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SECURITIES AND EXCHANGE COMMISSION  
[Release No. 34-89206; File No. SR-MIAX-2020-19]

Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 518, Complex Orders and Exchange Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism

July 1, 2020.

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 June 22, 2020, Miami International Securities Exchange, LLC (“MIAX Options” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is filing a proposal to amend Exchange Rule 518, Complex Orders; and Exchange Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism.

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.

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

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

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 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 Interpretations and Policies .05 of Exchange Rule 518 to exclude cPRIME orders from the Complex MIAX Options Price Collar Protection provided to complex orders as described in paragraph (f)(1) of the Rule. Additionally, the Exchange proposes to amend Interpretations and Policies .12 of Exchange Rule 515A to remove the provision that precludes last priority in allocation from being available to Initiating Members<sup>3</sup> that submit cPRIME Agency Orders.

Background

In October of 2016, the Exchange adopted rules governing the trading in, and detailing the functionality of the MIAX Options System<sup>4</sup> in the handling of, complex orders on the

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<sup>3</sup> An "Initiating Member" initiates a PRIME Auction. See Exchange Rule 515A(a)(1). 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>4</sup> The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

Exchange.<sup>5</sup> In order to further support the trading of complex orders on the Exchange, the Exchange adopted an additional price protection feature for complex orders, the Complex MIAX Price Collar (“MPC”) in February of 2017.<sup>6</sup> The MPC price protection feature is designed to help maintain a fair and orderly market by helping to mitigate the potential risk of executions at prices that are extreme and potentially erroneous.

More specifically, the MPC price protection feature is an Exchange-wide price protection mechanism under which a complex order or eQuote to sell will not be displayed or executed at a price that is lower than the opposite side cNBBO<sup>7</sup> at the time the MPC is assigned by the System (i.e., upon receipt or upon opening) by more than a specific dollar amount expressed in \$0.01 increments (the “MPC Setting”), and under which a complex order or eQuote to buy will not be displayed or executed at a price that is higher than the opposite side cNBBO offer at the time the MPC is assigned by the System by more than the MPC Setting (each the “MPC Price”).<sup>8</sup> All complex orders, together with cAOC eQuotes and cIOC eQuotes (as defined in Interpretations and Policies .02(c)(1) and (2) of Exchange Rule 518) (collectively, “eQuotes”), are subject to the MPC price protection feature.<sup>9</sup>

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<sup>5</sup> See Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26).

<sup>6</sup> See Securities Exchange Act Release No. 80089 (February 22, 2017), 82 FR 12153 (February 28, 2017) (SR-MIAX-2017-06).

<sup>7</sup> The cNBBO is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy. For stock-option orders, the cNBBO for a complex strategy will be calculated using the NBBO in the individual option component(s) and the NBBO in the stock component. See Exchange Rule 518(a)(2).

<sup>8</sup> See Exchange Rule 518 Interpretations and Policies .05(f).

<sup>9</sup> See Exchange Rule 518. Interpretations and Policies 05(f)(1).

In July of 2017 the Exchange adopted three new complex order types: Complex Customer Cross (“cC2C”), Complex Qualified Contingent Cross (“cQCC”), and cPRIME,<sup>10</sup> which, by definition, became subject to the MPC price protection. In August of 2017, the Exchange amended its rules to remove these three new complex order types from certain pre-existing price protection features available on the Exchange.<sup>11</sup> Specifically, the Exchange modified Interpretation and Policy .05(d) of Rule 518 to state that the Implied Away Best Bid or Offer (“ixABBO”) Price Protection feature is not available for cPRIME Orders, cC2C Orders, and cQCC Orders. In its filing the Exchange stated that the ixABBO protection will not be available because this type of protection isn’t necessary for these new complex order types. Specifically, with respect to cPRIME Orders, a cPRIME Agency Order is received by the Exchange accompanied by, and guarantees an execution against, a contra-side order at a single price or at multiple prices with a “stop” price outside of which the cPRIME Agency Order, the contra-side order, and auction responses will not be executed.”<sup>12</sup>

The Exchange also excluded cPRIME orders, cC2C Orders and cQCC Orders from the MIAX Order Monitor for Complex Orders (“cMOM”) stating in its filing, “that cPRIME Orders, cC2C Orders and cQCC Orders are all guaranteed an execution at a price or prices determined by the participants, and cPRIME Orders are subject to further price improvement. Therefore, the cMOM price protection feature isn’t necessary for these complex order types, and thus these complex orders types will not be rejected based upon cMOM price parameters.”<sup>13</sup>

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<sup>10</sup> See Securities Exchange Act Release No. 81131 (July 12, 2017), 82 FR 32900 (July 18, 2017) (SR-MIAX-2017-19).

<sup>11</sup> See Securities Exchange Act Release No. 81229 (July 27, 2017), 82 FR 36023 (August 2, 2017) (SR-MIAX-2017-34).

<sup>12</sup> See id.

<sup>13</sup> See id.

For similar reasons, the Exchange now proposes to exclude cPRIME Orders<sup>14</sup> from the MPC protection by amending Interpretations and Policies .05(f)(1) of Exchange Rule 518 to provide that, all complex orders (excluding cPRIME Orders), together with AOC eQuotes and cIOC eQuotes (as defined in Interpretations and Policies .02(c)(1) and (c) of Exchange Rule 518) (collectively “eQuotes”), are subject to the MPC price protection feature.

A cPRIME Order is a paired order with an established minimum execution price that must meet certain defined internal criteria to be eligible to participate in a cPRIME Auction. Specifically, the initiating price for a cPRIME Agency Order must be better than (inside) the icMBBO<sup>15</sup> for the strategy and any other complex orders on the Strategy Book.<sup>16</sup> The System will reject cPRIME Agency Orders submitted with an initiating price that is equal to or worse than (outside) the icMBBO or any other complex orders on the Strategy Book.<sup>17</sup> As a result, MPC protection for cPRIME orders is not necessary, and in certain occasions, prevents orders that are otherwise eligible for participation in the cPRIME process from being accepted by the Exchange.

The following examples demonstrate the current behavior as compared to the proposed behavior.

#### Current cPRIME Evaluation subject to MPC Protection

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<sup>14</sup> The Exchange notes that while cPRIME, cQCC, and cC2C Orders are all paired orders, the proposal is limited in scope to cPRIME Orders only.

<sup>15</sup> The Implied Complex MIAX Best Bid or Offer or “icMBBO” is a calculation that uses the best price from the Simple Order Book for each component of a complex strategy including displayed and non-displayed interest. For stock-option orders, the icMBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book in the individual option component(s), and the NBBO in the stock component. See Exchange Rule 518(a)(11).

<sup>16</sup> The “Strategy Book” is the Exchange’s electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

<sup>17</sup> See Exchange Rule 515A. Interpretations and Policies .12(a)(i).

**Example 1** The auction start price (“ASP”) of a Complex PRIME order cannot be outside the MPC opposite the Agency side

MIAX Price Collar Value (MPCV) = 0.25

cMBBO 3.00 x 4.00

cNBBO 3.00 x 3.50

$MPC = (3.00 - 0.25) \times (3.50 + 0.25) = 2.75 \times 3.75$

An incoming cPRIME order is received where the ASP of the Agency order is to buy complex strategies at a price of 3.80. Because the ASP of the Agency order to buy at 3.80 is outside the opposite side MPC of 3.75 (cNBO plus the MPCV); the cPRIME order is rejected.

Proposed cPRIME Evaluation subject to MPC Protection

**Example 2** The auction start price of a Complex PRIME order CAN be outside the MPC opposite the Agency side

MIAX Price Collar Value (MPCV) = 0.25

cMBBO 3.00 x 4.00

cNBBO 3.00 x 3.50

$MPC = (3.00 - 0.25) \times (3.50 + 0.25) = 2.75 \times 3.75$

An incoming cPRIME order is received where the ASP of the Agency order is to buy complex strategies at a price of 3.80. Although the ASP of the Agency order to buy at 3.80 is outside the opposite side MPC of 3.75 (cNBO plus the MPCV); the cPRIME order is accepted and initiates an auction.

Proposed cPRIME Evaluation subject to MPC Protection when inside the icMBBO

**Example 3** The auction start price of a Complex PRIME order CAN be outside the MPC opposite the Agency side, and accepted if inside the icMBBO

MIAX Price Collar Value (MPCV) = 0.25

Strategy +1A+1B

Option A MBBO<sup>18</sup> 1.00 x 1.50

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<sup>18</sup> The term “MBBO” means the best bid or offer on the Simple Order Book on the Exchange. See Exchange Rule 518(a)(13).

Option B MBBO 2.00 x 2.50

icMBBO  $1(1.00+2.00) \times 1(1.50+2.50) = 3.00 \times 4.00$

Option A NBBO 1.00 x 1.30

Option B NBBO 2.00 x 2.20

cNBBO  $1(1.00+2.00) \times 1(1.30+2.20) = 3.00 \times 3.50$

MPC =  $(3.00 - 0.25) \times (3.50 + 0.25) = 2.75 \times 3.75$

An incoming cPRIME order is received where the ASP of the Agency order is to buy complex strategies at a price of 3.80. Although the ASP of the Agency order to buy at 3.80 is permitted outside the opposite side MPC of 3.75 (cNBO plus the MPCV), it is inside the icMBBO of 3.00 x 4.00; therefore the cPRIME order is accepted and initiates an auction.

Proposed cPRIME Evaluation subject to MPC Protection when outside the icMBBO

**Example 4** The auction start price of a Complex PRIME order CAN be outside the MPC opposite the Agency side, but is rejected if outside the icMBBO<sup>19</sup>

MIAX Price Collar Value (MPCV) = 0.25

Strategy +1A+1B

Option A MBBO 1.00 x 1.50

Option B MBBO 2.00 x 2.25

icMBBO  $1(1.00+2.00) \times 1(1.50+2.25) = 3.00 \times 3.75$

Option A NBBO<sup>20</sup> 1.00 x 1.30

Option B NBBO 2.00 x 2.20

cNBBO  $1(1.00+2.00) \times 1(1.30+2.20) = 3.00 \times 3.50$

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<sup>19</sup> The initiating price for a cPRIME Agency Order must be better than (inside) the icMBBO for the strategy and any other complex orders on the Strategy Book. The System will reject cPRIME Agency Orders submitted with an initiating price that is equal to or worse than (outside) the icMBBO or any other complex orders on the Strategy Book. See Exchange Rule 515A. Interpretations and Policies .12(a)(i).

<sup>20</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 the appropriate Securities Information Processor (“SIP”). See Exchange Rule 518(a)(14).

$$\text{MPC} = (3.00 - 0.25) \times (3.50 + 0.25) = 2.75 \times 3.75$$

An incoming cPRIME order is received where the ASP of the Agency order is to buy complex strategies at a price of 3.80. Although the ASP of the Agency order to buy at 3.80 is permitted outside the opposite side MPC of 3.75 (cNBO plus the MPCV), it is outside the icMBBO of  $3.00 \times 3.75$ ; therefore the cPRIME order is rejected.

The Exchange also proposes to amend Exchange Rule 515A to allow last priority in allocation for Initiating Members that submit cPRIME Agency Orders. Currently subsection (v) of Interpretations and Policies .12(c) provides that the order allocations provisions contained in Rule 515(A)(a)(2)(iii) shall apply to cPRIME Auctions, provided that: (A) all references to contracts shall be deemed to be references to complex strategies as defined in Rule 518(a)(6); and (B) the last priority allocation option described in Rule 515A(a)(2)(iii)(L) is not available for Initiating Members that submit cPRIME Agency Orders. In its filing to adopt cPRIME functionality<sup>21</sup> the Exchange stated that the last priority in allocation option described in Rule 515(A)(a)(2)(iii)(L)<sup>22</sup> is not available for Initiating Members that submit cPRIME Agency Orders. As, at that time, the Exchange did not believe that there was significant Member demand for the use of the last priority in allocation option in cPRIME Auctions, therefore there was no need to include it in the allocation model then in use for cPRIME Auctions.

The Exchange now believes that there is significant Member demand for the use of the last priority in allocation option in cPRIME Auctions, and proposes to amend its current rule to remove the provision which makes it unavailable for Initiating Members that submit cPRIME

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<sup>21</sup> See supra note 10.

<sup>22</sup> If the Initiating Member elected to have last priority in allocation when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Member will be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other responses at the single price specified by the Initiating Member.

Agency Orders. The Exchange proposes to remove subsection (c)(v)(B) of Interpretations and Policies .12 in its entirety. New proposed subsection (c)(v) will provide that, the order allocation provisions contained in Rule 515A(a)(2)(iii)<sup>23</sup> shall apply to cPRIME Auctions, provided that all references to contracts shall be deemed to be references to complex strategies as defined in Rule 518(a)(6).

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

## 2. Statutory Basis

MIAX Options believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>24</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>25</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 facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes its proposal to exclude cPRIME Orders from the Complex MIAX Options Price Collar Protection promotes just and equitable principles of trade, removes

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<sup>23</sup> Exchange Rule 515A(a)(2)(iii)(L) provides, “[i]f the Initiating Member elected to have last priority in allocation when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Member will be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other responses at the single price specified by the Initiating Member.”

<sup>24</sup> 15 U.S.C. 78f(b).

<sup>25</sup> 15 U.S.C. 78f(b)(5).

impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest by allowing otherwise eligible orders to benefit from submission to the cPRIME mechanism. The Exchange believes that, if not excluded, such protection feature could unnecessarily impede certain transactions in this order type that is submitted with contra-side participation and guaranteed executions for the Agency side. The Agency side of a cPRIME Order is effectively executed when received (and, in the case of cPRIME Orders, subject to price improvement) because it is a paired order with a guaranteed execution. The Exchange believes that accepting these orders, rather than rejecting them, protects investors that have established crossing orders at a specific execution price, and in the case of cPRIME Orders, allows the opportunity for further price improvement.

The Exchange believes that its proposal to allow Initiating Members that submit cPRIME Agency Orders to the Exchange to elect to have last priority in allocation promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by offering an additional allocation choice which could result in an increase of cPRIME Agency Orders, and resultant executions. The Exchange believes offering last priority in allocation gives the Initiating Member additional flexibility and control over cPRIME Agency Orders which will benefit investors by increasing the opportunity for option orders to receive an execution.

**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 believes that the proposal to exclude cPRIME Orders from the Exchange's MPC price protection promotes inter-market competition by enabling MIAX Options to better

compete for this type of order flow with other exchanges that have similar functionality in place.<sup>26</sup> Additionally, offering a last in priority allocation option to Initiating Members that submit cPRIME Agency orders allows the Exchange to compete with other option exchanges that offer similar functionality.<sup>27</sup>

The Exchange does not believe that its proposal will impose any burden on intra-market competition as all Members of the Exchange that submit cPRIME Orders will benefit equally from the Exchange's proposal. The proposed rule change is intended to promote competition by ensuring that unnecessary price protections which would preclude executions on the Exchange are removed, thus enabling MIAX Options participants to execute more complex orders on the Exchange. Additionally, offering Initiating Members that submit cPRIME Agency Orders an additional allocation choice gives Members more flexibility and control over their orders and may result in the submission of more cPRIME Orders which would benefit competition on the Exchange.

For all the reasons stated, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed changes will in fact enhance competition.

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;

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<sup>26</sup> See Cboe Exchange Rule 5.38.

<sup>27</sup> See Cboe Exchange Rule 5.38(e)(4).

and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>28</sup> and Rule 19b-4(f)(6)<sup>29</sup> thereunder.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

##### Electronic Comments:

- 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-2020-19 on the subject line.

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<sup>28</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>29</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.

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-2020-19. 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-2020-19 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>30</sup>

J. Matthew DeLesDernier,  
Assistant Secretary.

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<sup>30</sup> 17 CFR 200.30-3(a)(12).