

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-88455; File No. SR-MIAX-2020-04)

March 23, 2020

Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 100, Definitions and Exchange Rule 503, Openings on the Exchange

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 12, 2020, Miami International Securities Exchange, LLC (“MIAX Options” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a 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 is filing a proposal to amend Exchange Rule 100, Definitions; and Exchange Rule 503, Openings on the Exchange.

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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 Exchange Rule 100 to adopt new definitions for the terms “Composite Market,” “Composite Width,” and “Maximum Composite Width.” The Exchange also proposes to amend Exchange Rule 503, to incorporate the proposed Composite Market into its opening process. Finally, the Exchange proposes to make minor non-substantive changes to Rule 503 to correct internal cross-references within the Exchange’s rulebook. The Exchange believes that incorporating the concept of a Composite Market into its existing opening process will improve the speed and efficiency of the opening process without impairing price discovery.

The Exchange proposes to amend Exchange Rule 100 to adopt a new definition for Composite Market that will mean, “the market for a series comprised of (1) the higher of the then-current best appointed Market Maker<sup>3</sup> bid quote on the Exchange and the ABB<sup>4</sup> (if there is an ABB) and (2) the lower of the then-current best appointed Market Maker offer quote on the Exchange and the ABO<sup>5</sup> (if there is an ABO). The term “Composite Bid (Offer)” means the bid (offer) used to determine the Composite Market.”<sup>6</sup> The Exchange also proposes to amend

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<sup>3</sup> The term “Market Makers” refers to “Lead Market Makers”, “Primary Lead Market Makers” and “Registered Market Makers” collectively. See Exchange Rule 100.

<sup>4</sup> The term ABB means the Away Best Bid.

<sup>5</sup> The term ABO means the Away Best Offer.

<sup>6</sup> This definition is substantially similar to the definition of a Composite Market used on another options exchange. See Cboe Exchange Rule 5.31(a).

Exchange Rule 100 to adopt a new definition for Composite Width that will mean, “the width of the Composite Market (*i.e.*, the width between the Composite Bid and the Composite Offer) of a series.”<sup>7</sup> Finally, the Exchange proposes to amend Exchange Rule 100 to adopt a new definition of Maximum Composite Width, that will mean, the amount that the Composite Width of a series may generally not be greater than for the series to open. The Maximum Composite Widths for all classes are as follows (based on the Composite Bid for a series):

Low end of range (bid)	High end of range (bid)	Maximum Composite Width
\$0.00	\$1.99	\$5.00
\$2.00	\$5.00	\$5.00
\$5.01	\$10.00	\$5.00
\$10.01	\$20.00	\$5.00
\$20.01	+	\$5.00

The Exchange may modify these amounts when it deems necessary to maintain a fair and orderly opening process (which modifications the Exchange will announce to Members<sup>8</sup> via Regulatory Circular).<sup>9</sup> The Maximum Composite Width corresponds to the opening valid width range currently used by the Exchange.

The Exchange proposes to amend Exchange Rule 503, Openings on the Exchange, to incorporate the Composite Market into the Exchange’s opening process. The Composite Market will be used during the opening process to determine whether or not to open a series for trading.

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<sup>7</sup> This definition is substantially similar to the definition for Composite Width used on another options exchange. See Cboe Exchange Rule 5.31(a).

<sup>8</sup> 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.

<sup>9</sup> This definition is substantially similar to the definition for Maximum Composite Width used on another options exchange. See Cboe Exchange Rule 5.31(a).

The Exchange believes it is appropriate to consider any quotes from away markets in addition to quotes on its own market when determining whether to open a series, because consideration of all then-available pricing information may provide for more accurate opening prices.

#### Current Opening Process

The Exchange's current opening process is dependent upon the presence of valid width quotes to begin.<sup>10</sup> A valid width quote is defined in the Exchange's rules as, one where the bid and offer, comprised of a Market Maker's Standard quotes<sup>11</sup> and Day eQuotes,<sup>12</sup> differ by no more than the differences outlined in Exchange Rule 603(b)(4)(i).<sup>13</sup> Exchange Rule 603(b)(4)(i) establishes a bid/ask differential of \$5.00.<sup>14</sup> However, Exchange Rule 603(b)(4)(ii) further provides that the Exchange may establish differences other than the bid/ask differences described in Rule 603(b)(4)(i) for one or more option series or classes. When the Exchange establishes bid/ask differentials under Exchange Rule 603(b)(4)(ii) the Exchange publishes a Regulatory

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<sup>10</sup> See Exchange Rule 503(e)(1)(i), (ii), and (iii).

<sup>11</sup> A Standard quote is a quote submitted by a Market Maker that cancels and replaces the Market Maker's previous Standard quote, if any. See Exchange Rule 517(a)(1).

<sup>12</sup> A Day eQuote is a quote submitted by a Market Maker that does not automatically cancel or replace the Market Maker's previous Standard quote or eQuote. See Exchange Rule 517(a)(2)(i).

<sup>13</sup> Also, for purposes of this rule, valid width quote is one where the bid and offer, comprised of a Market Maker's Standard quotes and Day eQuotes, differ by no more than the differences outlined in Exchange Rule 603(b)(4)(i). See Exchange Rule 503(e)(3).

<sup>14</sup> Under Exchange Rule 603(b) a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market: (1) To compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed. (2) To make markets that, absent changed market conditions, will be honored for the number of contracts entered into the System in all series of option classes to which the Market Maker is appointed. (3) To update market quotations in response to changed market conditions in all series of options classes to which the Market Maker is appointed. (4)(i) To price option contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer ("bid/ask differentials") following the opening rotation in an equity option contract;

Circular identifying the option symbol, security name, and valid width bid/ask differential for the opening process and for intra-day quoting.

Paragraph (e) Starting the Opening Process, of Exchange Rule 503, provides that, (1) the opening process cannot occur prior to 9:30 a.m. Eastern Time and can only begin following the dissemination of a quote or trade in the market for the underlying security. Following the dissemination of a quote or a trade in the market for the underlying security, the System<sup>15</sup> will pause for a period of time no longer than one half second to allow the market place to absorb this information. The length of the pause will be disseminated to members through a Regulatory Circular. After the conclusion of the pause the opening process will begin when either: (i) the Primary Lead Market Maker's<sup>16</sup> valid width quote has been submitted; (ii) the valid width quotes of at least two Market Makers, where at least one is a Lead Market Maker,<sup>17</sup> have been submitted; or (iii) for multiply listed option classes, at least one Eligible Exchange (as defined in Rule 1400(g)) has disseminated a quote in the individual option in accordance with Rule

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<sup>15</sup> The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>16</sup> The term "Primary Lead Market Maker" means a Lead Market Maker appointed by the Exchange to act as the Primary Lead Market Maker for the purpose of making markets in securities traded on the Exchange. The Primary Lead Market Maker is vested with the rights and responsibilities specified in Chapter VI of MIA Exchange Rules with respect to Primary Lead Market Makers. See Exchange Rule 100.

<sup>17</sup> The term "Lead Market Maker" means a Member registered with the Exchange for the purpose of making markets in securities traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI of these Rules with respect to Lead Market Makers. When a Lead Market Maker is appointed to act in the capacity of a Primary Lead Market Maker, the additional rights and responsibilities of a Primary Lead Market Maker specified in Chapter VI of MIA Exchange Rules will apply. See Exchange Rule 100.

1402(a), there is a valid width NBBO<sup>18</sup> available and the valid width quote of at least one Lead Market Maker has been submitted.

The current rule further provides that (2) for purposes of this rule a valid width NBBO is one where the bid and offer of the NBBO differ by no more than differences outlined in Exchange Rule 603(b)(4)(i); (3) also, for purposes of this rule, valid width quote is one where the bid and offer, comprised of a Market Maker's Standard quotes and Day eQuotes, differ by no more than the differences outlined in Exchange Rule 603(b)(4)(i); (4) if after two minutes following the dissemination of a quote or trade in the market for the underlying security none of the provisions set forth in (e)(1) above have occurred, then the opening process can begin when one Market Maker has submitted its valid width quote; (5) the Primary Lead Market Maker assigned in a particular equity option class must enter valid width quotes not later than one minute following the dissemination of a quote or trade by the market for the underlying security; and (6) a Registered Market Maker<sup>19</sup> that submits a quote pursuant to this Rule 503 in any series when a Lead Market Maker's or Primary Lead Market Maker's quote has not been submitted shall be required to submit continuous, two-sided quotes in such series until such time as a Lead Market Maker submits his/her quote, after which the Registered Market Maker that submitted such quote shall be obligated to submit quotations pursuant to Rule 604(e)(3).

#### Proposed Opening Process

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<sup>18</sup> The term "NBBO" means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

<sup>19</sup> The term "Registered Market Maker" means a Member registered with the Exchange for the purpose of making markets in securities traded on the Exchange, who is not a Lead Market Maker and is vested with the rights and responsibilities specified in Chapter VI of MIAX Options Exchange Rules with respect to Market Makers. See Exchange Rule 100.

The Exchange now proposes to amend paragraph (e) of Rule 503 to remove certain references to valid width quotes and to incorporate the Composite Market into the opening process as described below. Specifically, proposed paragraph (e) Starting the Opening Process, will provide that (1) the opening process cannot occur prior to 9:30 a.m. Eastern Time and can only begin following the dissemination of a quote or trade in the market for the underlying security. Following the dissemination of a quote or a trade in the market for the underlying security, the System will pause for a period of time no longer than one half second to allow the market place to absorb this information. The length of the pause will be disseminated to members through a Regulatory Circular. After the conclusion of the pause the opening process will begin when either: (i) the Primary Lead Market Maker's quote has been submitted; (ii) the quotes of at least two Market Makers, where at least one is a Lead Market Maker, have been submitted; or (iii) for multiply listed option classes, at least one Eligible Exchange (as defined in Rule 1400(g)) has disseminated a quote in the individual option in accordance with Rule 1402(a), and the quote of at least one Lead Market Maker has been submitted.

The Exchange also proposes to adopt new subsection (7) to paragraph (e) that will state, “[i]f the Composite Width is equal to or less than the Maximum Composite Width,<sup>20</sup> the opening process will continue.” Finally, the Exchange proposes to adopt new subsection (8) to paragraph (e) that will state, “[f]or purposes of this rule a valid width market is one where the Composite Width is equal to or less than the Maximum Composite Width.”

The proposal describes the opening process, which will begin when at least one of the prerequisite triggers has been satisfied, i.e., (i) the Primary Lead Market Maker's quote has been

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<sup>20</sup> The Exchange notes that the default settings for the Maximum Composite Width are the same as the Exchange's current default settings for opening valid width range.

submitted; (ii) the quotes of at least two Market Makers, where at least one is a Lead Market Maker, have been submitted; or (iii) for multiply listed option classes, at least one Eligible Exchange (as defined in Rule 1400(g)) has disseminated a quote in the individual option in accordance with Rule 1402(a), and the quote of at least one Lead Market Maker has been submitted.

For each series of options<sup>21</sup> the System will calculate a Composite Market using quotes from away markets in addition to quotes on its own market. The Composite Width for an option will then be evaluated against the Maximum Composite Width range, and the System will open the option for trading if the Composite Width is equal to or less than the Maximum Composite Width. The Exchange believes the proposed changes effectively integrate the proposed Composite Market into the existing opening process and will provide a faster and more efficient opening process while simultaneously improving the quality of the opening process. Performing a check of the Composite Width against the Maximum Composite Width is intended to facilitate that option series open in a fair and orderly manner and at prices consistent with the current market conditions for the option series and not at extreme prices, while taking into consideration prices disseminated from other option exchanges that may be better than the Exchange's at the open.

The examples below illustrate the operation of the current opening process and the proposed opening process as described herein.

#### Example 1 (Current Opening)

PLMM quote and Away Market Quote subject to individual quote evaluation

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<sup>21</sup> The term "series of options" means all option contracts of the same class having the same exercise price and expiration date. See Exchange Rule 100.

Valid Width: Maximum Bid and Offer Differential = \$5.00

Pre-Opening Market:

PLMM (10) 23.90 x 30.50 (10)

ABBO<sup>22</sup> 0.00 x 0.00

Upon opening of the Underlying Security and a brief pause, the opening process for the related option products is initiated. The quote from the PLMM to buy 10 options at a price of 23.90 and sell 10 options at a price of 30.50 remains unchanged from the pre-opening. The Away Best Bid and Offer (ABBO) which is not considered pre-open, updates to reflect 0.00 x 24.00.

Resultant Evaluation:

PLMM (10) 23.90 x 30.50 (10) Invalid Width (6.60)

ABBO 0.00 x 24.00 Invalid Width (24.00)

Because the quote from the PLMM is not considered a valid width quote, nor is the quote from the ABBO considered valid width, the option products remain unopened.

#### Example 2 (Proposed Opening)

PLMM quote and Away Market Quote subject to Composite Market evaluation

Valid Width: Maximum Composite Width = \$5.00

Pre-Opening Market:

PLMM (10) 23.90 x 30.50 (10)

ABBO 0.00 x 0.00

Upon opening of the Underlying Security and a brief pause, the opening process for the related option products is initiated. The quote from the PLMM to buy 10 options at a price of 23.90 and sell 10 options at a price of 30.50 remains unchanged from the pre-opening. The Away Best Bid and Offer (ABBO) which is not considered pre-open, updates to reflect 0.00 x 24.00.

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<sup>22</sup> The term “ABBO” or “Away Best Bid or Offer” means the best bid(s) or offer(s) disseminated by other Eligible Exchanges (defined in Rule 1400(g)) and calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

Resultant Evaluation:

PLMM (10) 23.90 x 30.50 (10) Invalid Width (6.60)

ABBO 0.00 x 24.00 Invalid Width (24.00)

Composite Market 23.90 x 24.00 Composite Width (0.10)

The higher of the PLMM bid and the ABB, and the lower of the PLMM offer and the ABO, creates a Composite Market of 23.90 x 24.10, which has a Composite Width of 0.10. Under the proposed rule the Composite Width is equal to or less than the Maximum Composite Width, the opening process continues, and the option products could be opened.

Resultant Market:

PLMM (10) 23.90 x 30.50 (10)

MBBO<sup>23</sup> (10) 23.90 x 30.50 (10)

ABBO 0.00 x 24.00

NBBO 23.90 x 24.00

Additionally, the Exchange proposes to amend subsection (f)(2)(i), Expanded Quote Range, of Rule 503, to further incorporate the Composite Market into the opening process. Currently, if there are quotes or orders that lock or cross each other, the System calculates an Expanded Quote Range (“EQR”) to establish the range within which transactions may occur during the opening process.<sup>24</sup> The EQR will be recalculated any time a Route Timer<sup>25</sup> or Imbalance Timer<sup>26</sup> expires if material conditions of the market (imbalance size, ABBO price or size, liquidity price or size, etc.) have changed during the timer.<sup>27</sup>

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<sup>23</sup> The term “MBBO” means the best bid or offer on the Exchange. See Exchange Rule 100.

<sup>24</sup> See Exchange Rule 503(f)(2).

<sup>25</sup> See Exchange Rule 529(b).

<sup>26</sup> See Exchange Rule 503(f)(2)(vii)(A).

<sup>27</sup> See Exchange Rule 503(f)(2)(i).

The Exchange now proposes to amend subsection (f)(2)(i)(A)1. to provide that, to determine the minimum value for the EQR, an amount, as defined in a table to be determined by the Exchange, will be subtracted from the Composite Bid. Further, subsection (f)(2)(i)(A)1. will be amended to provide that, to determine the maximum value for the EQR, an amount, as defined in a table to be determined by the Exchange, will be added to the Composite Offer.

Additionally, subsection (f)(2)(i)(A)2. will be amended to provide that, if one or more away markets have disseminated quotes that are not crossed and together comprise a valid width market, and the Composite Market crosses an ABBO, or is internally crossed, then: a. the minimum value for the EQR will be the Composite Offer less an amount, as defined in a table to be determined by the Exchange, and b. the maximum value for the EQR will be the Composite Bid plus an amount, as defined in a table to be determined by the Exchange.

The Exchange also proposes to amend subsection (f)(2)(i)(B)1. to provide that, except as provided in subparagraph (3) of Rule 503(f)(2)(i)(B), to determine the minimum value for the EQR, an amount, as defined in a table to be determined by the Exchange, will be subtracted from the Composite Bid; and 2. to provide that, except as provided in subparagraph (3) of Rule 503(f)(2)(i)(B) to determine the maximum value for the EQR, an amount, as defined in a table to be determined by the Exchange, will be added to the Composite Offer.

Additionally, subsection (f)(2)(i)(B)3. will be amended to provide that, if there are quotes on the Exchange that cross each other, and there is no away market in the affected series, then; a. the minimum value for the EQR will be the Composite Offer less an amount, as defined in a table to be determined by the Exchange; and b. the maximum value for the EQR will be the Composite Bid plus an amount, as defined in a table to be determined by the Exchange.

The Exchange believes that incorporating the Composite Market into the EQR calculation is beneficial to market participants because the EQR provides a more accurate measure as to whether there is sufficient available liquidity in the broader market system to provide a fair and orderly opening process and sufficient price discovery for the options to open for trading because it incorporates the prices on away markets into its evaluation.

Finally, the Exchange proposes to amend Exchange Rule 503(f)(2)(vii)(B)(5)a. to make a non-substantive change to correct an internal cross-reference within the Exchange's rulebook. Currently the rule provides that, if the option is being used in the calculation of a final settlement price of an Index pursuant to Chapter XVIII of Exchange Rules on expiration date, then . . . the System will instead conduct a further imbalance process to trade the entire imbalance amount, as described in Exchange Rule 1809. The Exchange proposes to replace Chapter XVIII with Policy .02 of Exchange Rule 503; and to replace Exchange Rule 1809 with Policy .03 of Exchange Rule 503. While Chapter XVIII of the Exchange Rules describes Index Options, and Exchange Rule 1809, describes Terms of Index Options Contracts, the final settlement price calculation for an Index Option is described in Exchange Rule 503, specifically in Policy .02 and .03.<sup>28</sup> Therefore, correcting these internal cross-references will add clarity and precision to the Exchange's rules.

## 2. Statutory Basis

MIAX Options believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>29</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>30</sup> in particular, in

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<sup>28</sup> See Securities Exchange Release No. 84578 (November 13, 2018), 83 FR 58306 (November 19, 2018) (SR-MIAX-2018-32) (Amend Exchange Rule 503 To Adopt Interpretations and Polices .02 and .03).

<sup>29</sup> 15 U.S.C. 78f(b).

<sup>30</sup> 15 U.S.C. 78f(b)(5).

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 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 that the proposed addition of a Composite Market into the Exchange's existing opening process promotes just and equitable principles of trade, removes impediments to and perfects the mechanism of a free and open market and a national market system and, in general protects investors and the public interest by improving the Exchange's opening process by creating additional opportunities for price discovery based on then-current market conditions. The Exchange believes it is appropriate to consider any quotes from away markets in addition to quotes on its own market when determining whether to open an option series in all classes, because consideration of all then-available pricing information may provide for more accurate opening prices. By incorporating a Composite Market, which includes prices from away exchanges, the Exchange believes the proposed opening process will promote competitive liquidity and open option series at prices consistent with then-current market conditions, and thus will promote a faster and more efficient opening process.

The Exchange believes that removing the requirement that a Market Maker's submitted quotes must be valid width as a pre-requisite to beginning the opening process is benign in light of the new proposed process. Under the Exchange's current Rule the Exchange would begin the opening process when either (i) the Primary Lead Market Maker's valid width quote has been submitted; (ii) the valid width quotes of at least two Market Makers, where at least one is a Lead Market Maker, have been submitted; or (iii) for multiply listed option classes, at least one

Eligible Exchange (as defined in Rule 1400(g)) has disseminated a quote in the individual option in accordance with Rule 1402(a), there is a valid width NBBO available and the valid width quote of at least one Lead Market Maker has been submitted. Valid width quotes were required to ensure that the Exchange did not open at prices that were extreme and potentially erroneous.

The Exchange is proposing to remove the valid width evaluation from Rule 503(e)(1)(i) (ii) and (iii) as described above; and to relocate the evaluation of quotes for valid width to a separate provision (new proposed paragraph 503(e)(7)) in the Rule. The Exchange is proposing to adopt new rule text<sup>31</sup> which will provide that the Composite Width must be equal to or less than the Maximum Composite Width for the opening process to continue. If the Composite Width is greater than the Maximum Composite Width, the opening process will not continue for that option. This check ensures that the Exchange does not open at prices that are extreme and potentially erroneous.

The Exchange notes that at least two other option exchanges' opening processes do not require Market Maker valid width quotes. The Cboe Exchange similarly employs a Composite Market,<sup>32</sup> Composite Width,<sup>33</sup> and Maximum Composite Width,<sup>34</sup> in its opening auction process. The Cboe Exchange relies upon the occurrence of one, or the other, of the following two triggers

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<sup>31</sup> See proposed Exchange Rule 503(e)(7).

<sup>32</sup> The term "Composite Market" means the market for a series comprised of (1) the higher of the then-current best appointed Market-Maker bulk message bid on the Exchange the ABB (if there is an ABB) and (2) the lower of the then-current best appointed Market-Maker bulk message offer on the Exchange and the ABO (if there is an ABO). The term "Composite Bid (Offer)" means the bid (offer) used to determine the Composite Market. See Cboe Exchange Rule 5.31(a).

<sup>33</sup> The term "Composite Width" means the width of the Composite Market (i.e., the width between the Composite Bid and the Composite Offer) of a series. See Cboe Exchange Rule 5.31(a).

<sup>34</sup> See Cboe Exchange Rule 5.31(a).

to begin its opening rotation. For equity options, the System initiates the opening rotation after a time period (which the Exchange determines for all classes) upon the earlier of: (i) the passage of two minutes (or such shorter time as determined by the Exchange) after the System’s observation after 9:30 a.m. of either the first disseminated transaction or the first disseminated quote on the primary market in the security underlying an equity option; or (ii) the System’s observation after 9:30 a.m. of both the first disseminated transaction and the first disseminated quote on the primary market in the security underlying an equity option.<sup>35</sup> After the System initiates the opening rotation for a series as described above, the System performs a Maximum Composite Width Check.<sup>36</sup> The Cboe Exchange provides that the term “Maximum Composite Width” means the amount that the Composite Width of a series may generally not be greater than for the series to open (subject to certain exceptions set forth in paragraph (e)(1) of Cboe Exchange Rule 5.31). The Maximum Composite Widths for all classes on the Cboe Exchange are as follows (based on the Composite Bid for a series):

<u>Composite Bid</u>	<u>Maximum Composite Width</u>
0 - 1.99	0.50
2.00 - 5.00	0.80
5.01 - 10.00	1.00
10.01 - 20.00	2.00
20.01 - 50.00	3.00
50.01 - 100.00	5.00
100.01 - 200.00	8.00
≥ 200.01	12.00

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<sup>35</sup> See Cboe Exchange Rule 5.31(d)(1)(A).

<sup>36</sup> See Cboe Exchange Rule 5.31(e)(1).

The Cboe Exchange provides that it may modify these amounts during the opening auction process when it deems necessary to maintain a fair and orderly opening process (which modifications the Exchange disseminates to all subscribers to the Exchange’s data feeds that deliver opening auction updates).<sup>37</sup> After a series satisfies the Maximum Composite Width Check, if there are orders and quotes marketable against each other at a price not outside the Opening Collar, the System determines the Opening Trade Price for the series.<sup>38</sup>

On the Cboe Exchange the term “Opening Collar” means the price range that establishes limits at or inside of which the System determines the Opening Trade price for a series. The Opening Collar is determined by determining the midpoint of the Composite Market, and adding and subtracting half of the applicable width amount above and below, respectively, that midpoint. The Opening Collar widths for all classes on the Cboe Exchange are as follows (based on the Composite Bid for a series):

<u>Composite Bid</u>	<u>Opening Collar Width</u>
0 - 1.99	0.50
2.00 - 5.00	0.80
5.01 - 10.00	1.00
10.01 - 20.00	2.00
20.01 - 50.00	3.00
50.01 - 100.00	5.00
100.01 - 200.00	8.00
≥ 200.01	12.00

The Cboe Exchange provides that it may modify these amounts during the opening auction process when it deems necessary to maintain a fair and orderly opening process (which

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<sup>37</sup> See Cboe Exchange Rule 5.31.

<sup>38</sup> See Cboe Exchange Rule 5.31(e)(2).

modifications the Cboe Exchange disseminates to all subscribers to the Exchange's data feeds that deliver opening auction updates).<sup>39</sup>

Similarly, the NYSE American Exchange does not require valid width quotes from a Market Maker to open option series. At or after 9:30 a.m. Eastern Time, the NYSE American Exchange rules provide that once the primary market for the underlying security disseminates a quote and a trade that is at or within the quote, the related option series will be opened automatically based on the following principles and procedures: (A) The system will determine a single price at which a particular option series will be opened. (B) Orders and quotes in the system will be matched up with one another based on price-time priority; provided, however, that orders will have priority over Market Maker quotes at the same price. (C) Orders in the System Book that were not executed during the Auction Process shall become eligible for the Core Trading Session immediately after the conclusion of the Auction Process. (D) The System will not conduct an Auction Process if the bid-ask differential for that series is not within an acceptable range. For the purposes of this rule, an acceptable range shall mean within the bid-ask differential guidelines established pursuant to Rule 925NY(b)(4).<sup>40</sup> (E) If the System does not open a series with an Auction Process, the System shall open the series for trading after receiving notification of an initial uncrossed NBBO disseminated by OPRA for the series, provided that

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<sup>39</sup> See Cboe Exchange Rule 5.31(a).

<sup>40</sup> NYSE American Exchange Rule 925NY(b) establishes bid/ask differences for Market Makers in open outcry of: (A) no more than .25 between the bid and the offer for each contract for which the bid is less than \$2, (B) no more than .40 where the bid is \$2 or more but does not exceed \$5, (C) no more than .50 where the bid is more than \$5 but does not exceed \$10, (D) no more than .80 where the bid is more than \$10 but does not exceed \$20, and (E) no more than \$1 when the last bid is \$20.01 or more, provided that a Trading Official may establish differences other than the above for one or more series or classes of options. See NYSE American Exchange Rule 925NY(b)(4).

the bid-ask differential does not exceed the bid-ask differential specified under Rule 925NY(b)(5).<sup>41</sup>

The Cboe Exchange, NYSE American Exchange, and the MIAX Options Exchange have all established unique bid/ask differentials at the various bid levels, that allow each exchange to open at prices which are not extreme. The Exchange believes that defining a default Maximum Composite Width provides transparency in the Exchange's rules concerning its opening process.

The Exchange believes that its proposed opening process is substantially similar to its current opening process: (i) the proposed Composite Market Width default values are based on the Exchange's current opening valid width values; and (ii) the proposed Composite Market Width check is similar to the Exchange's current valid width quote check which ensures that the Exchange does not open at prices that are erroneous or extreme. While the Exchange no longer requires the presence of a Market Maker's valid width quotes in its opening process, the Exchange notes that other exchanges, such as the Cboe and NYSE American, similarly do not require the presence of a Market Maker's valid width quotes to open.

The Exchange believes the inclusion of the ABBO in the composition of the Composite Market will continue to provide opportunities for price discovery based on then-current market conditions when the Exchange opens series for trading. The Exchange believes the proposed opening process will promote competitive liquidity and open series at prices consistent with then-current market conditions, and thus will promote a fair and orderly opening process. The Exchange believes that ensuring that the Composite Width is equal to or less than the Maximum

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<sup>41</sup> NYSE American Exchange Rule 925NY(b) requires that a Market Maker's electronically submitted quotes to the System during Core Trading Hours have a bid/ask difference not to exceed \$5 between the bid and offer regardless of the price of the bid. See NYSE American Exchange Rule 925NY(b)(5).

Composite Width ensures that the Exchange will not open at prices which are extreme. The Exchange believes it is appropriate to open a series under the proposed circumstances and provide marketable orders with an opportunity to execute at a reasonable price, because there is minimal risk of execution at an extreme price.

Additionally, the Exchange believes using the Composite Market to establish the Expanded Quote Range, which represents the limits of the range in which transactions may occur during the opening process,<sup>42</sup> promotes just and equitable principles of trade, and perfects the mechanism of a free and open market and a national market system and, in general protects investors and the public interest as it is substantially similar to the current EQR process. Current Exchange Rule 503(f)(2)(i)(A) considers away market quotes for EQR purposes and uses the highest valid width quote bid among valid width quotes on the Exchange and on the away market(s) to determine the minimum value for the EQR; and the lowest valid width quote offer among valid width quotes on the Exchange and on the away market(s) to determine the maximum value for the EQR.<sup>43</sup> Under the Exchange's proposal the use of a Composite Market creates uniformity in the Exchange's process to establish the EQR. The Exchange believes that using the Composite Bid and the Composite Offer to determine the EQR range may improve the range within which transactions may occur during the opening process as the Composite Market considers all quotes in the market, in addition to the Exchange's quotes.

The Exchange believes adopting new rule text to provide that for the purposes of this rule a valid width market is one where the Composite Width is equal to or less than the Maximum Composite Width, promotes just and equitable principles of trade, removes impediments to and

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<sup>42</sup> See Exchange Rule 503(f)(2)(i).

<sup>43</sup> See Exchange Rule 503(f)(2)(i)(A)1.

perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by providing clarity and precision in the Exchange's rules thereby mitigating any potential investor confusion.

Similar to the Exchange's EQR, which represents the limits of the range in which transaction may occur during the opening process, the Cboe Exchange employs an Opening Collar<sup>44</sup> which establishes limits at or inside of which the System determines the Opening Trade Price for a series. Neither the Cboe Exchange Opening Collar nor the MIAX Exchange EQR rely upon Market Maker quotes for its calculation but instead use a value from the Composite Market as a basis for its calculation. The Cboe Exchange Opening Collar is determined by determining the midpoint of the Composite Market, and adding and subtracting half of the applicable width amount above and below, respectively, that midpoint. The Exchange's EQR calculation also uses the Composite Market to establish the transaction range, but performs slightly different calculations depending upon; (A) If one or more away markets have disseminated valid width quotes in the affected series;<sup>45</sup> or (B) If no away markets have disseminated valid width quotes in the affected series.<sup>46</sup>

Further, under the Exchange's proposal Market Makers on the Exchange are not relieved of their obligations. Primary Lead Market Makers assigned in a particular equity option class must enter valid width quotes<sup>47</sup> not later than one minute following the dissemination of a quote

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<sup>44</sup> See supra note 39.

<sup>45</sup> See Exchange Rule 503(f)(2)(i)(A).

<sup>46</sup> See Exchange Rule 503(f)(2)(i)(B).

<sup>47</sup> Valid width quotes are also used to establish priority quotes on the Exchange as described in Exchange Rule 517(b)(1)(i), which are used for allocation purposes as described in Exchange Rule 514(e), which is not changing under this proposal.

or trade by the market for the underlying security.<sup>48</sup> A faster, more efficient, opening of a particular option does not relieve the Primary Lead Market Maker of the obligation to provide valid width quotes as described above.<sup>49</sup>

Additionally, Market Makers on the Exchange are required to fulfill their quoting obligations as described in Exchange Rule 603, Obligations of Market Makers, and Rule 604, Market Maker Quotations. Exchange Rule 603(b) provides that with respect to each options class to which a Market Maker is appointed under Exchange Rule 602, the Market Maker has a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market: (1) to compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed; (2) to make markets that, absent changed market conditions, will be honored for the number of contracts entered into the System in all series of options classes to which the Market Maker is appointed; (3) To update market quotations in response to changed market conditions in all series of options classes to which the Market Maker is appointed; (4)(i) to price option contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer (“bid/ask differentials”) following the opening rotation in an equity contract.

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<sup>48</sup> See Exchange Rule 503(e)(5).

<sup>49</sup> The Exchange notes that it has internal surveillances that monitor PLMM quoting behavior to ensure compliance with Exchange Rules.

Under Exchange Rule 604, Market Maker Quotations, a Primary Lead Market Maker must provide continuous two-sided Standard quotes and/or Day eQuotes in at least the lesser of 99% of the non-adjusted option series, or 100% of the non-adjusted option series minus one put-call pair, in each class in which the Primary Lead Market Maker is assigned.<sup>50</sup> A Lead Market Maker must provide continuous two-sided Standard quotes and/or Day eQuotes in at least 90% of the non-adjusted option series in each of its appointed classes.<sup>51</sup> A Registered Market Maker must provide continuous two-sided Standard quotes and/or Day eQuotes throughout the trading day in 60% of the non-adjusted series that have a time to expiration of less than nine months in each of its appointed classes.<sup>52</sup>

Market Makers on the Exchange receive a priority allocation under Exchange Rule 514, Priority of Quotes and Orders. Specifically, as described in Exchange Rule 514(e), after executions resulting from Priority Overlays set forth in paragraph (d) of Rule 514, when the pro-rata allocation method applies: (1) If there is interest at the NBBO, after all Priority Customers (if any) at that price have been filled, executions at that price will be first allocated to other remaining Market Maker priority quotes, which have not received a participation entitlement,<sup>53</sup> and have precedence over Professional Interest;<sup>54</sup> (2) If after all Market Maker priority quotes have been filled in accordance with (1) above and there remains interest at the NBBO, executions will be allocated to all Professional Interest at that price. Professional Interest is

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<sup>50</sup> See Exchange Rule 604(e)(1)(ii).

<sup>51</sup> See Exchange Rule 604(e)(2)(ii).

<sup>52</sup> See Exchange Rule 604(e)(3)(i).

<sup>53</sup> See Exchange Rule 514(g), (h), and (i).

<sup>54</sup> The term “Professional Interest” means (i) an order that is for the account of a person or entity that is not a Priority Customer, or (ii) an order or non-priority quote for the account of a Market Maker. See Exchange Rule 100.

defined in Rule 100 and includes among other interest, Market Maker non-priority quotes (as described in Rule 517(b)(1)(iii)) and Market Maker orders in both assigned and non-assigned classes.<sup>55</sup>

To be considered a priority quote, at the time of execution, each of the following standards must be met: (A) the bid/ask differential of a Market Maker's two-sided quote pair must be valid width (no wider than the bid/ask differentials outlined in Rule 603(b)(4)); (B) the initial size of both of the Market Maker's bid and the offer must be in compliance with the requirements of Rule 604(b)(2); (C) the bid/ask differential of a Market Maker's two-sided quote pair must meet the priority quote width requirements defined in subparagraph (ii) of Rule 517(b)<sup>56</sup> for each option; and (D) either of the following are true: 1. At the time a locking or crossing quote or order enters the System, the Market Maker's two-sided quote pair must be valid width for that option and must have been resting on the Book; or 2. Immediately prior to the time the Market Maker enters a new quote that locks or crosses the MBBO, the Market Maker must have had a valid width quote already existing (i.e., exclusive of the Market Maker's new marketable quote or update) among his two-sided quotes for that option.<sup>57</sup>

The Exchange notes that the definition of a priority quote is not changing under this proposal nor is the allocation methodology. While the Exchange's proposal may provide for

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<sup>55</sup> See Exchange Rule 514(e).

<sup>56</sup> The priority quote width standard will be established by the Exchange and filed with the Commission in accordance with Section 19 of the Exchange Act and Rule 19b-4 thereunder. The Priority quote width standard established by the Exchange can have bid/ask differentials as narrow as one MPV, as wide but never wider than the bid/ask differentials outlined in Rule 603(b)(4), or somewhere in between. Notwithstanding the foregoing, until such time as the Exchange has submitted and received approval of a rule change establishing narrower bid/ask differentials, the priority quote width standard will be the bid/ask differentials outlined in Rule 603(b)(4). See Exchange Rule 517(b)(1)(ii).

<sup>57</sup> See Exchange Rule 517(b)(1)(i).

faster openings on the Exchange it does not relieve Market Makers from fulfilling their obligations on the Exchange as described herein.

The proposed non-substantive rule changes are intended to correct inaccurate internal rule cross-references and are designed to protect investors by ensuring that the Exchange's rules accurately reference the proper rule, thereby mitigating any potential investor confusion.

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 Exchange does not believe that the proposed rule change to amend the opening process will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it will apply to orders and quotes of all market participants in the same manner.

The Exchange does not believe that the proposed rule change to amend the opening process will impose any burden on inter-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, because it is designed to open series on the Exchange in a fair and orderly manner. The Exchange believes the proposed opening process will continue to provide market participants with an opportunity for price discovery based on then-current market conditions when the Exchange opens series for trading. This will facilitate the presence of sufficient liquidity in a series when it opens, and increase the ability of series to open at prices consistent with then-current market conditions (at the Exchange and on other exchanges) rather than at extreme prices that could potentially result in unfavorable executions to market participants.

The Exchange does not believe that the proposed rule change to amend the EQR calculation will impose any burden on inter-market competition that is not necessary or

appropriate in furtherance of the purposes of the Act, because incorporating the Composite Market into the EQR calculation is designed to improve the limits of the range within which transactions may occur during the opening process and allow the Exchange to open at prices which are not extreme.

The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, as all market participants that participate in the opening process may benefit equally from the proposal, as the rules of the Exchange apply equally to all Exchange Members.

Additionally, the non-substantive changes proposed by the Exchange provide additional clarity and detail in the Exchange's rules and are not changes made for any competitive purpose.

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

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, the proposed rule change has become effective pursuant to 19(b)(3)(A) of the Act<sup>58</sup> and Rule 19b-4(f)(6)<sup>59</sup> thereunder.

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<sup>58</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>59</sup> 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.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>60</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>61</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange notes that waiver of the operative delay would allow it to implement the proposal immediately and would allow investors and the public to immediately benefit from the Exchange's revised opening process. Further, the Exchange states that the proposed rule amendments are substantially similar to those currently in place on other options exchanges.<sup>62</sup> The Commission believes the proposal raises no novel or unique regulatory issues. The Commission finds that it is consistent with the protection of investors and the public interest to waive the 30-day operative delay. Accordingly, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>63</sup>

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.

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<sup>60</sup> 17 CFR 240.19b-4(f)(6).

<sup>61</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>62</sup> See, e.g., supra notes 6,7, 9, 32-34, 40-41.

<sup>63</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

#### 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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail [to rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2020-04 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-2020-04. 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-2020-04 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.<sup>64</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>64</sup> 17 CFR 200.30-3(a)(12).