New values** indicating the type of auction the trade is part of.	Solicitation Facilitation

FIX Protocol

Participants using the FIX protocol who are interested in initiating Solicitation/Facilitation auctions are invited to contact the BOX Market Operations Center to have their connection configured to be able to send and receive the new tags/values related to Solicitation and Facilitation. These new tags/values are described in the following table.

Impacted Message Types	Impacted Field/Tag	Description	Apply To
PI – PIP Initial Order	9383 – AuctionType	Tag not provided or G: Regular PIP B: Solicitation Auction C: Facilitation Auction **New tag** specifying the type of Auction to start.	PIP Solicitation Facilitation
	7388 – Contingent Order	2: Contingent Order **New tag** specifying that the Auction is contingent and should not be controlled against the NBBO for the execution price.	Solicitation Facilitation
	7906- CombinedOrdType	When tag 7388 is sent with value 2 (Contingent), the tag "7906-CombinedOrdType" must be set to 2 (No NBBO Filtering) or must not be provided, otherwise the auction is rejected. When tag 7388 is not provided, tag 7906 must be set to 3 (NBBO Filtering and No Routing) or must not be provided.	
	9461 - AddQty	Used for Solicitation and regular PIP. Indicates the number of contracts the Initiating Participant is willing to surrender. For Solicitation, used when the field "854-QtyType" is set to "B". Must be left empty if not used. It must not be provided for Facilitation. The value must be less than or equal to the auction initial quantity.	Solicitation PIP
	854 - QtyType	B: Surrender Quantity for Solicitation **New value** indicating that the Initiating Participant is willing to surrender a portion of the total number of contract in the Solicitation auction. It must not be provided for Facilitation.	Solicitation
	639 - PriceImprovement	Must not be provided for Solicitation/Facilitation	PIP
8 – Execution Report	9459 - SpecialTradeInd	P: Regular PIP (PIP) g: Contingent Trade (Solicitation/Facilitation) W: IsoInbound (All) O: Hidden Trade (All) **New values** indicating the type of trade.	Solicitation Facilitation PIP All

Impacted Message Types	Impacted Field/Tag	Description	Apply To
	828 – TrdType	B: Solicitation Auction C: Facilitation Auction **New values** indicating the type of auction the trade is part of.	Solicitation Facilitation
	9383 – AuctionType	G: Regular PIP B: Solicitation Auction C: Facilitation Auction **New tag** specifying the type of Auction the trade was part of.	PIP Solicitation Facilitation
	7388 – Contingent Order	2: Contingent Order **New tag** specifying that the trade is contingent and was not be controlled against the NBBO for the execution price.	Solicitation Facilitation
	854 – QtyType	B: Surrender Quantity	Solicitation
	9461 – AddQty	Contain the Surrender Quantity. Only returned if this tag is originally supplied with a value greater than 0 in the "PI – PIP Initial Order" message.	Solicitation PIP
F – Order Cancel Request		No change. Now also used by the Initiating Participant to cancel an existing Solicitation or Facilitation auction.	Solicitation Facilitation

HSVF Market Data Feed

In order to receive the new information related to Solicitation and Facilitation auctions, Participants need to subscribe to the new HSVF protocol version "**C3**". Unless defined otherwise, changes described in the next section are all part of version "C3" of the protocol.

Improvement Orders for Solicitation and Facilitation are not broadcast through the HSVF feed (message type "O").

Impacted Message Types	Impacted Field/Tag	Description	Apply To
M: Improvement Process Begin T: Delete Initial and Improvement Order	Auction Type	Blank: Message is not related to auction G: Regular PIP B: Solicitation C: Facilitation F: Exposed Order **New field** indicating the auction type. This new field of 1 byte is appended at the end of each message type.	Solicitation Facilitation
O: Improvement Order	Auction Type	Blank: Message is not related to auction G: Regular PIP F: Exposed Order **New field** indicating the auction type. This new field of 1 byte is appended at the end of each message type.	PIP Exposed Order

Impacted Message Types	Impacted Field/Tag	Description	Apply To
M: Improvement Process Begin	Auction Indicator Marker	Blank: Non Contingent auction. G: Contingent auction; no NBBO control when matching occurs **New field** indicating if the auction is Contingent. This new field of 1 byte is appended at the end of the message, after the "Auction Type" new field.	Solicitation Facilitation PIP Exposed Order
C – Option Trade I – Option Trade Cancellation	Price Indicator Marker	G: Contingent Trade **New value** in an existing field to specify that the Trade was Contingent.	Solicitation Facilitation

Gap Message Sequencing

Because they will not receive message types "M", "O" and "T" related to Solicitation and Facilitation, Participants **not** subscribing to protocol version "C3" are required to support one of the following alternatives:

1. Receiving the message type "W – Gap Sequence" by specifying "0" in the field "GAP Control" in the "RS – Connection" message when subscribing.
2. Be able to receive out-of-sequence messages (ex.: 1001, 1002, 1003, 1019, 1020, 1025,…)

ATR Feed

The field "Trade Type" in Trade, Allocation and Give-Up message types will contain the following new values:

"S": Solicitation
"I": Facilitation

Trade Management System (TMS)

The field "Trade Type" will contain the following new values:

"SolicitationAuction"
"FacilitationAuction"

End-Of-Day Trade Report

The field "Trade Type" will contain the following new values:

"SolicitationAuction"
"FacilitationAuction"

Testing

Participants are invited to test this new feature in the BOX Test environment at their convenience.

Contact

Please contact the Market Operations Center at (866) 768-8845 or by e-mail at BOXMOC@bostonoptions.com should you require additional information.