

DATE: April 4, 2013

TO: MIAX Members

FROM: MIAX Regulatory Department

SUBJECT: MIAX Rule 530
Limit Up/Limit Down

The Exchange has submitted three rule filings (SR-MIAX-2013-07, SR-MIAX-2013-12, and SR-MIAX 2013-15) relating to the establishment of new Exchange Rule 530, Limit Up-Limit Down ("LULD"), and to amend Exchange Rule 521, Obvious and Catastrophic Errors, in response to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS (the "Plan"). MIAX is not a Participant in the Plan because it does not list and trade NMS Stocks. MIAX lists and trades options overlying NMS Stocks.

The Plan is scheduled to be implemented April 8, 2013. The proposed rules discussed in this Circular are subject to the approval of the Securities and Exchange Commission ("SEC").

The Plan establishes procedures to address extraordinary volatility in NMS Stocks by preventing trades in individual NMS stocks from occurring outside of specified Price Bands (as defined in the Plan). MIAX Rule 530 addresses the trading on MIAX of options overlying NMS Stocks that are the subject of the Plan and its provisions during times of unusual volatility in the markets, and outlines MIAX's LULD processing for such options.

Under the Plan, Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are calculated by designated "Processors." When the National Best Offer is equal to the Lower Price Band, and/or when the National Best Bid is equal to the Upper Price Band, the NMS Stock is in a "Limit State." When the National Best Bid is below the Lower Price Band, and/or when the National Best Offer is above the Upper Price Band, and the NMS stock is not in a Limit State, the NMS Stock is in a "Straddle State."

Establishment of Rule 530

The Exchange submitted rule filing No. SR-MIAX-2013-07, to establish general provisions of Rule 530. MIAX Rule 530 provides for how the Exchange proposes to treat options orders in response to the Plan. Rule 530 will be effective for a one-year pilot period beginning on the date of effectiveness of the Plan.

Openings

The Exchange will not open an affected option during a Limit or Straddle State. As a result, if an opening process is occurring, it will cease and then start the opening process from the beginning once the Limit or Straddle State is no longer present.

Market Orders

If an NMS stock is in a Limit State or Straddle State, when the option is in open trading, the Exchange will reject all incoming market orders submitted into the Exchange's System. Additionally, the Exchange will cancel all unexecuted market orders existing within the Exchange System during a Limit or Straddle State, except that market orders to sell an option received when the national best bid is zero and the Exchange's disseminated offer is equal to or less than \$0.10 that have been converted to limit orders to sell will not be cancelled by the Exchange's System.

Market-Wide Circuit Breaker

The Exchange will halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

Obvious Errors

The Exchange submitted rule filing No. SR-MIAX-2013-12 to address how the Exchange proposes to treat potentially erroneous options transactions that occur during a Limit or Straddle State. Under that filing, the Exchange proposed that transactions in MIAX options that overly an NMS Stock that occur during a Limit or Straddle State will be excluded from current Rule 521, Obvious and Catastrophic Errors. The Exchange will instead apply proposed Rule 530(j) to such transactions.

Proposed Rule 530(j) will apply to transactions occurring during Limit and Straddle States that resulted from a verifiable disruption or malfunction of an Exchange execution, dissemination, or communication system, and trades in options that result from an erroneous print in the underlying market or an erroneous quote in the primary market for the underlying security.

Trades will continue to be subject to an obvious error or catastrophic error review in a Limit or Straddle State if (A) the trade resulted from a verifiable disruption or malfunction of an Exchange execution, dissemination, or communication system that caused a quote/order to trade in excess of its disseminated size (e.g. a quote/order that is frozen, because of an Exchange system error, and repeatedly traded) in which case trades in excess of the disseminated size may be nullified, or (B) the trade resulted from a verifiable disruption or malfunction of an Exchange dissemination or communication system that prevented a member from updating or canceling a quote/order for which the member is responsible where there is Exchange documentation providing that the member sought to update or cancel the quote/order; (C) the trade resulted from an erroneous print disseminated by the underlying market which is later cancelled or corrected by the underlying market where such erroneous print resulted in a trade higher or lower than the average trade in the underlying security during the time period encompassing two minutes before and after the erroneous print, by an amount at least five times greater than the average quote width for such underlying security during the time period

encompassing two minutes before and after the erroneous print. For purposes of this Rule, the average trade in the underlying security shall be determined by adding the prices of each trade during the four minute time period referenced above (excluding the trade in question) and dividing by the number of trades during such time period (excluding the trade in question); or (D) the trade resulted from an erroneous quote in the primary market for the underlying security that has a width of at least \$1.00 and that width is at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For the purposes of this Rule, the average quote width shall be determined by adding the quote widths of sample quotations at regular 15-second intervals during the four minute time period referenced above (excluding the quote in question) and dividing by the number of quotes during such time period (excluding the quote in question).

For a more complete description of how the Exchange will handle obvious errors resulting from trades that occur during a Limit or Straddle State, see SR-MIAX-2013-12, which is posted on the Exchange's web site in the Regulatory section under Rule Filings.

LULD Functionality

The Exchange submitted rule filing No. SR-MIAX-2013-15 to describe how the MIAX System will function during a Limit or Straddle State ("LULD Functionality") relating to, market-making quoting obligations, priority quotes, systemic changes, Trading Pauses and openings following a Trading Pause in response to the Plan.

Relief from Market Maker Quoting Obligations

The Exchange has proposed to adopt Rule 530(f) to address Market Maker quoting obligations during Straddle States and Limit States. Specifically, the Exchange proposes to adopt proposed Rules 530(f)(1)(i)-(iv) to state that during such periods Market Makers will be relieved of the following obligations (collectively, "the quoting obligations"):

- (i) the bid/ask differential requirements set forth in Exchange Rule 603(b)(4);
- (ii) the minimum quote size requirement set forth in Exchange Rule 604(b)(2);
- (iii) the two-sided quote requirement set forth in Exchange Rule 604(c); and
- (iv) the continuous quote requirement set forth in Exchange Rule 604(e).

The Exchange will exclude the amount of time an NMS stock underlying a MIAX option is in a Limit State or Straddle State from the total amount of time in the trading day when calculating the percentage of the trading day MIAX Market Makers are required to quote.

Market Maker Participation Guarantees

The provisions of Exchange Rule 514 concerning priority of quotes and orders remain unchanged during periods of relief from quoting obligations. Therefore, the Exchange will continue to grant participation entitlements for options when the underlying NMS Stock has entered either a Straddle or

Limit State. The participation guarantee only applies if the qualifying Market Maker participates in the execution at the NBBO.

Opening Process

The Exchange has proposed changes in the manner in which the Exchange's System will function before and during Limit and Straddle States.

The Opening Process will be delayed for options overlying an NMS Stock that is in a Limit or Straddle State prior to the opening of trading such overlying options. The Opening Process in such an option will begin when the Limit or Straddle State has ended and there is not a halt or Trading Pause in effect. The Exchange therefore will not open an option overlying an NMS Stock that is in a Limit State or Straddle State.

The proposed rules also address situations where the Exchange's Opening Process has started but not yet completed when the underlying NMS Stock enters a Straddle or Limit State. When the affected option is in the Opening Process but trading has not begun, the Opening Process will be terminated when the underlying NMS Stock is in a Limit or Straddle State. The Opening Process will begin anew in the affected overlying options when such Limit or Straddle State has ended and there is not a halt or Trading Pause in effect. Thus, if an Opening Process is occurring, it will cease and then start the Opening Process from the beginning once the Limit or Straddle State is no longer present.

Priority Quotes

The Exchange will qualify all quotes as priority quotes¹ when LULD Functionality is in effect. All quotes that result in an execution during a period in which LULD Functionality is engaged will be deemed to be priority quotes for allocation purposes.

Trading Pauses and Opening after a Trading Pause

The Exchange will halt trading in options overlying an NMS Stock that is subject to a Trading Pause. During a Trading Pause, the Exchange System will purge all quotes in the affected option, yet maintain orders existing in the Exchange System prior to the Trading Pause. Additionally, the Exchange System will accept incoming orders and quotes, including market orders.

The Exchange will open trading following a Trading Pause pursuant to the Exchange's opening procedures contained in Rule 503. Consistent with provisions of the Plan, the Exchange may resume trading in options contracts overlying an affected NMS Stock if trading on the Primary Listing Exchange has not resumed within ten minutes of receipt of a Trading Pause and at least one exchange has resumed trading in such NMS Stock.

¹ For trade allocation purposes, quotes will be considered either priority quotes (i.e., trade allocation will be in accordance with Rule 514(e), which provides priority quotes with precedence over all Professional Interest) or non-priority quotes (i.e., trade allocation will be in accordance with Rule 514(e), which also provides non-priority quotes are considered together with all other Professional Interest) based upon a Market Maker's quote width at certain times as described in the rule. See Exchange Rule 517(b).

MIAX Regulatory Circular
2013-16

Please direct questions to Trading Operations at TradingOperations@MIAXOptions.com or (609)-897-1302.

Please direct any questions concerning Market Maker quoting requirements to the Regulatory Department at Regulatory@MIAXOptions.com or (609) 897-8476.