

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84338; File No. SR-BOX-2018-32)

October 2, 2018

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rules Relating to Registration and Qualification Examinations Required for Participants that Engage in Trading Activities on the Exchange

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 September 27, 2018, BOX 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 its rules relating to registration and respective qualification examinations required for Participants that engage in trading activities on the Exchange. 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 <http://boxoptions.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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 SEC recently approved a proposed rule change to restructure the FINRA representative-level qualification examination program.³ The rule change, which will become effective on October 1, 2018, restructures the examination program into a more efficient format whereby all new representative-level applicants will be required to take a general knowledge examination (the Securities Industry Essentials Examination (“SIE”)) and a tailored, specialized knowledge examination (a revised representative-level qualification examination) for their particular registered role. Individuals are not required to be associated with an Exchange or any other self-regulatory organization (“SRO”) member to be eligible to take the SIE. However, passing the SIE alone will not qualify an individual for registration with the Exchange. To be eligible for registration, an individual must also be associated with a firm, pass an appropriate qualification examination for a representative or principal and satisfy the other requirements relating to the registration process.

The SIE would assess basic product knowledge; the structure and function of the securities industry markets, regulatory agencies and their functions; and regulated and prohibited practices. In particular, the SIE will cover four major areas. The first, “Knowledge of Capital Markets,” focuses on topics such as types of markets and offerings, broker-dealers and depositories, and economic cycles. The second, “Understanding Products and Their Risks,”

³ See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

covers securities products at a high level as well as associated investment risks. The third, “Understanding Trading, Customer Accounts and Prohibited Activities,” focuses on accounts, orders, settlement and prohibited activities. The final area, “Overview of the Regulatory Framework,” encompasses topics such as SROs, registration requirements and specified conduct rules. It’s anticipated that the SIE would include 75 scored questions plus an additional 10 unscored pretest questions. The passing score would be determined through methodologies compliant with testing industry standards used to develop examinations and set passing standards.

The restructured program eliminates duplicative testing of general securities knowledge on the current representative-level qualification examinations by moving such content into the SIE. The SIE will test fundamental securities related knowledge, including knowledge of basic products, the structure and function of the securities industry, the regulatory agencies and their functions and regulated and prohibited practices, whereas the revised representative-level qualification examinations will test knowledge relevant to day-to-day activities, responsibilities and job functions of representatives. The SIE was developed in consultation with a committee of industry representatives and representatives of several other SROs. Each of the current representative-level examinations covers general securities knowledge, with the exception of the Research Analyst (Series 86 and 87) examinations.

The Exchange proposes to require that effective October 1, 2018, new applicants seeking to register in a representative capacity with the Exchange must pass the SIE before their registrations can become effective. The Exchange proposes to make the requirement operative on October 1, 2018 to coincide with the effective date of FINRA’s requirement.

The Exchange notes that individuals who are registered as of October 1, 2018 are eligible to maintain their registrations without being subject to any additional requirements. Individuals who had been registered within the past two years prior to October 1, 2018, would also be eligible to maintain those registrations without being subject to any additional requirements, provided they register within two years from the date of their last registration. However, with respect to an individual who is not registered on the effective date of the proposed rule change but was registered within the past two years prior to the effective date of the proposed rule change, the individual's SIE status in the CRD system would be administratively terminated if such individual does not register with the Exchange within four years from the date of the individual's last registration. The Exchange also notes that consistent with IM-2040-2, the Exchange will consider waivers of the SIE alone or the SIE and the representative or principal-level examination(s) for Participants who are seeking registration in a representative-or principal-level registration category.⁴

Lastly, the Exchange proposes to eliminate references in its rules to alternative foreign examination modules. Particularly, the Exchange notes that FINRA recently announced it was eliminating the United Kingdom Securities Representative and the Canadian Securities Representative registration categories, along with the respective associated exams (i.e., Series 17, Series 37 and Series 38).⁵ FINRA also stated that it intended to provide individuals who are associated persons of firms and who hold foreign registrations an alternative, more flexible,

⁴ Pursuant to a Regulatory Services Agreement between FINRA and BOX, FINRA provides BOX certain exam waiver services in responding to exam waiver requests from BOX Participants.

⁵ See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

process to obtain an Exchange representative-level registration.⁶ The Exchange believes that there is sufficient overlap between the SIE and foreign qualification requirements to permit them to act as exemptions to the SIE. As such, the Exchange proposes to provide that individuals who are in good standing as representatives with the Financial Conduct Authority in the United Kingdom or with a Canadian stock exchange or securities regulator would be exempt from the requirement to pass the SIE, and thus would be required only to pass a specialized knowledge examination to register with the Exchange as a representative. The proposed approach would provide individuals with a United Kingdom or Canadian qualification more flexibility to obtain an Exchange representative-level registration. The Exchange notes that FINRA has adopted a similar rule.⁷

The Exchange also proposes to remove the last sentence from Rule 2020(b)(1) and also remove Rule 2020(b)(3) and Rule 2020(c)(5) in their entirety. The Exchange is making these changes in order to conform to FINRA's rules regarding registration requirements.

The Exchange proposes to make a non-substantive conforming changes to the term "Form U-4" and "Form U-5" throughout the BOX Rulebook. Specifically, BOX proposes to change the term "Form U-4" to "Form U4" and "Form U-5" to "Form U5" in order to conform to both the BOX Rules and FINRA rules.⁸ Lastly, the Exchange is proposing to amend BOX Rule 2020(d)(1) regarding Principal Status. Currently, the rule states that a representative whose duties are changed as to require registration as a Principal shall be allowed a period of 90 calendar days following such change to pass the appropriate qualification examination. The

⁶ Id.

⁷ See Securities Exchange Act Release No. 81098 (July 7, 2017) 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

⁸ See FINRA Rule 1010(c).

Exchange proposes to change the number of calendar days from 90 to 120 in order to conform to FINRA’s rules. Similarly, the Exchange proposes to change the number of calendar days from 90 to 120 in Rule 2020(d)(2) as well.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁹ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁰ requirements that the rules of an exchange be 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 regulating, clearing, settling, processing information with respect to, and 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. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹¹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed rule change will improve the efficiency of the Exchange’s examination requirements, without compromising the qualification standards, by eliminating duplicative testing of general securities knowledge on examinations. FINRA has indicated that the SIE was developed in an effort to adopt an examination that would assess basic product knowledge; the structure and function of the securities industry markets,

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ Id.

regulatory agencies and their functions; and regulated and prohibited practices. The Exchange also notes that the introduction of the SIE and expansion of the pool of individuals who are eligible to take the SIE, has the potential of enhancing the pool of prospective securities industry professionals by introducing them to securities laws, rules and regulations and appropriate conduct before they join the industry in a registered capacity. Lastly, the Exchange notes adopting the SIE requirement is consistent with the requirement recently adopted by FINRA.¹²

The Exchange believes that the changes to the term “Form U4” and “Form U5” are reasonable as the changes will conform to FINRA’s rules and reduce investor confusion. The Exchange also believes that removing and amending certain language from Rule 2020(b)(1), Rule 2020(b)(3), Rule 2020(c)(5) and Rule 2020(d)(1) is reasonable as the changes conform to FINRA’s rules regarding registration requirements and will reduce investor confusion.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed rule change, which harmonizes its rules with recent rule changes adopted by FINRA and which is being filed in conjunction with similar filings by the other national securities exchanges, will reduce the regulatory burden placed on market participants engaged in trading activities across different markets. The Exchange believes that the harmonization of these registration requirements across the various markets will reduce burdens on competition by removing impediments to participation in the national market

¹² See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (Order Approving File No. SR-FINRA-2017-007).

system and promoting competition among participants across the multiple national securities exchanges.

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

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 Act¹³ and Rule 19b-4(f)(6) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days from the date of filing. However, Rule 19b-4(f)(6)(iii)¹⁴ 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 asked the Commission to waive the 30-day operative delay so that the proposal may become operative on October 1, 2018 to coincide with the effective date of FINRA's proposed rule change on which the proposal is based.¹⁵ The waiver of the operative delay would make the Exchange's qualification requirements consistent with those of FINRA, as of October 1, 2018. Therefore, the Commission believes that the waiver of the 30-day operative

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6)(iii).

¹⁵ See supra note 3.

delay is consistent with the protection of investors and the public interest and hereby waives the 30-day operative delay and designates the proposal operative on October 1, 2018.¹⁶

At any time within 60 days of the filing of the 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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BOX-2018-32 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-2018-32. This file number should be included on the subject line if e-mail 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 (<http://www.sec.gov/rules/sro.shtml>). Copies

¹⁶ 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).

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 10:00 a.m. and 3:00 p.m.. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BOX-2018-32 and should be submitted on or before [date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Eduardo A. Aleman
Assistant Secretary

¹⁷ 17 CFR 200.30-3(a)(12).