

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87440; File No. SR-MIAX-2019-45)

November 1, 2019

Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 518, Complex Orders

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 October 22, 2019, Miami International Securities Exchange, LLC (“MIAX Options” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I, II, and III 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 is filing a proposal to amend Exchange Rule 518, Complex Orders.

The text of the proposed rule change is available on the Exchange’s website at <http://www.miaxoptions.com/rule-filings/> at MIAX Options’ principal office, and at the Commission’s Public Reference Room.

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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

in Item IV below. The Exchange 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 subsection (c)(2)(iii) of Exchange Rule 518, Complex Orders, to remove the provision which provides that a component of a complex order³ that legs into the Simple Order Book⁴ may not execute at a price that is outside the NBBO.⁵

Currently, subsection (c)(2)(iii) provides that complex orders up to a maximum number of legs (determined by the Exchange on a class-by-class basis as either two or three legs and communicated to Members⁶ via Regulatory Circular) may be automatically executed against bids and offers on the Simple Order Book for the individual legs of the complex order (“Legging”), provided the complex order can be executed in full or in a permissible ratio by such bids and

³ A “complex order” is any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security (the “legs” or “components” of the complex order), for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. Mini-options may only be part of a complex order that includes other mini-options. Only those complex orders in the classes designated by the Exchange and communicated to Members via Regulatory Circular with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing. See Exchange Rule 518(a)(5).

⁴ The “Simple Order Book” is the Exchange’s regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

⁵ The term “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from the appropriate Securities Information Processor (“SIP”). See Exchange Rule 518(a)(14).

⁶ The term “Member” means an individual or organization approved to exercise the trading rights associated with a Trading Permit. Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

offers, and provided that the execution price of each component is not executed at a price that is outside of the NBBO.

The Exchange now proposes to remove the provision of the rule which stipulates that a component of a complex order that legs into the Simple Order Book is not executed at a price that is outside of the NBBO. The Exchange believes removing this provision will improve liquidity on the Exchange's Strategy Book⁷ and increase opportunities for execution of complex orders. Under the Exchange's proposal each component leg of a complex order may be executed at a price equal to or better than the MBBO⁸ for that leg, but only if the net strategy price is not through the Complex MIAX Price Collar ("MPC") Price⁹ for the complex order.

The Exchange notes that at least one other competing options exchange allows component legs of a complex order to trade outside of the NBBO for the component leg. Specifically, BOX Exchange Rule 7240(b)(3)(iii)(A) provides that "[i]f an inbound Complex Order is executable (against either opposite side Complex Orders on the Complex Order Book or interest on the BOX Book) on BOX, BOX will determine if the potential execution price is equal to or better than both Extended cNBBO and cBBO. If so, the inbound Complex Order will be

⁷ The "Strategy Book" is the Exchange's electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

⁸ The term MBBO means the best bid or offer on the Simple Order Book. See Exchange Rule 518(a)(13).

⁹ The MPC price protection feature is an Exchange-wide mechanism under which a complex order or complex eQuote to sell will not be displayed or executed at a price that is lower than the opposite side cNBBO bid at the time the MPC is assigned by the System (i.e., upon receipt or upon opening) by more than a specific dollar amount expressed in \$0.01 increments (the "MPC Setting"), and under which a complex order or eQuote to buy will not be displayed or executed at a price that is higher than the opposite side cNBBO offer at the time the MPC is assigned by the System by more than the MPC Setting (each the "MPC Price"). See Exchange Rule 518.05(f).

executed to the extent possible according to the priority described in [BOX Exchange] Rule 7240(b)(3)(i).”¹⁰

The BOX Exchange Extended cNBBO is similar to the MIAX Options MPC price protection and is intended to mitigate the potential risk of executions at prices that are extreme or potentially erroneous. The Extended cNBBO is the maximum net bid and offer execution price for a Complex Order Strategy.¹¹ Under Box Exchange Rule 7240(a)(5), the Extended cNBBO is calculated by subtracting the Extended cNBBO Limit¹² from the cNBB¹³ and adding the Extended cNBBO Limit to the cNBO.¹⁴ In calculating the Extended cNBBO, each side of the Extended cNBBO is rounded to the nearest penny within the Extended cNBBO (i.e. the cNBB is rounded up to the nearest penny and the cNBO is rounded down to the nearest penny). The

¹⁰ See Securities Exchange Act Release No. 80917 (June 13, 2017), 82 FR 27920 (June 19, 2017) (SR-BOX-2017-20).

¹¹ The term “Complex Order Strategy” or “Strategy” means a particular combination of components of a Complex Order and their ratios to one another. See BOX Exchange Rule 7240(a)(9).

¹² The term “Extended cNBBO Limit” means a percentage or an amount, whichever provides for the greatest chance of execution (i.e. the widest range) when calculating the Extended cNBBO. The Extended cNBBO Limit for all classes will be a minimum of 3% and a maximum of 50% of the cNBB or cNBO as applicable; or a minimum amount of \$0.00 and a maximum amount of \$1.00. The default Extended cNBBO Limit for all classes will be 5% of the cNBB or cNBO as applicable, or \$0.05. The Exchange will communicate the Extended cNBBO Limit with prior notice to Participants via Circular. The Exchange may modify the Extended cNBBO Limit on all classes with prior notice to Participants via Circular. See BOX Exchange Rule 7240(a)(6).

¹³ The term “cNBB” means the best net bid price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy. See BOX Exchange Rule 7240(a)(2).

¹⁴ The term “cNBO” means the best net offer price for a Complex Order Strategy based on the NBBO for the individual options components of such Strategy. See BOX Exchange Rule 7240(a)(4).

Extended cNBBO Limit is a percentage or an amount, whichever provides the less restrictive range (i.e. the widest range) when calculating the Extended cNBBO.¹⁵

The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 90 days following the operative date of the proposed rule. The implementation date will be no later than 90 days following the issuance of the Regulatory Circular.

2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act¹⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁷ 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes its proposal promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest by removing the provision that prevents a component of a complex order that legs into the Simple Order Book from executing at a price that is outside the NBBO. The Exchange believes that removing this provision will result in increased opportunities for the execution of complex orders, leading to increased liquidity on the Strategy Book, which benefits all Exchange participants by providing

¹⁵ See supra note 12.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

more trading opportunities. Further, although the proposal will allow component legs of a complex order to execute outside of the NBBO for that component, the Exchange believes that the MPC price protection feature will mitigate the potential risk of executions occurring at prices that are extreme or potentially erroneous. Moreover, the proposed rule change is consistent with rules regarding complex order handling and execution on at least one other exchange.¹⁸

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is designed to increase liquidity on the Exchange's Strategy Book by removing the provision that prevents a component of a complex order that legs into the Simple Order Book from executing at a price that is through the NBBO for that component.

Implementation of the proposed rule change will facilitate additional executions and enable greater competition among other competing exchanges that provide similar complex order handling.

The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition as the proposed rule change applies equally to all Exchange Members. All Exchange Members who submit complex orders to the Exchange may benefit from the proposal.

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, conversely the Exchange believes that its proposal will increase intermarket competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

¹⁸ See BOX Exchange Rule 7240(b)(3)(iii)(A).

Written comments were neither solicited nor received.

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act¹⁹ and Rule 19b-4(f)(6)²⁰ thereunder.

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:

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6). 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.

- 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-MIAX-2019-45 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-MIAX-2019-45. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change.

Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2019-45 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

Jill M. Peterson
Assistant Secretary

²¹ 17 CFR 200.30-3(a)(12).