

# PKA Law

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February 25, 2020

**Via Electronic Mail (rule-comments@scc.gov)**

Ms. Vanessa Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street NE., Washington, DC 20549

Re: ***File Nos. SR-BOX-2019-19 & SR-BOX-2019-37***

Dear Ms. Countryman:

This letter is submitted on behalf of a client of this firm with respect to the rule proposal submitted by the above-referenced filings (the "Filings" or the "BOX Filings") made by BOX Exchange LLC ("BOX" or "Exchange") with the Securities and Exchange Commission ("Commission"). In the Filings, SR-BOX-2019-19 and SR-BOX-2019-37, BOX seeks approval to Adopt Rules Governing the Trading of Equity Securities on the Exchange Through a Facility of the Exchange Known as the Boston Security Token Exchange LLC ("BSTX") and a Proposed Rule Change in Connection With the Proposed Commencement of Operations of the Boston Security Token Exchange LLC as a Facility of the Exchange, respectively.

BOX has proposed commencement of operations for the BSTX, which would operate a National Securities Exchange for the trading of "Security Tokens", which would be considered securities and would be traded pursuant to Regulation NMS. BSTX also states that certain records of ownership would be maintained through "ancillary" recordkeepers called "Wallet Managers" utilizing the nascent distributed ledger/blockchain technology. Further clarification from BSTX is warranted for how security tokens would settle, how market makers would comply with short sale rules, what reporting facility would be used for reporting of trades, token ownership verification, security token liquidity, compliance with AML rules, confirmation reporting and rules regarding "Wallet Managers". It is also unclear how market participants would be able to verify ownership of "Security Tokens" for compliance with KYC and AML rules. Box Filings states that discrepancies might exist between official records of ownership and unofficial ancillary records of the Wallet Manager and that there may be additional reporting requirements for market participants to the BSTX. It is therefore unclear what efficiencies or purpose an ancillary recordkeeping

service would provide, or why a “Wallet Manager” would improve rather than complicate current market structure. This structure as proposed would introduce potential burdens on market participants.

The Box Filings states:

*All transactions in security tokens would clear and settle in accordance with the rules, policies, and procedures of registered clearing agencies. The Exchange states that BSTX anticipates that DTC would serve as the securities depository for security tokens and that confirmed trades in securities tokens on BSTX would be transmitted to National Securities Clearing Corporation (“NSCC”) for clearing.*

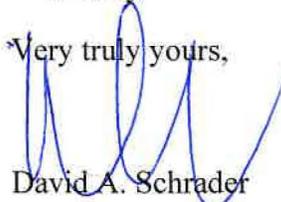
Prior to consideration of this rule change, DTC and the NSCC should confirm to the Commission that they are supportive of this new security type and have the infrastructure to support the proposed “Security Tokens”. Without this support, the Box Filings could introduce potential unnecessary complexities to what is already a very efficient global marketplace.

Despite the initial filing of SRO-BX-2019-19 last fall, along with the companion filing SRO-BX-2019-37, filed on December 30, 2019, the Filings appear to have had little dissemination among market participants. The Box Filings contain potentially significant changes to the operation and structure of the global equity trading markets. To date it appears most, if not all market makers, exchanges and DMM’s are unaware of the existence of the BOX Filings. The Box Filings require more study by the Commission to determine the potential impact on US retail and institutional market participants.

In addition, it appears that one of the only known security tokens, the TZero token, is affiliated with certain BOX owners, Overstock.com and other entities related to the BOX. As of the date of this letter, the TZERO token is down by over 85% since issuance less than two years ago. Further details on the relationships between these entities should be disclosed and studied by the Commission. As a result of this proposed rule change, it has become unclear as to what purpose or what efficiencies security tokens would offer to the global securities marketplace. It seems likely that the introduction and use of “Security Tokens” will create undue burden on market participants, exchanges, custodians, clearing firms, retail and institutional investors.

We appreciate the series of questions posed by the SEC and agree that more study is warranted to consider market structure impacts from the Box Filings and Security Tokens.

Very truly yours,

  
David A. Schrader