

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="28"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2020"/> - * <input type="text" value="11"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Miami International Securities Exchange, LLC.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Amend Exchange Rule 518 to adopt Related Futures Cross ("RFC") Order Type

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * <input type="text" value="Gregory"/>	Last Name * <input type="text" value="Ziegler"/>
Title * <input type="text" value="Senior Counsel"/>	
E-mail * <input type="text" value="gziegler@miaxoptions.com"/>	
Telephone * <input type="text" value="(609) 613-1465"/>	Fax <input type="text"/>

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date <input type="text" value="05/11/2020"/>	<input type="text" value="Senior Counsel"/>
By <input type="text" value="Gregory P. Ziegler"/>	<input type="text"/>
(Name *)	

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of the Proposed Rule Change**

(a) Miami International Securities Exchange, LLC (“MIAX” or “Exchange”), pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> proposes to amend Exchange Rule 518, Complex Orders.

Notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1, and the text of the proposed rule change is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by the Chief Executive Officer of the Exchange pursuant to authority delegated by the MIAX Board of Directors on January 29, 2020. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the proposed rule change.

Questions and comments on the proposed rule change may be directed to Gregory P. Ziegler, Vice President and Senior Counsel, at (609) 897-1483.

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

<sup>2</sup> 17 CFR 240.19b-4.

3. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

a. Purpose

The Exchange proposes to amend Exchange Rule 518, Complex Orders, to adopt a new Related Futures Cross (“RFC”) order type.

In April of 2018, the Exchange adopted a proposal to list and trade on the Exchange options on the SPIKES™ Index (“SPIKES” or the “Index”), a new index that measures expected 30-day volatility of the SPDR S&P 500 ETF Trust.<sup>3</sup> Options on the Index are cash-settled and have European-style exercise provisions.<sup>4</sup>

There are currently no futures listed on the Index, therefore Members<sup>5</sup> of the Exchange who want to hedge a position in SPIKES options using futures have to hedge using highly correlated related instruments, such as VIX futures. While the SPIKES Index is highly correlated to the VIX Index (SPIKES is over 99% correlated to VIX), there remains some basis risk<sup>6</sup> between the two products. That basis risk can be exacerbated in times of extreme volatility, such as we are currently experiencing in the markets. Both the SPIKES Index and VIX Index settle on the same day, at the market’s open, but using options on two different, but highly correlated, products. The SPIKES settlement value is determined using the opening prices on the Exchange

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<sup>3</sup> See Securities Exchange Release No. 83619 (July 11, 2018), 83 FR 32932 (July 16, 2018) (SR-MIAX-2018-14).

<sup>4</sup> See Exchange Rule 1809(a)(4).

<sup>5</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>6</sup> Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. James Chen, *Basis Risk*, Investopedia (June 16, 2019), <https://www.investopedia.com/terms/b/basisrisk.asp>.

of SPY options which expire in 30 days, whereas the VIX settlement value is determined using the opening prices on the Cboe Exchange of the SPX options which expire in 30 days. While the two products (SPY and SPX) are highly correlated, there are supply and demand variances that can occur at settlement which can cause the settlement prices of the two indexes (SPIKES and VIX) to diverge. For example, the settlement which occurred on March 18, 2020 illustrates this divergence.

Index	3/17/20 Close	3/18/20 Close	3/18/20 Settlement
SPIKE	75.51	77.77	77.64
VIX	75.91	76.45	69.76
Difference ( <i>SPIKE</i> - <i>VIX</i> )	-0.40	1.32	7.88

As illustrated above demand for SPY options expiring on April 17, 2020, was relatively neutral, however there was selling pressure in those options representing the VIX settlement, (SPX options), which caused a significant divergence in the settlement prices of the indexes.

The impact this divergence has on a hedged position can be seen in the following example.

Example 1

Firm A has a long position of 10,000 SPIKES call options that are deep-in-the-money.<sup>7</sup> Firm A has also sold 1,000 VIX futures contracts to hedge their position. (SPIKES options have a \$100 multiplier; VIX futures have a \$1,000 multiplier)

To unwind the position Firm A has two options:

1. Wait until expiration and allow both the SPIKES calls and the VIX futures to expire into cash; or
2. Unwind the position by transferring the risk from the VIX futures into SPIKES options by simultaneously:
  - a. Buying back the short VIX futures position; and
  - b. Selling the long SPIKES options position by selling SPIKES option combos

If Firm A chooses option 1 and allows the position to expire, Firm A assumes additional market risk by assuming the basis risk at settlement. Under this scenario if Firm A had allowed the long SPIKES options position and the short VIX futures position to expire at the March 2020 settlement, the Firm would have realized an unplanned profit of 7.88M (7.88 x 10,000 x \$100). However, the settlement variance could have gone in the opposite direction and resulted in an unplanned loss for Firm A.

If Firm A chooses option 2, Firm A must use a broker to find a party to take the other side of the position (contra party), which is a hedged position in highly correlated products, with some basis risk. Since these are highly correlated indexes (SPIKE and VIX), if one were to find another participant (or participants), the optimal transaction would be to trade the 10,000 SPIKES option combos and 1,000 VIX futures as a single trade. If a contra party (Firm B) to the trade can be located, Firm A and Firm B will have to agree to a price for the “package.” Once a

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<sup>7</sup> A deep in the money option has an exercise, or strike price, significantly below (for a call option) or above (for a put option) the market price of the underlying asset. James Chen, *Deep In The Money*, Investopedia (April 30, 2019), <https://www.investopedia.com/terms/d/deepinthemoney.asp>

price is agreed upon there will have to be two trades between the parties as the products trade on two different market centers with the options trading only on the MIAX Options Exchange and the VIX futures trading only on the Cboe Futures Exchange (“CFE”).

To facilitate this type of exchange, the Exchange is proposing to adopt a new order type that will permit a Member to convert their hedge in VIX futures into SPIKES options combos, a synthetic equivalent, that does not carry any basis risk (the proposed order type can also be used to exchange SPIKES options combos for a corresponding futures position in order to reduce margin and capital requirements). If both the SPIKES option combos on MIAX Options and the VIX futures on the CFE are executed as a “clean cross” Firm A is left with a long position of 10,000 SPIKES calls perfectly hedged with 10,000 short SPIKES option combos, while Firm B has a hedged position long 10,000 SPIKES options combos and a short position of 1,000 VIX futures. If the transaction is not executed as a clean cross and the options transaction is exposed to the market, there is an additional risk that a 3<sup>rd</sup> party could join the transaction on MIAX Options and purchase 5,000 SPIKES options, which would leave Firm B with a long position of 5,000 SPIKES option combos, but a short position of 1,000 VIX futures, leaving a portion of the transaction unhedged.

Therefore, the Exchange now proposes to amend Interpretations and Policies of Exchange Rule 518, to adopt new Policy .08, Related Futures Cross (“RFC”) Orders. The Exchange proposes to adopt rule text that will provide that: (a) An EEM<sup>8</sup> may execute an RFC order, which is comprised of a SPIKES options combo coupled with a contra-side order or orders

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<sup>8</sup> The term “Electronic Exchange Member” or “EEM” means the holder of a Trading Permit who is not a Market Maker. Electronic Exchange Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

totaling an equal number of option combo orders, which is identified to the Exchange as being part of an exchange of option contracts for related futures positions. For purposes of RFC orders:

(1) In order to execute an RFC order an EEM must submit the RFC to the System,<sup>9</sup> which may execute automatically on entry without exposure.

(2) An EEM may execute an RFC order pursuant to subparagraph (1) above only if: (i) each option leg executes at a price that complies with Exchange Rule 518(c), provided that no option leg executes at the same price as a Priority Customer Order<sup>10</sup> in the Simple Book; (ii) each option leg executes at a price at or between the NBBO<sup>11</sup> for the applicable series; and (iii) the execution price is better than the price of any complex order resting in the Strategy Book,<sup>12</sup> unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order. The System cancels an RFC order if it cannot execute.

(3) An RFC order may only be entered in the standard increment applicable to the class under Rule 518(c)(1).

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<sup>9</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>10</sup> The term “Priority Customer” means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Exchange Rule 100.

<sup>11</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>12</sup> The “Strategy Book” is the Exchange’s electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

(4) For purposes of this subparagraph (a), a SPIKES options combo is a two-legged order with one leg to purchase (sell) SPIKE calls and another leg to sell (purchase) the same number of SPIKE puts with the same expiration date and strike price.

(5) For purposes of this subparagraph (a), an exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.

(a) A related futures position is a position in a futures contract with either the same underlying as, or a high degree of price correlation to, the underlying of the option combo in the RFC order so that the execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.

(b) In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of) the long market exposure associated with the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of) the short market exposure associated with the options positions and the buyer(s) of the corresponding futures contracts.<sup>13</sup> The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.

(6) An RFC order may be executed only during Regular Trading Hours and contemporaneously with the execution of the related futures position portion of the exchange.

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<sup>13</sup> As proposed, one side of the cross will consist of one party, and the other side may consist of multiple parties.

(7) The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.

A “clean cross” transaction which is not broken up is the optimal transaction for executing this type of transaction because it allows both components of the transaction to be executed in their entirety.<sup>14</sup> If the trade is exposed on the Exchange it is subject to an additional risk that it is broken up, leaving one party with an unhedged position. These types of exchanges are permitted for products listed on the Cboe Futures Exchange LLC (“CFE”) pursuant to CFE Rule 414. The Exchange understands from customers that the need to reduce risk is prevalent in SPIKES based on current market conditions. The proposed rule change will provide market participants with the ability to exchange a corresponding futures position with a SPIKES options position, and also to exchange a SPIKES options position for a corresponding futures position, depending upon the position being held by the participant and the current market circumstances, provided that the transaction involving the related futures position complies with all applicable rules of the designated contract market on which the futures are listed for trading. This will allow market participants to reduce the basis risk, or better manage capital requirements, in their hedged portfolios while maintaining the same risk exposure.

The proposed rule will require that the executing EEM identify these crosses as related to an exchange for related positions. As a result, the Exchange’s Regulatory Department has put in place a regulatory review plan that will permit it to ensure that any RFC orders that are executed are done in conjunction with an exchange of contract for related positions as required by the

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<sup>14</sup> A Qualified Contingent Cross Order is similarly executed as a clean cross. See Exchange Rule 516(j).

proposed rule. This proposed rule is substantially based upon the functionality described in Cboe Exchange Rule 5.24(e)(1)(D).<sup>15</sup>

b. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>16</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>17</sup> 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 that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general protect investors and the public interest. The proposed rule change will provide market participants with the ability to exchange SPIKES options positions with corresponding futures positions, or exchange corresponding futures positions with SPIKES options positions. This will allow market participants to reduce basis risk, or better manage capital requirements, in their hedged portfolios while maintaining the same risk exposure.

The Exchange believes that the proposed rule change is consistent with the Act as it promotes just and equitable principles of trade and facilitates transactions in securities. The Exchange believes that because these orders must be executed on separate exchanges that

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<sup>15</sup> See Securities Exchange Release No. 88447 (March 20, 2020) 85 FR 17129 (March 26, 2020) (SR-CBOE-2020-023).

<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

executing these orders as a clean cross is justified as it allows them to achieve their intended purpose to reduce basis risk or better manage capital and margin requirements. Additionally, as the purpose of these trades is an exchange of risk in a hedged position, the Exchange believes it is appropriate to not expose these orders, as exposing these orders to the market introduces the risk that one side of the hedged transaction could be broken up, leaving one party with an unhedged position.

The Exchange believes that the proposed rule change, which is limited to a single class of a proprietary product listed only on the Exchange, is narrowly tailored for the specific purpose of exchanging a corresponding futures positions with a SPIKES options position, or to exchange a SPIKES options positions with a corresponding futures positions, to reduce basis risk and/or better manage capital requirements. The proposed rule change provides the Exchange with substantially the same functionality currently permitted on the Cboe Exchange.<sup>18</sup> The Exchange believes that this proposal does not present any novel or unique issues because at least one other exchange has a substantially similar rule.<sup>19</sup>

#### **4. 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 will impose any burden on intra-market

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<sup>18</sup> See Cboe Exchange Rule 5.24(e)(1)(D).

<sup>19</sup> Id.

competition, as the Rules of the Exchange apply equally to all Exchange Members,<sup>20</sup> and any Member of the Exchange may use the RFC order type.

The Exchange does not believe the proposed rule change will impose any burden on inter-market competition because the proposed rule change applies only to products listed on the Exchange. Additionally, the proposed order type is intended to accommodate riskless transactions for parties that are not seeking price improvement, but rather looking to swap risk exposure, and therefore is not intended to have a competitive impact. Further, the proposed rule is substantially similar to a rule on the Cboe Exchange and may promote inter-market competition.<sup>21</sup>

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

No written comments were either solicited or received.

**6. Extension of Time Period for Commission Action**

Not applicable.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is substantially similar to functionality described in Cboe Exchange Rule 5.24(e)(1)(D) except that the Cboe rule is only in place until May 15th. Prior to its proposal to allow these type of transactions to be performed electronically, the Cboe

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<sup>20</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>21</sup> See supra note 19.

Exchange allowed these type of transactions to occur manually in open outcry trading.<sup>22</sup> In their filing to move these transactions from open outcry to an electronic trading environment the Cboe Exchange indicated that electronic execution of these transactions will be temporary and that upon the re-opening of the trading floor these transactions will again be performed manually instead of electronically.<sup>23</sup> The need for this transaction does not cease with the re-opening of the trading floor, only the location where the transaction will be effected, i.e., manually in open outcry or electronically. As the Exchange operates solely in a completely electronic environment, the Exchange is seeking to make the proposed rule change permanent.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

1. Notice of proposed rule for publication in the Federal Register.

5. Text of proposed rule change.

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<sup>22</sup> See Cboe Exchange Rules, Chapter 5, Section G.

<sup>23</sup> See supra note 15.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-MIAX-2020-11)

May \_\_, 2020

Self-Regulatory Organizations: Notice of Filing of a Proposed Rule Change by Miami International Securities Exchange, LLC to Amend Exchange Rule 518, Complex Orders, to adopt new Interpretation and Policy .08 Related Futures Cross (“RFC”) order type.

Pursuant to the provisions of 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 May 11, 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, 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

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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 518, Complex Orders, to adopt a new Related Futures Cross (“RFC”) order type.

In April of 2018, the Exchange adopted a proposal to list and trade on the Exchange options on the SPIKES™ Index (“SPIKES” or the “Index”), a new index that measures expected 30-day volatility of the SPDR S&P 500 ETF Trust.<sup>3</sup> Options on the Index are cash-settled and have European-style exercise provisions.<sup>4</sup>

There are currently no futures listed on the Index, therefore Members<sup>5</sup> of the Exchange who want to hedge a position in SPIKES options using futures have to hedge using highly correlated related instruments, such as VIX futures. While the SPIKES Index is highly correlated to the VIX Index (SPIKES is over 99% correlated to VIX), there remains some basis risk<sup>6</sup> between the two products. That basis risk can be exacerbated in times of extreme volatility, such as we are currently experiencing in the markets. Both the SPIKES Index and VIX Index settle on

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<sup>3</sup> See Securities Exchange Release No. 83619 (July 11, 2018), 83 FR 32932 (July 16, 2018) (SR-MIAX-2018-14).

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<sup>6</sup> Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. James Chen, *Basis Risk*, Investopedia (June 16, 2019), <https://www.investopedia.com/terms/b/basisrisk.asp>.

the same day, at the market's open, but using options on two different, but highly correlated, products. The SPIKES settlement value is determined using the opening prices on the Exchange of SPY options which expire in 30 days, whereas the VIX settlement value is determined using the opening prices on the Cboe Exchange of the SPX options which expire in 30 days. While the two products (SPY and SPX) are highly correlated, there are supply and demand variances that can occur at settlement which can cause the settlement prices of the two indexes (SPIKES and VIX) to diverge. For example, the settlement which occurred on March 18, 2020 illustrates this divergence.

Index	3/17/20 Close	3/18/20 Close	3/18/20 Settlement
SPIKE	75.51	77.77	77.64
VIX	75.91	76.45	69.76
Difference ( <i>SPIKE</i> - <i>VIX</i> )	-0.40	1.32	7.88

As illustrated above demand for SPY options expiring on April 17, 2020, was relatively neutral, however there was selling pressure in those options representing the VIX settlement, (SPX options), which caused a significant divergence in the settlement prices of the indexes.

The impact this divergence has on a hedged position can be seen in the following example.

Example 1

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To unwind the position Firm A has two options:

1. Wait until expiration and allow both the SPIKES calls and the VIX futures to expire into cash; or
2. Unwind the position by transferring the risk from the VIX futures into SPIKES options by simultaneously:
  - a. Buying back the short VIX futures position; and
  - b. Selling the long SPIKES options position by selling SPIKES option combos

If Firm A chooses option 1 and allows the position to expire, Firm A assumes additional market risk by assuming the basis risk at settlement. Under this scenario if Firm A had allowed the long SPIKES options position and the short VIX futures position to expire at the March 2020 settlement, the Firm would have realized an unplanned profit of 7.88M (7.88 x 10,000 x \$100). However, the settlement variance could have gone in the opposite direction and resulted in an unplanned loss for Firm A.

If Firm A chooses option 2, Firm A must use a broker to find a party to take the other side of the position (contra party), which is a hedged position in highly correlated products, with some basis risk. Since these are highly correlated indexes (SPIKE and VIX), if one were to find another participant (or participants), the optimal transaction would be to trade the 10,000 SPIKES option combos and 1,000 VIX futures as a single trade. If a contra party (Firm B) to the trade can be located, Firm A and Firm B will have to agree to a price for the “package.” Once a

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<sup>7</sup> A deep in the money option has an exercise, or strike price, significantly below (for a call option) or above (for a put option) the market price of the underlying asset. James Chen, *Deep In The Money*, Investopedia (April 30, 2019), <https://www.investopedia.com/terms/d/deepinthemoney.asp>

price is agreed upon there will have to be two trades between the parties as the products trade on two different market centers with the options trading only on the MIAX Options Exchange and the VIX futures trading only on the Cboe Futures Exchange (“CFE”).

To facilitate this type of exchange, the Exchange is proposing to adopt a new order type that will permit a Member to convert their hedge in VIX futures into SPIKES options combos, a synthetic equivalent, that does not carry any basis risk (the proposed order type can also be used to exchange SPIKES options combos for a corresponding futures position in order to reduce margin and capital requirements). If both the SPIKES option combos on MIAX Options and the VIX futures on the CFE are executed as a “clean cross” Firm A is left with a long position of 10,000 SPIKES calls perfectly hedged with 10,000 short SPIKES option combos, while Firm B has a hedged position long 10,000 SPIKES options combos and a short position of 1,000 VIX futures. If the transaction is not executed as a clean cross and the options transaction is exposed to the market, there is an additional risk that a 3<sup>rd</sup> party could join the transaction on MIAX Options and purchase 5,000 SPIKES options, which would leave Firm B with a long position of 5,000 SPIKES option combos, but a short position of 1,000 VIX futures, leaving a portion of the transaction unhedged.

Therefore, the Exchange now proposes to amend Interpretations and Policies of Exchange Rule 518, to adopt new Policy .08, Related Futures Cross (“RFC”) Orders. The Exchange proposes to adopt rule text that will provide that: (a) An EEM<sup>8</sup> may execute an RFC order, which is comprised of a SPIKES options combo coupled with a contra-side order or orders

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<sup>8</sup> The term “Electronic Exchange Member” or “EEM” means the holder of a Trading Permit who is not a Market Maker. Electronic Exchange Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

totaling an equal number of option combo orders, which is identified to the Exchange as being part of an exchange of option contracts for related futures positions. For purposes of RFC orders:

(1) In order to execute an RFC order an EEM must submit the RFC to the System,<sup>9</sup> which may execute automatically on entry without exposure.

(2) An EEM may execute an RFC order pursuant to subparagraph (1) above only if: (i) each option leg executes at a price that complies with Exchange Rule 518(c), provided that no option leg executes at the same price as a Priority Customer Order<sup>10</sup> in the Simple Book; (ii) each option leg executes at a price at or between the NBBO<sup>11</sup> for the applicable series; and (iii) the execution price is better than the price of any complex order resting in the Strategy Book,<sup>12</sup> unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order. The System cancels an RFC order if it cannot execute.

(3) An RFC order may only be entered in the standard increment applicable to the class under Rule 518(c)(1).

(4) For purposes of this subparagraph (a), a SPIKES options combo is a two-legged order with one leg to purchase (sell) SPIKE calls and another leg to sell (purchase) the same number of SPIKE puts with the same expiration date and strike price.

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<sup>9</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>10</sup> The term “Priority Customer” means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Exchange Rule 100.

<sup>11</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>12</sup> The “Strategy Book” is the Exchange’s electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

(5) For purposes of this subparagraph (a), an exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.

(a) A related futures position is a position in a futures contract with either the same underlying as, or a high degree of price correlation to, the underlying of the option combo in the RFC order so that the execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.

(b) In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of) the long market exposure associated with the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of) the short market exposure associated with the options positions and the buyer(s) of the corresponding futures contracts.<sup>13</sup> The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.

(6) An RFC order may be executed only during Regular Trading Hours and contemporaneously with the execution of the related futures position portion of the exchange.

(7) The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.

A “clean cross” transaction which is not broken up is the optimal transaction for executing this type of transaction because it allows both components of the transaction to be

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<sup>13</sup> As proposed, one side of the cross will consist of one party, and the other side may consist of multiple parties.

executed in their entirety.<sup>14</sup> If the trade is exposed on the Exchange it is subject to an additional risk that it is broken up, leaving one party with an unhedged position. These types of exchanges are permitted for products listed on the Cboe Futures Exchange LLC (“CFE”) pursuant to CFE Rule 414. The Exchange understands from customers that the need to reduce risk is prevalent in SPIKES based on current market conditions. The proposed rule change will provide market participants with the ability to exchange a corresponding futures position with a SPIKES options position, and also to exchange a SPIKES options position for a corresponding futures position, depending upon the position being held by the participant and the current market circumstances, provided that the transaction involving the related futures position complies with all applicable rules of the designated contract market on which the futures are listed for trading. This will allow market participants to reduce the basis risk, or better manage capital requirements, in their hedged portfolios while maintaining the same risk exposure.

The proposed rule will require that the executing EEM identify these crosses as related to an exchange for related positions. As a result, the Exchange’s Regulatory Department has put in place a regulatory review plan that will permit it to ensure that any RFC orders that are executed are done in conjunction with an exchange of contract for related positions as required by the proposed rule. This proposed rule is substantially based upon the functionality described in Cboe Exchange Rule 5.24(e)(1)(D).<sup>15</sup>

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<sup>14</sup> A Qualified Contingent Cross Order is similarly executed as a clean cross. See Exchange Rule 516(j).

<sup>15</sup> See Securities Exchange Release No. 88447 (March 20, 2020) 85 FR 17129 (March 26, 2020) (SR-CBOE-2020-023).

## 2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>16</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>17</sup> 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 that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general protect investors and the public interest. The proposed rule change will provide market participants with the ability to exchange SPIKES options positions with corresponding futures positions, or exchange corresponding futures positions with SPIKES options positions. This will allow market participants to reduce basis risk, or better manage capital requirements, in their hedged portfolios while maintaining the same risk exposure.

The Exchange believes that the proposed rule change is consistent with the Act as it promotes just and equitable principles of trade and facilitates transactions in securities. The Exchange believes that because these orders must be executed on separate exchanges that executing these orders as a clean cross is justified as it allows them to achieve their intended purpose to reduce basis risk or better manage capital and margin requirements. Additionally, as the purpose of these trades is an exchange of risk in a hedged position, the Exchange believes it is appropriate to not expose these orders, as exposing these orders to the market introduces the

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<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

risk that one side of the hedged transaction could be broken up, leaving one party with an unhedged position.

The Exchange believes that the proposed rule change, which is limited to a single class of a proprietary product listed only on the Exchange, is narrowly tailored for the specific purpose of exchanging a corresponding futures positions with a SPIKES options position, or to exchange a SPIKES options positions with a corresponding futures positions, to reduce basis risk and/or better manage capital requirements. The proposed rule change provides the Exchange with substantially the same functionality currently permitted on the Cboe Exchange.<sup>18</sup> The Exchange believes that this proposal does not present any novel or unique issues because at least one other exchange has a substantially similar rule.<sup>19</sup>

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 will impose any burden on intra-market competition, as the Rules of the Exchange apply equally to all Exchange Members,<sup>20</sup> and any Member of the Exchange may use the RFC order type.

The Exchange does not believe the proposed rule change will impose any burden on inter-market competition because the proposed rule change applies only to products listed on the Exchange. Additionally, the proposed order type is intended to accommodate riskless transactions for parties that are not seeking price improvement, but rather looking to swap risk exposure, and

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<sup>18</sup> See Cboe Exchange Rule 5.24(e)(1)(D).

<sup>19</sup> Id.

<sup>20</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.

therefore is not intended to have a competitive impact. Further, the proposed rule is substantially similar to a rule on the Cboe Exchange and may promote inter-market competition.<sup>21</sup>

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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:

- 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:to-rule-comments@sec.gov). Please include File Number SR-MIAX-2020-11 on the subject line.

Paper comments:

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<sup>21</sup> See supra note 19.

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

All submissions should refer to File Number SR-MIAX-2020-11. 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 Web site (<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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-MIAX-2020-11 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>22</sup>

Vanessa Countryman  
Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

New text is underlined;  
Deleted text is in [brackets]

**MIAMI INTERNATIONAL SECURITIES EXCHANGE, LLC Rules**

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**Rule 518. Complex Orders**

(a) – (e) No change.

**Interpretations and Policies:**

.01 – .07 No change.

**.08 Related Futures Cross (“RFC”) Orders.**

(a) An EEM may execute an RFC order, which is comprised of a SPIKES options combo coupled with a contra-side order or orders totaling an equal number of SPIKES option combo orders, which is identified to the Exchange as being part of an exchange of option contracts for related futures positions. For purposes of RFC orders:

(1) In order to execute an RFC order an EEM must submit the RFC order to the System, which may execute automatically on entry without exposure.

(2) An EEM may execute an RFC order pursuant to subparagraph (1) above only if: (i) each option leg executes at a price that complies with Exchange Rule 518(c), provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (ii) each option leg executes at a price at or between the NBBO for the applicable series; and (iii) the execution price is better than the price of any complex order resting in the Strategy Book, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order. The System cancels an RFC order if it cannot execute.

(3) An RFC order may only be entered in the standard increment applicable to the class under Rule 518(c)(1).

(4) For purposes of this subparagraph (a), a SPIKES options combo is a two-legged order with one leg to purchase (sell) SPIKE calls and another leg to sell (purchase) the same number of SPIKE puts with the same expiration date and strike price.

(5) For purposes of this subparagraph (a), an exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.

- (a) A related futures position is a position in a futures contract with either the same underlying as, or a high degree of price correlation to, the underlying of the option combo in the RFC order so that the execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.
- (b) In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of) the long market exposure associated with the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of) the short market exposure associated with the options positions and the buyer(s) of the corresponding futures contracts. The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.
- (6) An RFC order may be executed only during Regular Trading Hours and contemporaneously with the execution of the related futures position portion of the exchange.
- (7) The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.

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