

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-92555; File No. SR-BOX-2021-07)

August 3, 2021

Self-Regulatory Organizations; BOX Exchange LLC; 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

I. Introduction

On April 16, 2021, BOX Exchange LLC (“Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to establish a virtual trading floor on the Exchange. The proposed rule change was published for comment in the Federal Register on May 5, 2021.³ On June 16, 2021, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.⁵ On July 20, 2021, the Exchange filed Amendment No. 1

¹ 15 U.S.C.78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 91714 (April 29, 2021), 86 FR 24119.

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 92192, 86 FR 32989 (June 23, 2021). The Commission designated August 3, 2021, as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

to the proposed rule change, which replaced and superseded the proposed rule change.⁶ This order approves the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

II. Description of the Proposed Rule Change, as Modified by Amendment No. 1⁷

On March 20, 2020, the Exchange closed its physical Trading Floor located in Chicago, Illinois, as a result of precautions taken with respect to COVID-19, and operated in an all-electronic configuration until May 4, 2020, when the Exchange reopened its physical Trading Floor.⁸ According to the Exchange, due to the uncertainty regarding the ongoing pandemic, it proposes to adopt Rule 7670, which would permit the Exchange to conduct open outcry trading virtually. Specifically, proposed Rule 7670(a)(1) would allow the Exchange to activate an audio and video communication program to serve as a “Virtual Trading Floor” during regular trading hours in the event the physical Trading Floor becomes inoperable.⁹

⁶ In Amendment No. 1, the Exchange: (1) amends the proposed rule text to specify that Floor Brokers would be required to enter their orders into the electronic blotter at the same time they open outcry the order to the Virtual Trading Crowd (as defined below); (2) makes revisions and technical corrections to the proposed rule text for consistency and to more clearly reflect the description of the proposed rule change; (3) makes technical corrections and revisions to the description of the proposed rule change for readability and consistency; and (4) provides additional detail to certain aspects of the description of the proposed rule change. Amendment No. 1 is available on the Commission’s website at: <https://www.sec.gov/comments/sr-box-2021-07/srbox202107-9086236-246706.pdf>.

⁷ All defined terms not defined herein are defined in the BOX Rules.

⁸ See Amendment No. 1, *supra* note 6, at 3-4.

⁹ According to the Exchange, if the physical Trading Floor becomes inoperable and the Exchange does not make a Virtual Trading Floor available, the Exchange will continue to operate in an electronic-only environment; open outcry trading will not be available while the physical Trading Floor facility is inoperable. See proposed Rule 7670(a).

According to the proposal, the Exchange would create a “Virtual Trading Pit” where each Participant authorized to access the Virtual Trading Floor and enters the Virtual Trading Pit will be visible, and may speak, to all other Participants in the Virtual Trading Pit.¹⁰ Any Floor Market Maker authorized to act on the physical Trading Floor will receive access to the Virtual Trading Pit on the Virtual Trading Floor and will have an appointment to trade all classes.¹¹ The Exchange believes that its proposal will allow the same communication capabilities Participants generally have on the physical Trading Floor so that they may conduct open outcry trading on the Virtual Trading Floor in the same manner as they do on the physical Trading Floor.¹²

All rules related to open outcry trading will apply to open outcry trading on the Virtual Trading Floor in the same manner as they apply on the physical Trading Floor, except that proposed Rule 7670(a)(1)(A)-(G) will also apply to trading on the Virtual Trading Floor as follows.

Proposed Rule 7670(a)(1)(A) lists certain terms in the Rules related to open outcry trading on the physical Trading Floor that will be deemed to refer to corresponding terms related to open outcry trading on the Virtual Trading Floor. Specifically:

- References in the Rules to the “Floor,” “Trading Floor,” and “Exchange Floor” (and any other terms with the same meaning) will be deemed to refer to the “Virtual Trading Floor;”

¹⁰ See Amendment No. 1, *supra* note 6, at 6.

¹¹ See *id.* at 8.

¹² See *id.* at 6.

- References in the Rules to the “Pit” and the “Crowd Area” (and any other terms with the same meaning) will be deemed to refer to the “Virtual Trading Pit” or the “Virtual Trading Crowd;” and
- The term “In-crowd Floor Participant” will be deemed to mean a Floor Market Maker or a Floor Broker representing an order in the Virtual Trading Pit on the Virtual Trading Floor.

Pursuant to proposed Rule 7670(a)(1)(B), access to the Virtual Trading Floor will be limited to Floor Participants, Clerks, Exchange employees, and any other persons the Exchange authorizes admission to the Virtual Trading Floor.¹³ The Exchange will provide access to the Virtual Trading Floor to Participants the Exchange already has approved to perform a Trading Floor function (including Floor Brokers and Floor Market Makers).¹⁴ According to the proposed Rule, each authorized individual will receive one log-in to the Virtual Trading Floor, and the Exchange will track which individuals participate on the Virtual Trading Floor, including when they log-in and log-out.¹⁵ The Exchange represents that access to the Virtual Trading Floor will be substantially similar to access to the physical Trading Floor.¹⁶

Pursuant to proposed Rule 7670(a)(1)(C), Floor Participants may use any equipment to access the Virtual Trading Floor and will not need to register devices they use while on the

¹³ See proposed Rule 7670(a)(1)(B).

¹⁴ See Amendment No. 1, supra note 6, at 7-8.

¹⁵ See id. at 8-9.

¹⁶ See id. at 7. The Exchange states that, currently, admission to the physical Trading Floor is limited to Floor Participants, Exchange employees, Clerks employed by Floor Participants and registered with the Exchange, Exchange visitors that receive authorized admission to the Trading Floor pursuant to Exchange policy, and any other persons that the Exchange authorizes admission to the Trading Floor. See id.

Virtual Trading Floor.¹⁷ According to the Exchange, it will identify the Participant organization of each Participant in the Virtual Trading Pit, and the Exchange will not require Floor Participants and Clerks to display badges on the Virtual Trading Floor.¹⁸ Floor Participants, however, will be required to inform the Exchange of the IP address that will be used to access the Virtual Trading Floor, which the Exchange states will allow it to create a secure network available only to approved IP addresses. According to the Exchange, the Exchange will deny any outside (and not previously approved) connections from entering the Virtual Trading Floor and will secure the virtual trading environment and limit access only to Participants approved by the Exchange.¹⁹ The Exchange will disable the ability of Participants to record the Virtual Trading Floor through the communication program and states that, pursuant to Rule 7660(i), Floor Participants will not be allowed to record any activities on the Trading Floor.²⁰

Pursuant to proposed Rule 7670(a)(1)(E), the Exchange will require Floor Brokers to enter their orders into an electronic blotter at the same time the Floor Broker announces an order to the Virtual Trading Crowd.²¹ And pursuant to proposed Rule 7670(a)(1)(D), the Exchange may determine to require any Floor Market Maker or Floor Broker in the Virtual Trading Pit that attempts to trade against an order represented for execution to express its bid or offer in a chat

¹⁷ See proposed Rule 7670(a)(1)(C). The Exchange represents that Rule 7660 (Communications and Equipment) will otherwise apply in the same manner to the Virtual Trading Floor as it does to the physical Trading Floor (to the extent the context requires). See Amendment No. 1, *supra* note 6, at 9.

¹⁸ See proposed Rule 7670(a)(1)(B); Amendment No. 1, *supra* note 6, at 8 n.7.

¹⁹ See Amendment No. 1, *supra* note 6, at 9 n.8.

²⁰ See id. at 13 n.16.

²¹ See proposed Rule 7670(a)(1)(E). The electronic blotter will contain a running list of unexecuted orders that have been represented by Floor Brokers on the Virtual Trading Floor.

available in the Virtual Trading Pit.²² Chats will be visible to all participants in the Virtual Trading Pit and will not be permitted directly between individual Participants.²³ The Exchange states that it would require Participants to utilize the chat function if BOX Trading Floor Officials determine that increased volume or activity in the Virtual Trading Crowd warrants mandatory use of the chat feature to maintain a fair and orderly market.²⁴ Further, pursuant to proposed Rule 7670(a)(1)(G), the Exchange will retain records of the chats, Participant logs, electronic blotter, and any other records related to the Virtual Trading Floor that are subject to the Exchange’s record retention obligations under the Act.

Finally, pursuant to proposed Rule 7670(a)(1)(F), the Exchange proposes that Floor Market Maker quotes will be considered firm in the event the Floor Market Maker is disconnected from the Virtual Trading Floor and the parties have a Meeting of the Minds with respect to the terms of the transaction.²⁵ In the event that a Floor Market Maker is disconnected from the Virtual Trading Crowd, a Floor Market Maker quote would not be considered firm if

²² See proposed Rule 7670(a)(1)(D). The Exchange states that the chat functionality will be available to Virtual Trading Floor Participants at all times. See Amendment No. 1, supra note 6, at 11 n.11.

²³ See proposed Rule 7670(a)(1)(D).

²⁴ See Amendment No. 1, supra note 6, at 9-10. The Exchange believes that the chat tool and electronic blotter functionality will benefit Virtual Trading Crowd participants due to the limitations of communication software (such as limitations on how many people may be heard at the same time in the Virtual Trading Pit or potential buffering or echoing). See id. at 10-11.

²⁵ See proposed Rule 7670(a)(1)(F). According to the Exchange’s proposal, a “Meeting of the Minds” means the contra-side(s) verbally confirmed participation in the trade.

the quote was provided and the parties did not have a Meeting of the Minds with respect to the terms of the transaction.²⁶

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act,²⁷ and the rules and regulations thereunder applicable to a national securities exchange.²⁸ In particular, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act,²⁹ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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.

As discussed above, the Exchange proposes to adopt rules to enable a Virtual Trading Floor for open outcry trading if the physical Trading Floor becomes inoperable. According to the Exchange, this would allow the Exchange, when the physical Trading Floor becomes inoperable, to more closely replicate open outcry trading virtually than is currently feasible in an all-electronic trading environment. For example, according to the Exchange, the proposal would help to facilitate the execution of larger orders and high-risk and complicated strategies that

²⁶ A Floor Market Maker on the physical Trading Floor that experiences issues with internet connection, makes an error, or otherwise is unaware of recent news in a particular option, would be held to a quote verbalized in open outcry. See Amendment No. 1, supra note 6, at 12.

²⁷ 15 U.S.C. 78f.

²⁸ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁹ 15 U.S.C. 78f(b)(5).

benefit from human interactions.³⁰ The proposed rule change would provide an environment in which human interactions would be available despite the inoperability of the physical Trading Floor. As a result, by continuing to provide access to open outcry trading when the physical Trading Floor becomes inoperable, the Exchange believes its proposal removes impediments to a free and open market and will ultimately benefit investors, particularly those executing high-risk and complex trading strategies.

The Exchange states that, although the proposed rule change would allow the Exchange to make a Virtual Trading Floor available, the Exchange retains the discretion not to activate the Virtual Trading Floor if the physical Trading Floor becomes inoperable. In making the determination to move to an all-electronic environment, the Exchange will evaluate the factor(s) that caused the physical Trading Floor to become inoperable to determine if it warrants activating the Virtual Trading Floor.³¹

The Commission finds that the proposed implementation of rules to permit a Virtual Trading Floor if the physical Trading Floor becomes inoperable is consistent with the Act. The Commission believes that the proposal is reasonably designed to facilitate open outcry trading when circumstances restrict in person human interaction on the physical Trading Floor. The Exchange notes that it has conducted meetings with Floor Participants in which the Exchange presented the functionality of the Virtual Trading Floor and has made the Virtual Trading Floor available for testing so that the Exchange will be ready to implement the Virtual Trading Floor if

³⁰ See Amendment No. 1, supra note 6, at 16-17.

³¹ Such factors, may include, but are not limited to, the anticipated duration, cause, and nature of the condition, burden on Floor Participants, and whether the condition that caused the inoperability of the physical Trading Floor is affecting the Exchange's operations broadly in a way that makes operating the Virtual Trading Floor difficult or impossible. See id. at 5.

necessary. The Exchange further notes that it has received positive feedback from Floor Participants regarding the Virtual Trading Floor and has committed to continue to make updates as necessary and appropriate in response to comments.³² As a result, the Commission finds that the Virtual Trading Floor is reasonably designed to allow continuous access to open outcry trading, which may remove impediments to a free and open market and may ultimately benefit investors, particularly those facilitating executions of large orders and complex trading strategies.

Additionally, the design of the Virtual Trading Floor to closely replicate the physical Trading Floor could help facilitate a more seamless rollout of the Virtual Trading Floor to Floor Participants and thus help remove impediments to a free and open market if the physical Trading Floor becomes unavailable. The Virtual Trading Floor could help provide Floor Participants the ability to interact in a substantially similar way as they do on the physical Trading Floor. Furthermore, the proposed chat functionality and electronic blotter, which are functionality not otherwise available on the physical Trading Floor, are reasonably designed to create a virtual environment that promotes fair and orderly markets by providing Floor Participants with additional tools to communicate information to one another to the extent necessary given the potential inherent limitations of communication software.

Finally, the Commission finds that the design of the Virtual Trading Floor could help prevent fraudulent and manipulative acts and practices, and promote just and equitable principles of trade by requiring that the current Rules and regulatory requirements apply in substantially the same manner as open outcry trading on the physical Trading Floor. Specifically, the Exchange

³² See id. at 15.

represents that all Rules related to open outcry trading on the physical Trading Floor will apply to open outcry trading on the Virtual Trading Floor.³³ Floor Participants participating in a Virtual Trading Crowd 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 the Rule Series 3000 and 4000.³⁴ Orders represented in the Virtual Trading Crowd must be systematized and represented, and transactions reported, in the same manner as on the physical Trading Floor.³⁵ Therefore, according to the Exchange, the audit trail for open outcry trading on the Virtual Trading Floor will capture the same information that it does for open outcry trading on the physical Trading Floor.³⁶ Further, according to the Exchange, the Regulatory Division will be able to utilize preexisting Trading Floor surveillances to surveil for the activity occurring on the Virtual Trading Floor, and Regulatory Staff will always be present on the Virtual Trading Floor.³⁷ Moreover, the Exchange represents that it will retain records of the chats, Participant logs, electronic blotter, and any other records related to the Virtual Trading Floor consistent with the Exchange's record retention obligations under the Act.³⁸

IV. Solicitation of Comments on Amendment No. 1

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 1 is consistent with the Act. Comments may be submitted by any of the following methods:

³³ See id. at 6.

³⁴ See id. at 14.

³⁵ See id.

³⁶ See id.

³⁷ See id. at 14-15.

³⁸ See id. at 12-13.

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-2021-07 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 No. SR-BOX-2021-07. The file numbers 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 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 such 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 publicly available. All submissions should refer to File No. SR-BOX-2021-07 and should be submitted on or before [insert date 21 days from date of publication in the Federal Register].

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause for approving the proposed rule change, as amended by Amendment No. 1, prior to the 30th day after the date of publication of notice in the Federal Register. As described above, in Amendment No. 1, the Exchange: (1) amends the proposed rule text to specify that Floor Brokers would be required to enter their orders into the electronic blotter at the same time they open outcry the order to the Virtual Trading Crowd; (2) makes revisions and technical corrections to the proposed rule text for consistency and to more clearly reflect the description of the proposed rule change; (3) makes technical corrections and revisions to the description of the proposed rule change for readability and consistency; and (4) provides additional detail to certain aspects of the description of the proposed rule change.³⁹ The Commission believes that the changes made in Amendment No. 1 do not raise any material or novel regulatory issues, and they provide further clarity to and consistency within the proposal. Accordingly, the Commission finds good cause for approving the proposed rule change, as amended, on an accelerated basis, pursuant to Section 19(b)(2) of the Act.⁴⁰

³⁹ See Amendment No. 1, supra note 6.

⁴⁰ 15 U.S.C. 78s(b)(2).

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁴¹ that the proposed rule change, as modified by Amendment No. 1 (SR-BOX-2021-07), be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴²

J. Matthew DeLesDernier
Assistant Secretary

⁴¹ Id.

⁴² 17 CFR 200.30-3(a)(12).