



BOX SM
E X C H A N G E

Regulatory Circular

RC-2021-23

TO: BOX Participants
FROM: BOX Market Regulation Center
SUBJECT: Virtual Trading Floor Regulatory Considerations
DATE: December 23, 2021

On August 3, 2021, the Securities and Exchange Commission approved BOX Exchange, LLC's ("BOX" or the "Exchange") proposal to make available a Virtual Trading Floor ("VTF") in the event the physical Trading Floor located at 141 W Jackson Blvd in Chicago, Illinois becomes inoperable.¹ If the BOX physical Trading Floor does become inoperable, BOX will determine whether to activate the VTF through notice to Participants.

VTF Environment Overview

The VTF's audio and visual communication program will allow open outcry communication between market participants, including Floor Brokers ("FBs") and Market Makers ("MMs"), to execute orders in a substantially similar manner to open outcry trading on the physical Trading Floor. In the program, the Exchange will create a Virtual Trading Pit that will have a chat functionality available and visible to all authorized Participants. Further, a VTF blotter will reflect orders that are represented in open outcry on the VTF.

All BOX rules related to open outcry trading on the physical Trading Floor will apply to trading on the VTF, except as the VTF context otherwise requires. The Exchange notes that all orders represented on the VTF will be sent to the BOX Trading Host for execution, exactly the same as is done today on the physical Trading Floor.

Participant access to the VTF will be substantially similar to access to the physical Trading Floor, including Clerks of BOX Trading Floor Participants, except visitors will be excluded from access to the VTF environment. Requisite operational access set up of authorized firm personnel must be addressed by Participants as outlined in [IC-2021-34](#).

Options Exchange Officials ("OEOs") will be present on the VTF and will have the same authority to act in the VTF environment as they do on the physical Trading Floor. Regulatory Staff will always be present on the VTF during the trading day and will continuously assess the VTF environment for technical issues and capacity considerations in ensuring the maintenance of a fair and orderly market. A regulatory trading halt may be initiated based on conditions on the VTF related to maintenance of a fair and orderly market and ability to perform appropriate regulatory oversight.

¹ See Securities Exchange Release Act No. 92555 (August 3, 2021) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Adopt BOX Rule 7670 to Establish a Virtual Trading Floor on BOX).

VTF Regulatory Considerations

All trading that occurs on the VTF will occur in the same manner as it does on the physical Trading Floor. Specifically, open outcry trading on the VTF will be subject to the same priority and allocation rules as open trading on the physical Trading Floor, as set forth in Rule 7600 (Qualified Open Outcry Orders – Floor Crossing).

Floor Brokers will be subject to the responsibilities set forth in Rules 7570 (General Responsibility of Floor Brokers) and 7580 (Floor Broker Responsibilities) on the VTF, as they are on the physical Trading Floor. The Exchange currently requires at least one Market Maker to be present on the physical Trading Floor (prior to a Floor Broker announcing an order for execution) pursuant to Rule 7580(a).

In addition, market participants participating on the VTF will be subject to the same regulatory requirements on the Virtual Trading Floor as they are on the physical Trading Floor, including those set forth in Rule Series 3000 (Business Conduct) and 4000 (Doing Business with the Public).

BOX Participants will not be required to register devices they will use to access the VTF environment. However, Participants are required to inform the Exchange of the IP address that will be used to access the Virtual Trading Floor. Rule 7660 will otherwise apply in the same manner to the VTF as it does to the physical Trading Floor including requirements related to audit trail and record retention, prohibition on using any device for the purpose of recording activities in the Virtual Trading Pit or maintaining an open line of continuous communication whereby a non-associated person not located in the trading crowd may continuously monitor the activities in the trading crowd.

Rule 7670(a)(1)(D) states that the Exchange may determine to require any Floor MM or FB in the Virtual Trading Pit that wants to trade against an order represented for execution to express its bid or offer in a chat available in the Virtual Trading Pit. The Exchange would require Participants to utilize the chat function if BOX OEO(s) determine that increased volume or activity on the VTF warrant mandatory use of the chat feature for Participants to maintain a fair and orderly market. The Exchange will announce to all Floor Participants any determination to require bids and offers to be expressed in a chat within the communication program by Regulatory notice.

Further, pursuant to proposed Rule 7670(a)(1)(E), Floor Market Maker quotes will be considered firm in the event the Floor MM is disconnected from the VTF and the parties have a Meeting of the Minds with respect to the terms of the transaction. A "Meeting of the Minds" means the contra-side(s) verbally confirmed participation in the trade. In the event that a Floor MM is disconnected from the VTF, a Floor MM quote would not be considered firm if the quote were provided and the parties did not have a Meeting of the Minds with respect to the terms of the transaction.

BOX Rule 7640 (Disputes on the Trading Floor) will apply in the VTF environment and BOX OEO(s) will resolve any disputes not settled by agreement between the Floor Participants. BOX OEO(s) will have access to available records pertaining to the VTF (i.e., chats and blotter) for dispute resolution purposes and to generally ensure compliance with BOX Rules.

The Exchange will utilize existing Trading Floor surveillances to surveil for the activity occurring on the VTF.

Participants are reminded that they must establish, maintain, and enforce written supervisory procedures that are reasonably designed to achieve compliance with applicable securities laws and regulations and with the applicable rules of the Exchange and therefore should make necessary updates related to Rule 7670 and Business Continuity Plan documentation as appropriate.

For more information, please see [SR-BOX-2021-07](#).

Contacts

Please contact Market Regulation by e-mail at BOXMRC@boxexchange.com should you have any questions related to this information.