

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-101739; File No. SR-BOX-2024-28)

November 25, 2024

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rules 3120 (Position Limits) and 5020 (Criteria for Underlying Securities) to Permit Options Trading on Bitcoin Funds

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 November 21, 2024, BOX Exchange LLC (“Exchange” or “BOX Options”) 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rules 3120 (Position Limits), 5020 (Criteria for Underlying Securities) to permit options trading on Bitcoin Funds. Additionally, the Exchange proposes to amend Rule 5055 (FLEX Equity 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 website at <https://rules.boxexchange.com/rulefilings>.

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 Exchange 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Item IV below. The Exchange 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 Rules 3120 (Position Limits) and 5020 (Criteria for Underlying Securities) to permit options trading on Grayscale Bitcoin Trust (BTC) (the “Grayscale Fund” or “GBTC”), the Grayscale Bitcoin Mini Trust BTC (the “Grayscale Mini Fund” or “BTC”), and the Bitwise Bitcoin ETF (the “Bitwise Fund” or “BITB” and, collectively, the “Bitcoin Funds” or “Funds) on BOX. Additionally, the Exchange proposes to amend Rule 5055 (FLEX Equity Options). Specifically, the Exchange proposes to amend Rule 5020(h) to allow the Exchange to list and trade options on the following exchange-traded products: the Grayscale Fund, the Grayscale Mini Fund, and the Bitwise Fund.³ This is a competitive filing that is based on a proposal recently submitted by NYSE American LLC (“NYSE American”) and approved by the Commission.⁴

³ See proposed Rule 5020(h). On January 11, 2024, GBTC and BITB began trading on NYSE Arca, Inc. (“NYSE Arca”), after the Commission approved rule changes to list and trade shares of “Bitcoin-Based Commodity-Based Trust Shares” pursuant to Rule 8.201- E(c)(1) (Commodity-Based Trust Shares), including GBTC and BITB. See Securities Exchange Release No. 99306 (January 10, 2024) (Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Thereto, to List and Trade Bitcoin-Based Commodity-Based Trust Shares and Trust Units), 89 FR 3008 (January 17, 2024) (SR-NYSEARCA-2023-44; SR-NYSEARCA-2021-90). On July 13, 2024, after receiving approval of the Commission, BTC began trading on NYSE Arca. See Securities Exchange Release No. 100610 (July 26, 2024) (Order Granting Approval of Proposed Rule Changes, as Modified by Amendment No. 1, to List and Trade Share of BTC pursuant to NYSE Arca Rule 8.201-E (Commodity-Based Trust Shares)), 89 FR 62821 (August 1, 2024) (SR-NYSEARCA-2023-45).

⁴ See Securities Exchange Release No. 101386 (October 18, 2024), 89 FR 84960 (October 24, 2024) (Notice of Filing of Amendment No. 3 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 3, to Permit the Listing and Trading of Options on Bitcoin Exchange-Traded Funds) (SR-NYSEAMER-2024-49, as amended) (“NYSE American Approval Order”).

As discussed herein and as provided in the NYSE American Approval Order, the Exchange believes options on the Bitcoin Funds would permit hedging, and allow for more liquidity, better price efficiency, and less volatility with respect to the underlying Funds. Further, permitting the listing of such options would enhance the transparency and efficiency of markets in these and correlated products. Rule 5020(h) provides that, subject to certain other criteria set forth in the Rule, securities deemed appropriate for options trading include Exchange-Traded Fund Shares (or ETFs), that represent certain types of interests⁵ and exchange-traded products (“ETPs”) structured as trusts that hold precious metals (which are deemed commodities).⁶ Like ETPs backed by precious metals (i.e., commodities), the Exchange proposes to allow options trading on the Bitcoin Funds that hold Bitcoin – which is also deemed a commodity.⁷ The Bitcoin Funds are structured as trusts that hold Bitcoin.

⁵ See Rule 5020(h), which permits options trading on ETFs that are traded on a national securities exchange and are defined as an “NMS stock” in Rule 600 of Regulation NMS and that (i) represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that hold portfolios of securities and/or financial instruments, including, but not limited to, stock index futures contracts, options on futures, options on securities and indices, equity caps, collars and floors, swap agreements, forward contracts, repurchase agreements and reverse repurchase agreements (the “Financial Instruments”) and money market instruments, including, but not limited to, U.S. government securities and repurchase agreements (the “Money Market Instruments”) comprising or otherwise based on or representing investments in broad-based indexes or portfolios of securities and/or Financial Instruments and Money Market Instruments (or that hold securities in one or more other registered investment companies that themselves hold such portfolios of securities and/or Financial Instruments and Money Market Instruments); or (ii) represent interests in a trust that holds a specified non-U.S. currency deposited with the trust or similar entity when aggregated in some specified minimum number may be surrendered to the trust by the beneficial owner to receive the specified non-U.S. currency or currencies and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency or currencies, if any, declared and paid by the trust (“Currency Trust Shares”); or (iii) represent commodity pool interests principally engaged, directly or indirectly, in holding and/or managing portfolios or baskets of securities, commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and/or non-U.S. currency (“Commodity Pool ETFs”) or (iv) represent interests in the SPDR® Gold Trust, the iShares COMEX Gold Trust, the iShares Silver Trust, the abrdn Gold ETF Trust, the abrdn Silver ETF Trust, the abrdn Palladium ETF Trust, the abrdn Platinum ETF Trust, the Sprott Physical Gold Trust or the iShares Bitcoin Trust; provided that all of the conditions in Rules 5020(h)(1) and (2) are met.

⁶ See Rule 5020(h) (permitting the listing and trading of options on certain ETPs backed by precious metals.)

⁷ See proposed Rule 5020(h).

Like ETFs and ETPs currently deemed appropriate for options trading, the investment objective of each Bitcoin Fund trust is for its shares to reflect the performance of Bitcoin (less the expenses of the trust’s operations), offering investors an opportunity to gain exposure to Bitcoin without the complexities of Bitcoin delivery. Each Bitcoin Fund’s shares represent units of fractional undivided beneficial interest in the trust, the assets of which consist principally of Bitcoin and are designed to track Bitcoin or the performance of the price of Bitcoin and offer access to the Bitcoin market.⁸ The Bitcoin Funds provide investors with cost-efficient alternatives that allow a level of participation in the Bitcoin market through the securities market. The Exchange believes each Bitcoin Fund satisfies the Exchange’s initial listing standards set forth in Rule 5020(a).⁹ The Exchange notes that the Bitcoin Funds also satisfy the listing standard applied to ETFs traded on the Exchange that they be available for creation and redemption each business day as set forth in Rule 5020(h).¹⁰ First, each of the Bitcoin Funds satisfy the criteria and guidelines set forth in Rule 5020(a). Pursuant to Rule 5020(a), a security on which options may be listed and traded on the Exchange must be duly registered (with the Commission) and be an NMS stock (as defined in Rule 600 of Regulation NMS under the Act) and be characterized by a substantial

⁸ The trust may include minimal cash.

⁹ Rule 5020(a) provides for guidelines to be used by the Exchange when evaluating potential underlying securities for Exchange option transactions.

¹⁰ Rule 5020(h)(1) requires that ETFs must be available for creation or redemption each business day from or through the issuer in cash or in kind at a price related to net asset value, and the issuer must be obligated to issue ETFs in a specified aggregate number even if some or all of the investment assets required to be deposited have not been received by the issuer, subject to the condition that the person obligated to deposit the investments has undertaken to deliver the investment assets as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the issuer, as provided in the respective prospectus.

number of outstanding shares that are widely held and actively traded.¹¹ Each of the Bitcoin Funds is an NMS Stock as defined in Rule 600 of Regulation NMS under the Act.¹²

As provided in the NYSE American Approval Order, the Exchange believes each Bitcoin Fund is characterized by a substantial number of outstanding shares that are widely held and actively traded. Specifically, as shown in the NYSE American Approval Order, each of the Bitcoin Funds had significantly more than 7,000,000 shares outstanding, which is the minimum number of shares of a corporate stock that the Exchange generally requires to list options on that stock pursuant to Rule 5020(b). The Exchange believes this demonstrates that each Bitcoin Fund is characterized by a substantial number of outstanding shares.

Further as provided in the NYSE American Approval, each Bitcoin Fund has significantly more than 2,000 beneficial holders (approximately 232, 7, and 38 times more, respectively), which is the minimum number of holders the Exchange generally requires for corporate stock in order to list options on that stock pursuant to Rule 5020(b)(2). Therefore, the Exchange believes the shares of each Bitcoin Fund are widely held.

In addition, as provided in the NYSE American Approval Order, the Exchange believes the shares of each Bitcoin Fund are actively traded. Specifically, even though these Bitcoin Funds have been trading for less than one year, the trading volume for each is substantially higher than 2,400,000 shares (between roughly 165 and 700 times that amount), which is the minimum 12-month volume the Exchange generally requires for a security in

¹¹ The criteria and guidelines for a security to be considered widely held and actively traded are set forth in Rule 5020(b), subject to exceptions.

¹² An “NMS stock” means any NMS security other than an option, and an “NMS security” means any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan (or an effective national market system plan for reporting transactions in listed options). See 17 CFR § 242.600(b)(64) (definition of “NMS security”) and (65) (definition of “NMS stock”).

order to list options on that security as set forth in Rule 5020(b). The Exchange believes this data demonstrates each Bitcoin Fund is characterized by a substantial number of outstanding shares that are actively traded.

In addition to satisfying the Exchange’s initial listing standards, options on Bitcoin Funds will be subject to the Exchange’s continued listing standards as set forth in Rule 5030(h). Pursuant to Rule 5030(b), the Exchange will not open for trading any additional series of option contracts covering a fund traded on the Exchange if such fund ceases to be an “NMS stock” as provided for in Rule 5030(a) or the fund is halted from trading on its primary market.¹³ Additionally, options on funds traded on the Exchange may be subject to the suspension of opening transactions as follows: (1) the fund no longer meets the terms of Rule 5030(b); (2) following the initial twelve-month period beginning upon the commencement of trading of the fund, there are fewer than 50 record and/or beneficial holders of the fund for 30 or more consecutive trading days; (3) the value of the underlying commodity is no longer calculated or available; or (4) such other event occurs or condition exists that in the opinion of the Exchange makes further dealing on BOX inadvisable. Options on each Bitcoin Fund will be physically settled contracts with American-style exercise.¹⁴ Consistent with Rule 5050, which governs the opening of options series on a specific underlying security (including ETFs and ETPs), BOX will open at least one

¹³ See Rule 5030(h).

¹⁴ See Rule 5010 (Rights and Obligations of Holders and Writers), which provides that the rights and obligations of holders and writers of option contracts of any class of options dealt in on the Exchange shall be as set forth in the Rules of the Clearing Corporation. See also OCC Rules, Chapter VIII, which governs exercise and assignment, and Chapter IX, which governs the discharge of delivery and payment obligations arising out of the exercise of physically settled stock option contracts. OCC Rules can be located at: [https://www.theocc.com/getmedia/9d3854cd-b782-450f-bcf7-33169b0576ce/occ rules.pdf](https://www.theocc.com/getmedia/9d3854cd-b782-450f-bcf7-33169b0576ce/occ%20rules.pdf).

expiration month for options on each Bitcoin Fund¹⁵ at the commencement of trading on the Exchange and may also list series of options on Bitcoin Funds for trading on a weekly,¹⁶ monthly,¹⁷ or quarterly¹⁸ basis. BOX may also list long-term equity option series (“LEAPS”) that expire from twelve to one hundred eighty months from the time they are listed.¹⁹ Pursuant to IM-5050-1(b), which governs strike prices of series of options on ETFs, the interval between strike prices of series of options on Bitcoin Funds will be \$1 or greater when the strike price is \$200 or less and \$5 or greater where the strike price is over \$200.²⁰ Additionally, BOX may list series of options pursuant to the \$1 Strike Price Interval Program,²¹ the \$0.50 Strike Program,²² and the \$2.50 Strike Price Program.²³ Pursuant to Rule 7050, where the price of a series of a Bitcoin Fund option is less than \$3.00, the minimum increment will be \$0.05, and where the price is \$3.00 or higher, the minimum

¹⁵ See Rule 5050(b). The standard expirations are subject to certain listing criteria for underlying securities described within Rule 5020. Standard listings expire the third Friday of the month. The term “expiration date” (unless separately defined elsewhere in the OCC By-Laws), when used in respect of an option contract (subject to certain exceptions), means the third Friday of the expiration month of such option contract, or if such Friday is a day on which the exchange on which such option is listed is not open for business, the preceding day on which such exchange is open for business. See OCC By-Laws Article I, Section 1. Pursuant to Rule 5050(c), additional series of options of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add a new series of options on an individual stock until the close of trading on the business day prior to expiration.

¹⁶ See IM-5050-6.

¹⁷ See IM-5050-13.

¹⁸ See IM-5050-4.

¹⁹ See Rule 5070.

²⁰ The Exchange notes that for options listed pursuant to the Short Term Option Series Program, the Monthly Options Series Program, and the Quarterly Options Series Program, IM-5050-6, IM-5050-13, and IM-5050-4, specifically set forth intervals between strike prices on Quarterly Options Series, Short Term Option Series, and Monthly Options Series, respectively.

²¹ See BOX IM-5050-2.

²² See BOX IM-5050-5.

²³ See BOX IM-5050-3.

increment will be \$0.10.²⁴ Any and all new series of Bitcoin Fund options that BOX lists will be consistent and comply with the expirations, strike prices, and minimum increments set forth in Rules 5050 and 7050, as applicable. Further, the Exchange notes that Rule Series 10100, which governs margin requirements applicable to the trading of all options on BOX, including options on ETFs and ETPs, will also apply to the trading of Bitcoin Fund options.

Rule 5055(e)(2)(i) permits the Exchange to authorize for trading a FLEX Equity Option class on any equity security if it may authorize for trading a Non-FLEX Equity Option class on that equity security pursuant to Rule 5020.²⁵ At this time, the Exchange is not proposing to permit Bitcoin Fund options to trade as FLEX Equity Options.²⁶ The Exchange therefore proposes to modify Rule 5055(e)(2)(i) to specify this exception, which will add clarity and transparency to Exchange Rules.²⁷

Position and Exercise Limits

NYSE American's Approval Order stated that the position and exercise limits for Bitcoin Funds shall be 25,000 contracts. At this time, the Exchange proposes to amend IM-3120-2 to similarly note that Bitcoin Fund options position limits shall be 25,000 contracts to mirror NYSE American's Approval Order. Rule 3140 provides that the exercise limits shall be determined in the manner described in Rule 3120, therefore the exercise limits would also be 25,000 contracts.

²⁴ If options on a Bitcoin Fund are eligible to participate in the Penny Interval Program, the minimum increment of \$0.01 below \$3.00 and \$0.05 above \$3.00 would apply. See Rule 7050(a)(3). See also Rule 7260 (which describes the requirements for the Penny Interval Program).

²⁵ See Rule 5055(e)(2)(i).

²⁶ The Exchange would be required to submit a separate rule filing to permit the Exchange to authorize for trading FLEX Equity Options on the Bitcoin Funds (which filing may propose changes to existing FLEX Equity Option position limits for such options if appropriate).

²⁷ See proposed Rule 5055(e)(2)(i).

The Exchange has also analyzed its capacity and represents that it and The Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle the additional traffic associated with the listing of options on Bitcoin Funds. The Exchange believes any additional traffic that would be generated from the trading of options on Bitcoin Funds would be manageable. The Exchange represents that Participants will not have a capacity issue as a result of this proposed rule change.

The Exchange represents that the same surveillance procedures applicable to all other options currently listed and traded on BOX will apply to options on Bitcoin Funds, and that BOX has the necessary systems capacity to support the new option series. The Exchange’s existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior which might arise from listing and trading options on ETFs and ETPs, such as (existing) precious metal-commodity backed ETP options as well as the proposed options on Bitcoin Funds. The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of options on Bitcoin Funds and to deter and detect violations of Exchange rules. Additionally, the Exchange is a member of the Intermarket Surveillance Group (“ISG”) under the Intermarket Surveillance Group Agreement. ISG members work together to coordinate surveillance and investigative information sharing in the stock, options, and futures markets. The Exchange would be able to obtain information regarding trading in shares of the Bitcoin Funds from NYSE Arca, Inc. (“Arca”) and other markets that trade shares of the Bitcoin Funds through ISG. In addition, the Exchange has a Regulatory Services Agreement with the Financial Industry Regulatory Authority (“FINRA”). Pursuant to a multi-party 17d-2 joint plan, all options exchanges allocate regulatory responsibilities to FINRA to conduct certain options-related market

surveillances.²⁸ Further, the Exchange will implement any new surveillance procedures it deems necessary to effectively monitor the trading of options on the Bitcoin Funds.

The underlying shares of spot bitcoin ETPs, including the Bitcoin Funds, are also subject to safeguards related to addressing market abuse and manipulation. As the Commission stated in its order approving proposals of several exchanges to list and trade shares of spot bitcoin-based exchange-traded products (“Bitcoin ETP Order”): Each Exchange has a comprehensive surveillance-sharing agreement with the CME via their common membership in the Intermarket Surveillance Group. This facilitates the sharing of information that is available to the CME through its surveillance of its markets, including its surveillance of the CME bitcoin futures market.²⁹ Given the consistently high correlation between the CME bitcoin futures market and the spot bitcoin market, as confirmed by the Commission through robust correlation analysis, the Commission was able to conclude that such surveillance sharing agreements could reasonably be “expected to assist in surveilling for fraudulent and manipulative acts and practices in the specific context of the [Bitcoin ETPs].”³⁰ In light of surveillance measures related to both options and futures as well as the

²⁸ Section 19(g)(1) of the Act, among other things, requires every SRO registered as a national securities exchange or national securities association to comply with the Act, the rules and regulations thereunder, and the SRO's own rules, and, absent reasonable justification or excuse, enforce compliance by its members and persons associated with its members. See 15 U.S.C. 78q(d)(1) and 17 CFR 240.17d-2. Section 17(d)(1) of the Act allows the Commission to relieve an SRO of certain responsibilities with respect to members of the SRO who are also members of another SRO. Specifically, Section 17(d)(1) allows the Commission to relieve an SRO of its responsibilities to: (i) receive regulatory reports from such members; (ii) examine such members for compliance with the Act and the rules and regulations thereunder, and the rules of the SRO; or (iii) carry out other specified regulatory responsibilities with respect to such members.

²⁹ See Securities Exchange Act Release No. 99306 (January 10, 2024), 89 FR 3008, 3009 (January 17, 2024) (File Nos. SR-NYSEArca-2021-90; SR-NYSEArca-2023-44; SR-NYSEArca-2023-58; SR-NASDAQ-2023-016; SR-NASDAQ-2023-019; SR-CboeBZX-2023-028; SR-CboeBZX-2023-038; SR-CboeBZX-2023-040; SR-CboeBZX-2023-042; SRCboeBZX-2023-044; and SR-CboeBZX-2023-072) (Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Thereto, to List and Trade Bitcoin-Based Commodity-Based Trust Shares and Trust Units).

³⁰ See Bitcoin ETP Order, 89 FR at 3010-11.

underlying Bitcoin Funds,³¹ the Exchange believes that existing surveillance procedures are designed to deter and detect possible manipulative behavior which might potentially arise from listing and trading the proposed options on the Bitcoin Funds.

The Exchange notes quotation and last sale information for ETFs is available via the Consolidated Tape Association (“CTA”) high speed line. Quotation and last sale information for such securities is also available from the exchange on which such securities are listed. Quotation and last sale information for options on Bitcoin Funds will be available via OPRA and major market data vendors. The Exchange believes that offering options on Bitcoin Funds will benefit investors by providing them with an additional, relatively lower cost investing tool to gain exposure to the price of Bitcoin and hedging vehicle to meet their investment needs in connection with Bitcoin-related products and positions. The Exchange believes that listing Bitcoin Fund options may cause investors to bring this liquidity to BOX, which would increase market transparency and enhance the process of price discovery conducted on BOX through increased order flow.

Finally, the Exchange notes that applicable Exchange rules will require that customers receive appropriate disclosure before trading options in Bitcoin Funds.³² Further,

³¹ See Amendment No. 2 to Proposed Rule Change to List and Trade Shares of the Grayscale Bitcoin Trust (BTC) under NYSE Arca Rule 8.201-E (Commodity-Based Trust Shares) (SR-NYSEARCA-2021-90), filed Jan. 5, 2024, available at <https://www.sec.gov/comments/sr-nysearca-2021-90/snysearca202190-358659-884182.pdf>; Amendment No. 2 to Proposed Rule Change to List and Trade Shares of the Bitwise Bitcoin ETF under NYSE Arca Rule 8.201-E (Commodity-Based Trust Shares) (SR-NYSEARCA-2023-44), filed Jan. 5, 2024, available at <https://www.sec.gov/comments/sr-nysearca-2023-44/snysearca202344-358800-884322.pdf>; and Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, To List and Trade Shares of the Grayscale Bitcoin Mini Trust Under NYSE Arca Rule 8.201-E, Commodity-Based Trust Shares, Securities Exchange Act Release No. 100290 (June 6, 2024), 89 FR 49931 (June 12, 2024) (SR-NYSEARCA-2024-45).

³² See Rules 4020(b), (e) and 4100.

brokers opening accounts and recommending options transactions must comply with relevant customer suitability standards.³³

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”),³⁴ in general, and Section 6(b)(5) of the Act,³⁵ 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 that the proposal to list and trade options on Bitcoin Funds will remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors because offering options on Bitcoin Funds will provide investors with an opportunity to realize the benefits of utilizing options on a Bitcoin Fund, including cost efficiencies and increased hedging strategies. The Exchange believes that offering Bitcoin Fund options will benefit investors by providing them with a relatively lower-cost risk management tool, which will allow them to manage their positions and associated risk in their portfolios more easily in connection with exposure to the price of Bitcoin and with Bitcoin-related products and positions. Additionally, the Exchange’s offering of Bitcoin Fund options will provide investors with the ability to transact in such options in a listed market environment as opposed to in the unregulated OTC options market, which would

³³ See Rule 4040.

³⁴ 15 U.S.C. 78f(b).

³⁵ 15 U.S.C. 78f(b)(5).

increase market transparency and enhance the process of price discovery conducted on BOX through increased order flow to the benefit of all investors. The Exchange also notes that BOX already lists options on other commodity-based ETPs,³⁶ which, as described above, are trusts structured in substantially the same manner as Bitcoin Funds and essentially offer the same objectives and benefits to investors, just with respect to a different commodity (i.e., Bitcoin rather than precious metals) and for which the Exchange has not identified any issues with the continued listing and trading of commodity-backed ETP options it currently lists for trading. The Exchange also believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, because it is consistent with current Exchange Rules previously filed with the Commission. Options on Bitcoin Funds satisfy the initial listing standards and continued listing standards currently in the Exchange Rules applicable to options on all ETFs and ETPs, including ETPs that hold other commodities already deemed appropriate for options trading on BOX. Additionally, as demonstrated above, each Bitcoin Fund is characterized by a substantial number of shares that are widely held and actively traded. Bitcoin Fund options will trade in the same manner as any other ETF or ETP options — the same Exchange Rules that currently govern the listing and trading of options, including permissible expirations, strike prices, minimum increments, and margin requirements, will govern the listing and trading of options on Bitcoin Funds in the same manner.

The Exchange believes the proposed rule change to exclude the Bitcoin Funds from being eligible for trading as FLEX Equity Options is consistent with the Act, because without this prohibition, trading a FLEX Equity Option in the Bitcoin Funds would otherwise establish

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See Rule 5020(h).

different position and exercise limits than those proposed herein.³⁷ The proposed position and exercise limit for options on the Bitcoin Funds is 25,000 contracts. These position and exercise limits are the lowest position and exercise limits available in the options industry, are extremely conservative and more than appropriate given the Bitcoin Funds' market capitalization, average daily volume, number of beneficial holders, and high number of outstanding shares. The proposed position and exercise limits are consistent with the Act as they address concerns related to manipulation and protection of investors because the position and exercise limits are extremely conservative and more than appropriate given the Bitcoin Funds are actively traded.

The Exchange also believes the proposed rule change to Rule 5055(e), to make clear that options on the Bitcoin Funds are not eligible for FLEX trading, will remove impediments to and perfect the mechanism of a free and open market and a national market system because it adds clarity and transparency to Exchange Rules making them easier to navigate and understand to the benefit of investors and the public interest. The Exchange represents that BOX has the necessary systems capacity to support the new Bitcoin Fund options. The Exchange believes that its existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior which might arise from listing and trading options, including Bitcoin Fund options. The Exchange's existing surveillance and reporting safeguards are designed to deter and detect possible manipulative behavior which might arise from listing and trading options on ETFs and ETPs, such as (existing) precious metal-commodity backed ETP options as well as the proposed options on Bitcoin Funds.

³⁷ The Exchange would be required to submit a separate rule filing to permit the Exchange to authorize for trading FLEX Equity Options on the Bitcoin Funds (which filing may propose changes to existing FLEX Equity Option position limits for such options if appropriate).

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of options on Bitcoin Funds and to deter and detect violations of Exchange rules. Additionally, the Exchange is a member of the ISG under the Intermarket Surveillance Group Agreement. ISG members work together to coordinate surveillance and investigative information sharing in the stock, options, and futures markets. The Exchange would be able to obtain information regarding trading in shares of the Bitcoin Funds from Arca and other markets that trade shares of the Bitcoin Funds through ISG. In addition, the Exchange has a Regulatory Services Agreement with FINRA and, as noted herein, pursuant to a multi-party 17d-2 joint plan, all options exchanges allocate regulatory responsibilities to FINRA to conduct certain options-related market surveillances. Further, the Exchange will implement any new surveillance procedures it deems necessary to effectively monitor the trading of options on the Bitcoin Funds. The underlying shares of spot bitcoin ETPs, including the Bitcoin Funds, are also subject to safeguards related to addressing market abuse and manipulation. As the Commission stated in its order approving proposals of several exchanges to list and trade shares of spot bitcoin-based ETPs, “[e]ach Exchange has a comprehensive surveillance-sharing agreement with the CME via their common membership in the Intermarket Surveillance Group. This facilitates the sharing of information that is available to the CME through its surveillance of its markets, including its surveillance of the CME bitcoin futures market.³⁸ Given the consistently high correlation between the CME bitcoin futures market and the spot bitcoin market, as confirmed by the Commission through robust correlation analysis, the Commission

³⁸ See Securities Exchange Act Release No. 99306 (January 10, 2024), 89 FR 3008, 3009 (January 17, 2024) (File Nos. SR-NYSEArca-2021-90; SR-NYSEArca-2023-44; SR-NYSEArca-2023-58; SR-NASDAQ-2023-016; SR-NASDAQ-2023-019; SR-CboeBZX-2023-028; SR-CboeBZX-2023-038; SR-CboeBZX-2023-040; SR-CboeBZX-2023-042; SRCboeBZX-2023-044; and SR-CboeBZX-2023-072) (Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Thereto, to List and Trade Bitcoin-Based Commodity-Based Trust Shares and Trust Units).

was able to conclude that such surveillance sharing agreements could reasonably be “expected to assist in surveilling for fraudulent and manipulative acts and practices in the specific context of the [Bitcoin ETPs].”³⁹ In light of surveillance measures related to both options and futures as well as the underlying Bitcoin Funds,⁴⁰ the Exchange believes that existing surveillance procedures are designed to deter and detect possible manipulative behavior which might potentially arise from listing and trading the proposed options on the Bitcoin Funds. Further, the Exchange will implement any new surveillance procedures it deems necessary to effectively monitor the trading of options on Bitcoin ETPs.

Finally, the Exchange notes that this proposal will remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors because applicable Exchange rules will require that customers receive appropriate disclosure before trading options in Bitcoin Funds⁴¹ and will require that brokers opening accounts and recommending options transactions comply with relevant customer suitability standards.⁴² The Exchange notes the proposed rule change is substantively the same as a rule change proposed by NYSE American which the Commission recently approved.⁴³

³⁹ See Bitcoin ETP Order, 89 FR at 3010-11.

⁴⁰ See Amendment No. 2 to Proposed Rule Change to List and Trade Shares of the Grayscale Bitcoin Trust (BTC) under NYSE Arca Rule 8.201-E (Commodity-Based Trust Shares) (SR-NYSEARCA-2021-90), filed Jan. 5, 2024, available at <https://www.sec.gov/comments/sr-nysearca-2021-90/srnysearca202190-358659-884182.pdf>; Amendment No. 2 to Proposed Rule Change to List and Trade Shares of the Bitwise Bitcoin ETF under NYSE Arca Rule 8.201-E (Commodity-Based Trust Shares) (SR-NYSEARCA-2023-44), filed Jan. 5, 2024, available at <https://www.sec.gov/comments/sr-nysearca-2023-44/srnysearca202344-358800-884322.pdf>; and Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, To List and Trade Shares of the Grayscale Bitcoin Mini Trust Under NYSE Arca Rule 8.201-E, Commodity-Based Trust Shares, Securities Exchange Act Release No. 100290 (June 6, 2024), 89 FR 49931 (June 12, 2024) (SR-NYSEARCA-2024-45).

⁴¹ See Rules 4020(b), (e) and 4100.

⁴² See Rule 4040.

⁴³ See supra note 4.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as indicated above, the Exchange notes that the rule change is being proposed as a competitive response to a filing submitted by NYSE American that was recently approved by the Commission.⁴⁴

Intramarket Competition: The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act as Bitcoin Funds would need to satisfy the initial listing standards set forth in the Exchange Rules in the same manner as any other ETF before the Exchange could list options on them. Additionally, Bitcoin Fund options will be equally available to all market participants who wish to trade such options. The Exchange Rules currently applicable to the listing and trading of options on ETFs on BOX will apply in the same manner to the listing and trading of all options on Bitcoin Funds. Also, and as stated above, the Exchange already lists options on other commodity-based ETPs.⁴⁵

Intermarket Competition: The Exchange does not believe that the proposal to list and trade options on Bitcoin Funds will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the extent that the advent of Bitcoin Fund options trading on BOX may make BOX a more attractive marketplace to market participants at other exchanges, such market participants are free to elect to become market participants on BOX. As noted herein, this is a competitive filing as

⁴⁴ See supra note 4.

⁴⁵ See Rule 5020(h).

the Commission recently approved the listing and trading of the Bitcoin Funds on another options exchange.⁴⁶ Additionally, other options exchanges are free to amend their listing rules, as applicable, to permit them to list and trade options on Bitcoin Funds. The Exchange notes that listing and trading Bitcoin Fund options on BOX will subject such options to transparent exchange-based rules as well as price discovery and liquidity, as opposed to alternatively trading such options in the OTC market. The Exchange believes that the proposed rule change may relieve any burden on, or otherwise promote, competition as it is designed to increase competition for order flow on BOX in a manner that is beneficial to investors by providing them with a lower-cost option to hedge their investment portfolios. The Exchange notes that BOX operates in a highly competitive market in which market participants can readily direct order flow to competing venues that offer similar products. Ultimately, the Exchange believes that offering Bitcoin Fund options for trading on BOX will promote competition by providing investors with an additional, relatively low-cost means to hedge their portfolios and meet their investment needs in connection with Bitcoin prices and Bitcoin-related products and positions on a listed options exchange.

Finally, the proposed rule change to exclude Bitcoin Fund options from being eligible for trading as FLEX Equity Options does not impose an undue burden on competition as no BOX Participant will be able to transact a FLEX Equity Option on the Bitcoin Funds.

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

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

⁴⁶

See supra note 4.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁴⁷ and Rule 19b-4(f)(6) thereunder.⁴⁸

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)⁴⁹ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission previously approved the listing of options on the shares of the Bitcoin Funds.⁵⁰ The Exchange has provided information regarding the underlying Bitcoin Funds, including, among other things, information regarding trading volume, the number of beneficial holders, and the market capitalization of the Bitcoin Funds. The proposal also establishes position and exercise limits for options on the Bitcoin Funds and provides information regarding the surveillance procedures that will apply to options on the Bitcoin Funds. The Commission believes that waiver of the operative delay could benefit investors by providing an additional

⁴⁷ 15 U.S.C. 78s(b)(3)(A).

⁴⁸ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Commission waives this requirement.

⁴⁹ 17 CFR 240.19b-4(f)(6)(iii).

⁵⁰ See supra note 4.

venue for trading Bitcoin Fund options. Therefore, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposed rule change operative upon filing.⁵¹

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-BOX-2024-28 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.

⁵¹ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

All submissions should refer to file number SR-BOX-2024-28. 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 website (<https://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 website 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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright

protection. All submissions should refer to file number SR-BOX-2024-28 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵²

Vanessa A. Countryman,

Secretary.

⁵² 17 CFR 200.30-3(a)(12), (59).