SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-102839; File No. SR-BOX-2025-07]

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing of Proposed Rule Change to amend Rule 5055 to allow for cash settlement of certain FLEX Equity Options

April 11, 2025.

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 April 7, 2025, 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 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 Rule 5055 (FLEX Equity Options). Specifically, the Exchange proposes to amend Rules 5055(e) and (i) to allow for cash settlement of certain 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 self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it

1 15 U.S.C. 78a.

2 17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at the places 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 Exchange proposes to amend BOX Rules 5055(e) and (i) related to FLEX Equity Options. This is a competitive filing that is based on a proposal recently submitted by Cboe Exchange, Inc. ("CBOE").[3]

FLEX Equity Options are customized equity contracts that allow investors to tailor contract terms for exchange-listed equity options. The Exchange proposes to amend Rule 5055(e) to allow for cash settlement of certain FLEX Equity Options.[4] Generally, FLEX Equity Options are settled by physical delivery of the underlying security.[5] As proposed, FLEX Equity Options where the underlying security is an Exchange-Traded Fund ("FLEX ETF Options") would be permitted to be settled by delivery in cash if the underlying security meets prescribed criteria. The Exchange notes that cash-settled FLEX ETF Options will be subject to the same trading rules and procedures that currently govern the trading of other FLEX Equity Options

[3] See Securities Exchange Act Release No. 98044 (August 2, 2023), 88 FR 53548 (August 8, 2023) (SR-CBOE-2023-036) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Allow Certain Flexible Exchange Equity Options To Be Cash Settled). The Exchange notes that the CBOE proposal is based on a 2020 proposal from NYSE American LLC ("NYSE American"). See Securities Exchange Act Release No. 88131 (February 5, 2020), 85 FR 7806 (February 11, 2020) (SR-NYSEAMER-2019-38) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Allow Certain Flexible Equity Options To Be Cash Settled).

[4] A "FLEX Equity Option" is an option on a specified underlying equity security that is subject to Rule 5055. See BOX Rule 5055(b)(1).

[5] See BOX Rule 5055(e)(3).

on BOX, with the exception of the rules to accommodate the cash-settlement feature proposed in this rule filing.

To permit cash settlement of certain FLEX ETF Options, the Exchange proposes to add paragraph (i) to Rule 5055(e)(3). Proposed Rule 5055(e)(3)(i) would provide that the exercise settlement for a FLEX ETF Option may be by physical delivery of the underlying Exchange-Traded Fund ("ETF") or by delivery in cash if the underlying security, measured over the prior six-month period, has an average daily notional value of $500 million or more and a national average daily volume (ADV) of at least 4,680,000 shares.

The Exchange also proposes to add the following language to Rule 5055(e)(1), "For the avoidance of doubt, a FLEX Equity Option overlying an ETF (cash- or physically settled) may not be the same type (put or call) and may not have the same exercise style, expiration date, and exercise price as a non-FLEX Equity Option overlying the same ETF."[6] In other words, regardless of whether a FLEX Equity Option overlying an ETF is cash- or physically settled, at least one of the exercise style (i.e. American-style or European-style), expiration date, and exercise price of that FLEX Option must differ from those terms of a non-FLEX Option overlying the same ETF in order to list such a FLEX Equity Option. For example, suppose a non-FLEX SPY option (which is physically settled and American-style) with a September expiration and exercise price of 475 is listed for trading. A FLEX Trader could not submit an order to trade a FLEX SPY option that is cash-settled (or physically settled) and American-style with the same September expiration date and exercise price of 475.

[6] See proposed Rule 5055(e)(1). The Exchange reiterates that regardless of whether a FLEX Equity Option is cash- or physically settled, each will be subject to the same trading rules and procedures that currently govern the trading of FLEX Equity Options on BOX, with the exception of the rules to accommodate the cash-settlement feature proposed in this rule filing.

The Exchange also proposes new sub-paragraph (a) to Rule 5055(e)(3)(i), which would provide that the Exchange will determine bi-annually the underlying securities that satisfy the notional value and trading volume requirements in proposed Rule 5055(e)(3)(i) by using trading statistics for the previous six-months.[7] The proposed rule would further provide that the Exchange will permit cash settlement as a contract term on no more than 50 underlying ETFs that meet the criteria in Rule 5055(e)(3)(i), and that if more than 50 underlying ETFs satisfy the notional value and trading volume requirements, the Exchange would select the top 50 ETFs that have the highest average daily volume.[8] Proposed new sub-paragraph (b) to Rule 5055(e)(3)(i) would further provide that if the Exchange determines pursuant to the bi-annual review that an underlying ETF ceases to satisfy the requirements under Rule 5055(e)(3)(i), any new position overlying such ETF entered into will be required to have exercise settlement by physical delivery and any open cash-settled FLEX ETF Option positions may be traded only to close the position.[9] The Exchange believes it is appropriate to introduce cash settlement as an alternative contract term to the select group of ETFs because they are among the most highly liquid and actively-traded securities. As described more fully below, the Exchange believes that the deep liquidity and robust trading activity in the ETFs

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[7] See proposed Rule 5055(e)(3)(i). The Exchange plans to conduct the bi-annual review on January 1 and July 1 of each year. The results of the bi-annual review will be announced via a Notice and any new securities that qualify would be permitted to have cash settlement as a contract term beginning on February 1 and August 1 of each year.

[8] See proposed Rule 5055(e)(3)(i)(a). The Exchange notes that, according to Rule 5055(e)(2)(i), it will not authorize for trading a FLEX Equity Option class (either cash-settled or physically-settled) on the iShares Bitcoin Trust, the Grayscale Bitcoin Trust, the Grayscale Bitcoin Mini Trust, the Bitwise Bitcoin ETF, the Fidelity Wise Origin Bitcoin Fund, or the ARK 21Shares Bitcoin ETF. If the Exchange determines to allow FLEX trading on such options at a later date, it will do so by submitting a 19b-4 rule filing with the Commission.

[9] See proposed Rule 5055(e)(3)(i)(b). A Participant that is acting as a Market Maker may enter into an opening transaction in order to facilitate closing transactions of another market participant in option series that are restricted to closing-only transactions. Consistent with a Market Maker's duty to maintain fair and orderly markets under Rule 8040, a Market Maker in cash-settled FLEX ETF Options can enter into an opening transaction to facilitate closing only transactions of another market participant in cash-settled FLEX ETF Option series that are restricted to closing-only transactions.

identified by the Exchange as meeting the criteria mitigate against historic concerns regarding susceptibility to manipulation.

Characteristics of ETFs

ETFs are funds that have their value derived from assets owned. The net asset value ("NAV") of an ETF is a daily calculation that is based off the most recent closing prices of the assets in the fund and an actual accounting of the total cash in the fund at the time of calculation. The NAV of an ETF is calculated by taking the sum of the assets in the fund, including any securities and cash, subtracting out any liabilities, and dividing that by the number of shares outstanding. Additionally, each ETF is subject to a creation and redemption mechanism to ensure the price of the ETF does not fluctuate too far away from its NAV, which mechanisms reduce the potential for manipulative activity. Each business day, ETFs are required to make publicly available a portfolio composition file that describes the makeup of their creation and redemption "baskets" (i.e., a specific list of names and quantities of securities or other assets designed to track the performance of the portfolio as a whole). ETF shares are created when an Authorized Participant, typically a market maker or other large institutional investor, deposits the daily creation basket or cash with the ETF issuer. In return for the creation basket or cash (or both), the ETF issues to the Authorized Participant a "creation unit" that consists of a specified number of ETF shares. For instance, IWM is designed to track the performance of the Russell 2000 Index. An Authorized Participant will purchase all the Russell 2000 constituent securities in the exact same weight as the index prescribes, then deliver those shares to the ETF issuer. In exchange, the ETF issuer gives the Authorized Participant a block of equally valued ETF shares, on a one-for-one fair value basis. This process can also work in reverse. A redemption is achieved when the Authorized Participant accumulates a sufficient number of shares of the ETF to constitute a creation unit and then exchanges these ETF shares with the ETF issuer, thereby decreasing the supply of ETF shares in the market.

The principal, and perhaps most important, feature of ETFs is their reliance on an "arbitrage function" performed by market participants that influences the supply and demand of ETF shares and, thus, trading prices relative to NAV. As noted above, new ETF shares can be created and existing shares redeemed based on investor demand; thus, ETF supply is open-ended. This arbitrage function helps to keep an ETF's price in line with the value of its underlying portfolio, i.e., it minimizes deviation from NAV. Generally, in the Exchange's view, the higher the liquidity and trading volume of an ETF, the more likely the price of the ETF will not deviate from the value of its underlying portfolio, making such ETFs less susceptible to price manipulation.

Trading Data for the ETFs Proposed for Cash Settlement

The Exchange believes that average daily notional value is an appropriate proxy for selecting underlying securities that are not readily susceptible to manipulation for purposes of establishing a settlement price. Average daily notional value considers both the trading activity and the price of an underlying security. As a general matter, the more expensive an underlying security's price, the less cost-effective manipulation could become. Further, manipulation of the price of a security encounters greater difficulty the more volume that is traded. To calculate average daily notional value (provided in the table below), the Exchange summed the notional value of each trade for each symbol (i.e., the number of shares times the price for each execution in the security) and divided that total by the number of trading days in the six-month period (from July 1, 2024 through December 31, 2024) reviewed by the Exchange.

Further, the Exchange proposes that qualifying ETFs also meet an ADV standard. The purpose for this second criteria is to prevent unusually expensive underlying securities from qualifying under the average daily notional value standard while not being one of the most actively traded securities. The Exchange believes an ADV requirement of 4,680,000 shares a day is appropriate because it represents average trading in the underlying ETF of 200 shares per second. While no security is immune from all manipulation, the Exchange believes that the combination of average daily notional value and ADV as prerequisite requirements would limit cash settlement of FLEX ETF Options to those underlying ETFs that would be less susceptible to manipulation in order to establish a settlement price. The Exchange believes that the proposed objective criteria would ensure that only the most robustly traded and deeply liquid ETFs would qualify to have cash settlement as a contract term. As provided in the table below, as of February 1, 2025, the Exchange would be able to provide cash settlement as a contract term for FLEX ETF Options on 43 underlying ETFs, as only this group of securities would currently meet the requirement of $500 million or more average daily notional value and a minimum ADV of 4,680,000 shares. The table below provides the list of the 43 ETFs that, as of February 1, 2025, would be eligible to have cash settlement as a contract term.[10]

[10] See also https://www.nyse.com/trader-update/history#110000946628 (NYSE American Options: Cash-Settled FLEX ETF Options Changes Beginning February 2025). The Exchange notes that for the period covering July 1, 2024, through December 31, 2024, the iShares Bitcoin Trust ETF met the requirements of $500 million or more average daily notional value and a minimum ADV of 4,680,000 shares. This ETF is not listed in the above table because as discussed above, the Exchange is prohibiting FLEX trading in options on iShares Bitcoin Trust.

Symbol	Security Name	Average Daily Notional Value (in dollars) (7/1/24 - 12/31/24)	Average Daily Volume (in shares) (7/1/24-12/31/24)
AGG	iShares Core U.S. Aggregate Bond ETF	$808,220,262	8,159,745
BIL	SPDR Bloomberg 1-3 Month T-Bill ETF	$668,203,827	7,295,621
EEM	iShares MSCI Emerging Markets ETF	$1,196,024,008	27,259,214
EFA	iShares MSCI EAFE ETF	$913,096,285	11,503,196
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF	$519,974,363	5,703,325
EWZ	iShares MSCI Brazil ETF	$574,345,566	20,807,973
FXI	iShares China Large-Cap ETF	$1,539,214,623	50,493,373
GDX	VanEck Gold Miners ETF	$746,385,541	19,509,726
GLD	SPDR Gold Shares	$1,541,762,884	6,490,082
HYG	iShares iBoxx $ High Yield Corporate Bond ETF	$2,723,382,829	34,489,566
IEF	iShares 7-10 Year Treasury Bond ETF	$693,172,798	7,236,293
IEFA*	iShares Core MSCI EAFE ETF	$548,012,194	7,418,223
IVV	iShares Core S&P 500 ETF	$3,187,805,763	5,519,115
IWM	iShares Russell 2000 ETF	$6,488,405,961	29,367,233
IYR	iShares U.S. Real Estate ETF	$517,305,688	5,312,072
KRE	SPDR S&P Regional Banking ETF	$848,054,666	14,491,828
KWEB	KraneShares CSI China Internet ETF	$662,017,572	21,406,472
LQD	iShares iBoxx $ Investment Grade Corporate Bond ETF	$2,742,773,613	24,887,128
MSTU	T-Rex 2X Long MSTR Daily Target ETF	$682,380,233	55,483,821
NVDL	GraniteShares 2x Long NVDA Daily ETF	$1,324,611,353	20,697,044
QQQ	Invesco QQQ Trust	$16,158,297,875	33,284,939
RSP	Invesco S&P 500 Equal Weight ETF	$1,079,579,663	6,151,579
SGOV*	iShares 0-3 Month Treasury Bond ETF	$521,477,947	5,190,381
SLV	iShares Silver Trust	$548,247,483	19,612,186
SMH	VanEck Semiconductor ETF	$1,753,390,895	7,207,553
SOXL	Direxion Daily Semiconductor Bull 3x Shares	$3,005,211,281	85,315,965
SOXS	Direxion Daily Semiconductor Bear 3x Shares	$1,227,042,121	52,816,849
SPY	SPDR S&P 500 ETF Trust	$27,835,471,406	48,952,050
SQQQ	ProShares UltraPro Short QQQ	$1,353,454,852	35,703,643
TLT	iShares 20+ Year Treasury Bond ETF	$3,684,005,055	39,147,976
TNA	Direxion Daily Small Cap Bull 3X Shares	$740,036,853	16,703,440
TQQQ	ProShares UltraPro QQQ	$3,658,099,414	50,944,211
TSLL	Direxion Daily TSLA Bull 2X Shares	$1,034,541,077	62,340,588
VCIT*	Vanguard Intermediate-Term Corporate Bond ETF	$514,518,195	6,272,369
VOO	Vanguard S&P 500 ETF	$2,975,501,039	5,659,792

XBI	SPDR S&P Biotech ETF	$787,310,952	8,079,838
XLE	Energy Select Sector SPDR Fund	$1,229,602,416	13,670,997
XLF	Financial Select Sector SPDR Fund	$1,774,374,547	38,499,533
XLI	Industrial Select Sector SPDR Fund	$1,046,350,609	7,937,500
XLK	Technology Select Sector SPDR Fund	$1,057,040,276	4,719,573
XLP	Consumer Staples Select Sector SPDR Fund	$791,220,748	9,807,344
XLU	Utilities Select Sector SPDR Fund	$786,224,023	10,225,419
XLV	Health Care Select Sector SPDR Fund	$1,052,679,132	7,088,605

* BOX does not currently list options on VCIT, SGOV, and IEFA.

The Exchange believes that permitting cash settlement as a contract term for FLEX ETF Options for the ETFs in the above table would broaden the base of investors that use FLEX Equity Options to manage their trading and investment risk, including investors that currently trade in the over-the-counter ("OTC") market for customized options, where settlement restrictions do not apply.

Today, equity options are settled physically at The Options Clearing Corporation ("OCC"), i.e., upon exercise, shares of the underlying security must be assumed or delivered. Physical settlement may possess certain risks with respect to volatility and movement of the underlying security at expiration against which market participants may need to hedge. The Exchange believes cash settlement may be preferable to physical delivery in some circumstances as it does not present the same risk. If an issue with the delivery of the underlying security arises, it may become more expensive (and time consuming) to reverse the delivery because the price of the underlying security would almost certainly have changed. Reversing a cash payment, on the other hand, would not involve any such issue because reversing a cash delivery would simply involve the exchange of cash. Additionally, with physical settlement, market participants that have a need to generate cash would have to sell the underlying security while incurring the costs associated with liquidating their position as well as the risk of an adverse movement in the price of the underlying security.

The Exchange notes that the Securities and Exchange Commission (the "Commission") has previously approved or noticed as immediately effective rule filings of other exchanges that allowed for the trading of cash-settled options[11] and, specifically, cash-settled FLEX ETF Options.[12]

With respect to position and exercise limits, cash-settled FLEX ETF Options would be subject to the position limits set forth in Rule 3120. Accordingly, the Exchange proposes new Rule 5055(i)(3), which would provide that a position in FLEX Equity Options where the underlying security is an ETF and that is settled in cash pursuant to Rule 5055(e)(3) would be subject to the position limits set forth in Rule 3120, and subject to the exercise limits set forth in Rule 3140. The proposed rule further states that positions in such cash-settled FLEX Equity Options shall be aggregated with positions in physically settled options on the same underlying ETF for the purpose of calculating the position limits set forth in Rule 3120, and the exercise limits set forth in Rule 3140.[13] Given that each of the underlying ETFs that would currently be

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[11] See, e.g., PHLX FX Options traded on Nasdaq PHLX LLC and S&P 500® Index Options traded on CBOE. The Commission noticed as immediately effective, on a pilot basis, the listing and trading of RealDay™ Options on the SPDR S&P 500 Trust on BOX. See Securities Exchange Act Release No. 79936 (February 2, 2017), 82 FR 9886 (February 8, 2017) ("RealDay Pilot Program"). The RealDay Pilot Program was extended until February 2, 2019. See Securities Exchange Act Release No. 82414 (December 28, 2017), 83 FR 577 (January 4, 2018) (SR-BOX-2017-38). The RealDay Pilot Program was never implemented and RealDay™ Options on the SPDR S&P 500 Trust never traded on BOX. See also Securities Exchange Act Release Nos. 56251 (August 14, 2007), 72 FR 46523 (August 20, 2007) (SR-Amex-2004-27) (Order approving listing of cash-settled Fixed Return Options ("FROs")); and 71957 (April 16, 2014), 79 FR 22563 (April 22, 2014) (SR-NYSEMKT-2014-06) (Order approving name change from FROs to ByRDs and re-launch of these products, with certain modifications).

[12] See Securities Exchange Act Release No. 98044 (August 2, 2023), 88 FR 53548 (August 8, 2023) (SR-CBOE-2023-036) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Allow Certain Flexible Exchange Equity Options To Be Cash Settled) and Securities Exchange Act Release No. 101720 (November 22, 2024), 89 FR 94986 (November 29, 2024) (SR-ISE-2024-12) (Notice of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Adopt Rules To List and Trade FLEX Options). See also Securities Exchange Act Release Nos. 88131 (February 5, 2020), 85 FR 7806 (February 11, 2020) (SR-NYSEAMER-2019-38) (Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, to Allow Certain Flexible Equity Options To Be Cash Settled); and 97231 (March 31, 2023), 88 FR 20587 (April 6, 2023) (SR-NYSEAMER-2023-22) (Notice of Filing and Immediate Effectiveness of Proposed Change to Make a Clarifying Change to the Term Settlement Style Applicable to Flexible Exchange Options).

[13] See proposed Rule 5055(i)(3). The aggregation of position and exercise limits would include all positions on physically settled FLEX Equity Options and Non-FLEX Equity Options on the same underlying ETFs.

eligible to have cash-settlement as a contract term have established position and exercise limits applicable to physically settled options, the Exchange believes it is appropriate for the same position and exercise limits to also apply to cash-settled options. Accordingly, of the 43 underlying securities that would currently be eligible to have cash settlement as a FLEX contract term, 28 would have a position limit of 250,000 contracts pursuant to Rule 3120(d).[14] Further, pursuant to IM-3120-2, seven would have a position limit of 500,000 contracts; four (EEM, FXI, IWM, and EFA) would have a position limit of 1,000,000 contracts; one (QQQ) would have a position limit of 1,800,000 contracts; and one (SPY) would have a position limit of 3,600,000.[15]

The Exchange understands that cash-settled ETF options are currently traded in the OTC market by a variety of market participants, e.g., hedge funds, proprietary trading firms, and pension funds.[16] These options are not fungible with the exchange listed options. The Exchange believes some of these market participants would prefer to trade comparable instruments on an exchange, where they would be cleared and settled through a regulated clearing agency. The Exchange expects that users of these OTC products would be among the primary users of exchange-traded cash-settled FLEX ETF Options. The Exchange also believes

[14] BOX Rule 3120(d)(5) provides that the position limit shall be 250,000 contracts for options: (i) on an underlying security that had trading volume of at least 100,000,000 shares during the most recent six-month trading period; or (ii) on an underlying security that had trading volume of at least 75,000,000 shares during the most recent six-month trading period and has at least 300,000,000 shares currently outstanding. Twenty-eight of the forty-three underlying ETFs currently meet the requirements under Rule 3120(d)(5). The Exchange notes that SMH position limits are temporarily 500,000 due to a stock split and will revert to 250,000 on June 20, 2025, and MSTU position limits are temporarily 2,500,000 due to a stock split and will revert to 250,000 on June 20, 2025, according to OCC. The Exchange also notes that SGOV is not currently available for trading in options.

[15] These were based on position limits as of January 30, 2025. Position limits are available at OCC - Position Limits (theocc.com). Position limits for ETFs are determined in accordance with the Exchange's Rules regarding position limits.

[16] As noted above, another options exchange recently received approval to list certain cash-settled FLEX ETF Options. See supra note 3.

that the trading of cash-settled FLEX ETF Options would allow these same market participants to better manage the risk associated with the volatility of underlying equity positions given the enhanced liquidity that an exchange-traded product would bring.

In the Exchange's view, cash-settled FLEX ETF Options traded on BOX would have three important advantages over the contracts that are traded in the OTC market. First, as a result of greater standardization of contract terms, exchange-traded contracts should develop more liquidity. Second, counter-party credit risk would be mitigated by the fact that the contracts are issued and guaranteed by OCC. Finally, the price discovery and dissemination provided by BOX and its Participants would lead to more transparent markets. The Exchange believes that its ability to offer cash-settled FLEX ETF Options would aid it in competing with the OTC market and at the same time expand the universe of products available to interested market participants. The Exchange believes that an exchange-traded alternative may provide a useful risk management and trading vehicle for market participants and their customers. Further, the Exchange believes listing cash-settled FLEX ETF Options would provide investors with competition on an exchange platform, as another exchange recently listed the same options.[17]

The Exchange notes that OCC has received approval from the Commission for rule changes that will accommodate the clearance and settlement of cash-settled ETF Options.[18] BOX 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

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[17] Id.

[18] See Securities Exchange Act Release No. 94910 (May 13, 2022), 87 FR 30531 (May 19, 2022) (SR-OCC-2022-003).

associated with the listing of cash-settled FLEX ETF Options. BOX believes any additional traffic that would be generated from the introduction of cash-settled FLEX ETF Options would be manageable. BOX expects that Participants will not have a capacity issue as a result of this proposed rule change. The Exchange also does not believe this proposed rule change will cause fragmentation of liquidity. The Exchange will monitor the trading volume associated with the additional options series listed as a result of this proposed rule change and the effect (if any) of these additional series on market fragmentation and on the capacity of the Exchange's automated systems.

The Exchange does not believe that allowing cash settlement as a contract term would render the marketplace for equity options more susceptible to manipulative practices. The Exchange believes that manipulating the settlement price of cash-settled FLEX ETF Options would be difficult based on the size of the market for the underlying ETFs that are the subject of this proposed rule change. The Exchange notes that each underlying ETF in the table above is sufficiently active to alleviate concerns about potential manipulative activity. Further, in the Exchange's view, the vast liquidity in the underlying ETFs that would currently be eligible to be traded as cash-settled FLEX options under the proposal ensures a multitude of market participants at any given time. Moreover, given the high level of participation among market participants that enter quotes and/or orders in physically settled options on these ETFs, the Exchange believes it would be very difficult for a single participant to alter the price of the underlying ETF or options overlying such ETF in any significant way without exposing the would-be manipulator to regulatory scrutiny. The Exchange further believes any attempt to manipulate the price of the underlying ETF or options overlying such ETF would also be cost prohibitive. As a result, the Exchange believes there is significant participation among market participants to prevent manipulation of cash-settled FLEX ETF Options.

Still, the Exchange believes it has an adequate surveillance program in place and intends to apply the same program procedures to cash-settled FLEX ETF Options that it applies to options currently trading BOX.[19] FLEX Equity Options, including FLEX ETF Options, and their respective symbols are integrated into the Exchange's existing surveillance system architecture and are thus subject to the relevant surveillance processes. The Exchange believes that the existing surveillance procedures at the Exchange are capable of properly identifying unusual and/or illegal trading activity, which procedures the Exchange would utilize to surveil for aberrant trading in cash-settled FLEX ETF Options.

With respect to regulatory scrutiny, the Exchange believes its existing surveillance technologies and procedures adequately address potential concerns regarding possible manipulation of the settlement value at or near the close of the market. The Exchange notes that the regulatory program operated by and overseen by the Exchange[20] includes cross-market surveillance designed to identify manipulative and other improper trading, including spoofing, algorithm gaming, marking the close and open, as well as more general, abusive behavior related to front running, wash sales, quoting/routing, and Reg SHO violations, that may occur on the Exchange or other markets. These cross-market patterns incorporate relevant data from various markets beyond the Exchange. The Exchange represents that its existing trading

[19] For example, the regulatory program for the Exchange includes surveillance designed to identify manipulative and other improper options trading, including, spoofing, marking the close, front running, wash sales, etc.

[20] The Exchange maintains regulatory services agreements with Financial Industry Regulatory Authority, Inc. ("FINRA") whereby FINRA provides certain regulatory services to the exchanges, including cross-market surveillance, investigation, and enforcement services.

surveillances are adequate to monitor trading in the underlying ETFs and subsequent trading of options on those securities on BOX, including cash-settled FLEX ETF Options.[21]

Additionally, for options, the Exchange utilizes an array of patterns that monitor manipulation of options, or manipulation of equity securities (regardless of venue) for the purpose of impacting options prices on the Exchange (i.e., mini-manipulation strategies). That surveillance coverage is initiated once options begin trading on BOX. Accordingly, the Exchange believes that the cross-market surveillance performed by the Exchange or FINRA, on behalf of the Exchange, coupled with the Exchange's own monitoring for violative activity on BOX comprise a comprehensive surveillance program that is adequate to monitor for manipulation of the underlying ETF and overlying option. Furthermore, the Exchange believes that the existing surveillance procedures at the Exchange are capable of properly identifying unusual and/or illegal trading activity, which the Exchange would utilize to surveil for aberrant trading in cash-settled FLEX ETF Options.

In addition to the surveillance procedures and processes described above, improvements in audit trails (i.e., the Consolidated Audit Trail), recordkeeping practices, and inter-exchange cooperation over the last two decades have greatly increased the Exchange's ability to detect and punish attempted manipulative activities. In addition, the Exchange is a member of the Intermarket Surveillance Group ("ISG").[22] The ISG members work together to coordinate surveillance and investigative information sharing in the stock and options markets. For

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[21] Such surveillance procedures generally focus on detecting securities trading subject to opening price manipulation, closing price manipulation, layering, spoofing or other unlawful activity impacting an underlying security, the option, or both. The Exchange has price movement alerts, unusual market activity and order book alerts active for all trading symbols.

[22] ISG is an industry organization formed in 1983 to coordinate intermarket surveillance among the SROs by cooperatively sharing regulatory information pursuant to a written agreement between the parties. The goal of the ISG's information sharing is to coordinate regulatory efforts to address potential intermarket trading abuses and manipulations.

surveillance purposes, the Exchange would therefore have access to information regarding trading activity in the pertinent underlying securities. The Exchange will monitor and adjust its surveillance procedures as needed for the cash settlement of FLEX ETF Options.

The proposed rule change is designed to allow investors seeking to effect cash-settled FLEX ETF Options with the opportunity for a different method of settling option contracts at expiration if they choose to do so. As noted above, market participants may choose cash settlement because physical settlement possesses certain risks with respect to volatility and movement of the underlying security at expiration that market participants may need to hedge against. The Exchange believes that offering innovative products flows to the benefit of the investing public. A robust and competitive market requires that exchanges respond to Participants' evolving needs by constantly improving their offerings. Such efforts would be stymied if exchanges were prohibited from offering innovative products for reasons that are generally debated in academic literature. The Exchange believes that introducing cash-settled FLEX ETF Options would further broaden the base of investors that use FLEX Equity Options to manage their trading and investment risk, including investors that currently trade in the OTC market for customized options, where settlement restrictions do not apply. The proposed rule change is also designed to encourage market makers to shift liquidity from the OTC market onto BOX, which, it believes, would enhance the process of price discovery conducted on BOX through increased order flow. The Exchange also believes that this may open up cash-settled FLEX ETF Options to more retail investors. The Exchange does not believe that this proposed rule change raises any unique regulatory concerns because existing safeguards — such as position limits (and the aggregation of cash-settled positions with physically-settled positions), exercise limits (and the aggregation of cash-settled positions with physically-settled positions), and reporting requirements — would continue to apply. The Exchange believes the proposed position and exercise limits may further help mitigate the concerns that the limits are designed to address about the potential for manipulation and market disruption in the options and the underlying securities.[23]

Given the novel characteristics of cash-settled FLEX ETF Options, the Exchange will conduct a review of the trading in cash-settled FLEX ETF Options over an initial five-year period. The Exchange will furnish five reports to the Commission based on this review, the first of which would be provided within 60 days after the first anniversary of the initial listing date of the first cash-settled FLEX ETF Option under the proposed rule and each subsequent annual report to be provided within 60 days after the second, third, fourth and fifth anniversary of such initial listing. At a minimum, each report will provide a comparison between the trading volume of all cash-settled FLEX ETF Options listed under the proposed rule and physically settled options on the same underlying security, the liquidity of the market for such options products and the underlying ETF, and any manipulation concerns arising in connection with the trading of cash-settled FLEX ETF Options under the proposed rule. The Exchange will also provide additional data as requested by the Commission during this five-year period. The reports will also discuss any recommendations the Exchange may have for enhancements to the listing standards based on its review. The Exchange believes these reports will allow the Commission and the Exchange to evaluate, among other things, the impact such options have, and any potential adverse effects, on price volatility and the market for the underlying ETFs, the component securities underlying the ETFs, and the options on the same underlying ETFs and make appropriate recommendations, if any, in response to the reports.

[23] See supra note 13.

The Exchange notes that it will issue a notice to Participants via Notice announcing the implementation date of the proposal.

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"),[24] in general, and Section 6(b)(5) of the Act,[25] 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 introducing cash-settled FLEX ETF Options will increase order flow to BOX, increase the variety of options products available for trading, and provide a valuable tool for investors to manage risk.

The Exchange believes that the proposal to permit cash settlement as a contract term for options on the specified group of equity securities would remove impediments to and perfect the mechanism of a free and open market as cash-settled FLEX ETF Options would enable market participants to receive cash in lieu of shares of the underlying security, which would, in turn, provide greater opportunities for market participants to manage risk through the use of a cash-settled product to the benefit of investors and the public interest. The Exchange does not believe that allowing cash settlement as a contract term for options on the specified group of equity securities would render the marketplace for equity options more

[24] 15 U.S.C. 78f(b).

[25] 15 U.S.C. 78f(b)(5).

susceptible to manipulative practices. As illustrated in the table above, each of the qualifying underlying securities is actively traded and highly liquid and thus would not be susceptible to manipulation because, over a six-month period, each security had an average daily notional value of at least $500 million and an ADV of at least 4,680,000 shares, which indicates that there is substantial liquidity present in the trading of these securities, and that there is significant depth and breadth of market participants providing liquidity and of investor interest. The Exchange believes the proposed bi-annual review to determine eligibility for an underlying ETF to have cash settlement as a contract term would remove impediments to and perfect the mechanism of a free and open market as it would permit the Exchange to select only those underlying ETFs that are actively traded and have robust liquidity as each qualifying ETF would be required to meet the average daily notional value and average daily volume requirements, as well as to select the same underlying ETFs on which other exchanges may list cash-settled FLEX ETF Options.[26]

The Exchange believes that the data provided by the Exchange supports the supposition that permitting cash settlement as a FLEX term for the 43 underlying ETFs that would currently qualify to have cash settlement as a contract term would broaden the base of investors that use FLEX Equity Options to manage their trading and investment risk, including investors that currently trade in the OTC market for customized options, where settlement restrictions do not apply.

The Exchange believes that the proposal to permit cash settlement for certain FLEX ETF options would remove impediments to and perfect the mechanism of a free and open market because the proposed rule change would provide Participants with enhanced methods

[26] See supra note 12.

to manage risk by receiving cash if they choose to do so instead of the underlying security. In addition, this proposal would promote just and equitable principles of trade and protect investors and the general public because cash settlement would provide investors with an additional tool to manage their risk. Further, the Exchange notes that other exchanges have previously received approval that allow for the trading of cash-settled options[27] and, specifically, cash-settled FLEX ETF Options in an identical manner as the Exchange proposes to list them pursuant to this rule filing.[28] The proposed rule change therefore should not raise issues for the Commission that it has not previously addressed.

The proposed rule change to permit cash settlement as a contract term for options on up to 50 ETFs is designed to promote just and equitable principles of trade in that the availability of cash settlement as a contract term would give market participants an alternative to trading similar products in the OTC market. By trading a product in an exchange-traded environment (that is currently traded in the OTC market), BOX would be able to compete more effectively with the OTC market. The Exchange believes the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that it would lead to the migration of options currently trading in the OTC market to trading on the Exchange. Also, any migration to BOX from the OTC market would result in increased market transparency. Additionally, the Exchange believes the proposed rule change is designed to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest in that it should create greater trading and hedging opportunities and flexibility. The proposed rule change should

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[27] See supra note 11.

[28] See supra note 3.

also result in enhanced efficiency in initiating and closing out positions and heightened contra-party creditworthiness due to the role of OCC as issuer and guarantor of the proposed cash-settled options. Further, the proposed rule change would result in increased competition by permitting the Exchange to offer products that are currently available for trading only in the OTC market and are approved to trade on other options exchanges.

The Exchange believes that establishing position limits for cash-settled FLEX ETF Options to be the same as physically settled options on the same underlying security, and aggregating positions in cash-settled FLEX ETF Options with physically settled options on the same underlying security for purposes of calculating position limits is reasonable and consistent with the Act. By establishing the same position limits for cash-settled FLEX ETF Options as for physically settled options on the same underlying security and, importantly, aggregating such positions, the Exchange believes that the position limit requirements for cash-settled FLEX ETF Options should help to ensure that the trading of cash-settled FLEX ETF Options would not increase the potential for manipulation or market disruption and could help to minimize such incentives. For the same reasons, the Exchange believes the proposed exercise limits are reasonable and consistent with the Act.

Finally, the Exchange represents that it has an adequate surveillance program in place to detect manipulative trading in cash-settled FLEX ETF Options and the underlying ETFs. Regarding the proposed cash settlement, the Exchange would use the same surveillance procedures currently utilized for the Exchange's other FLEX Equity Options. For surveillance purposes, the Exchange would have access to information regarding trading activity in the pertinent underlying ETFs. The Exchange believes that limiting cash settlement to no more than 50 underlying ETFs (currently, 43 ETFs would be eligible to have cash-settlement as a contract term) would minimize the possibility of manipulation due to the robust liquidity in both the equities and options markets.

As a self-regulatory organization, the Exchange recognizes the importance of surveillance, among other things, to detect and deter fraudulent and manipulative trading activity as well as other violations of Exchange rules and the federal securities laws. As discussed above, the Exchange has adequate surveillance procedures in place to monitor trading in cash-settled FLEX ETF Options and the underlying securities, including to detect manipulative trading activity in both the options and the underlying ETF.[29] The Exchange further notes the liquidity and active markets in the underlying ETFs, and the high number of market participants in both the underlying ETFs and existing options on the ETFs, helps to minimize the possibility of manipulation. The Exchange further notes that under Section 19(g) of the Act, the Exchange, as a self-regulatory organization, is required to enforce compliance by its members and persons associated with its members with the Act, the rules and regulations thereunder, and the rules of the Exchange.[30] The Exchange believes its surveillance, along with the liquidity criteria and position and exercise limits requirements, are reasonably designed to mitigate manipulation and market disruption concerns and will permit it to enforce compliance with the proposed rules and other Exchange rules in accordance with Section 19(g) of the Act. The Exchange performs ongoing evaluations of its surveillance program to ensure its continued effectiveness and will continue to review its surveillance

[29] Among other things, the Exchange's regulatory program includes cross-market surveillance designed to identify manipulative and other improper trading, including spoofing, algorithm gaming, marking the close and open, as well as more general abusive behavior related to front running, wash sales, quoting/routing, and Reg SHO violations, that may occur on the Exchange and other markets. Furthermore, the Exchange stated that it has access to information regarding trading activity in the pertinent underlying securities as a member of ISG.

[30] 15 U.S.C. 78s(g).

procedures on an ongoing basis and make any necessary enhancements and/or modifications that may be needed for the cash settlement of FLEX ETF Options.

Additionally, the Exchange will monitor any effect additional options series listed under the proposed rule change will have on market fragmentation and the capacity of BOX's automated systems. The Exchange will take prompt action, including timely communication with the Commission and with other self-regulatory organizations responsible for oversight of trading in options, the underlying ETFs, and the ETFs' component securities, should any unanticipated adverse market effects develop.

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. 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 all Floor Brokers and FLEX Market Makers that are authorized to trade FLEX Equity Options in accordance with the Exchange's Rules will be able to trade cash-settled FLEX ETF Options in the same manner. This includes that, for all FLEX Equity Options, including FLEX ETF Options, at least one of exercise style, expiration date, and exercise price must differ from options in the non-FLEX market. Additionally, positions in cash-settled FLEX ETF Options of all Participants will be subject to the same position limits, and such positions will be aggregated with positions in physically settled options on the same underlying in the same manner.

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act, as the proposal is designed to increase competition for order flow on BOX in a manner that is beneficial to investors because it is designed to provide investors seeking to transact in FLEX ETF Options with the opportunity for an alternative method of settling their option contracts at expiration. The Exchange believes the proposed rule change will encourage competition, as it may broaden the base of investors that use FLEX Equity Options to manage their trading and investment risk, including investors that currently trade in the OTC market for customized options, where settlement restrictions do not apply. The proposed rule change would give market participants an alternative to trading similar products in the OTC market. By trading a product in an exchange-traded environment (that is currently traded in the OTC market), BOX would be able to compete more effectively with the OTC market. The Exchange believes the proposed rule change may increase competition as it may lead to the migration of options currently trading in the OTC market to trading on BOX. Also, any migration to BOX from the OTC market would result in increased market transparency and thus increased price competition.

The Exchange further notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. The Exchange believes the proposed rule change encourages competition amongst market participants to provide tailored cash-settled FLEX ETF Option contracts, as other exchanges have received approval to list these contracts (subject to the same position and exercise limits as proposed).[31] Therefore, the Exchange believes the proposed rule change will enhance intermarket competition by providing investors with a choice of exchange venues on which to trade cash-settled FLEX ETF Options.

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[31] See supra note 3.

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 Act[32] and Rule 19b-4(f)(6)[33] thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)[34] normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),[35] the Commission may 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 believes that waiver of the 30-day operative delay would allow the Exchange to offer the cash-settled FLEX ETF Options that are the subject of this proposal following the issuance of a notice to participants announcing the implementation date of the proposal. The Commission further notes that

32 15 U.S.C. 78s(b)(3)(A).

33 17 CFR 240.19b-4(f)(6).

34 17 CFR 240.19b-4(f)(6).

35 17 CFR 240.19b-4(f)(6)(iii). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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 Exchange has satisfied this requirement

other exchanges have already received approval to offer cash-settled FLEX ETF Options subject to the same parameters and limitations as set forth in this proposal. The Commission therefore believes that the proposed rule change presents no novel issues and 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 as operative upon filing.[36]

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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-2025-07 on the subject line.

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

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-2025-07. 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-2025-07 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.[37]

Sherry R. Haywood,

Assistant Secretary.

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[37] 17 CFR 200.30-3(a)(12), (59).