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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89212; File No. SR-MIAX-2020-20]

### **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**

July 1, 2020.

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 June 25, 2020, Miami International Securities Exchange, LLC (“MIAX” 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’s 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

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

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

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 Exchange Rule 518, Complex Orders, to adopt a new Complex Auction-on-Arrival-Only (“cAOAO”) order type and to amend relevant portions of the rule to accurately describe the behavior and operation of a cAOAO order.

Currently, the Exchange offers a Complex Auction-on-Arrival or “cAOA” order that is a complex order designated to be placed into a Complex Auction upon receipt or upon evaluation. Complex orders that are not designated as cAOA will, by default, not initiate a Complex Auction upon arrival, but except as described in Exchange Rule 518 will be eligible to participate in a Complex Auction that is in progress when such complex order arrives or if placed on the Strategy Book may participate in or may initiate a Complex Auction, following evaluation conducted by the System.<sup>3</sup> Complex orders that are designated as cIOC<sup>4</sup> or cAOC<sup>5</sup> are not eligible for cAOA designation, and their evaluation will not result in the initiation of a Complex

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<sup>3</sup> See Exchange Rule 518(b)(2)(i); The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>4</sup> A Complex Immediate-or-Cancel or “cIOC” order is a complex order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. See Exchange Rule 518(b)(4).

<sup>5</sup> A Complex Auction-or-Cancel or “cAOC” order is a complex limit order used to provide liquidity during a specific Complex Auction with a time in force that corresponds with that of the event. cAOC orders are not displayed to any market participant, and are not eligible for trading outside of the event. A cAOC order with a size greater than the aggregate auctioned size (as defined in Rule 518(d)(4)) will be capped for allocation purposes at the aggregate auctioned size. See Exchange Rule 518(b)(3).

Auction either upon arrival or if eligible when resting on the Strategy Book.<sup>6</sup> Any unexecuted balance of a cAOA order remaining upon the completion of the auction process is eligible<sup>7</sup> to be placed on the Strategy Book.

The Exchange now proposes to adopt a new Complex Auction-on-Arrival-Only or “cAOAO” order type. A cAOAO order is a complex order that will be placed into an auction as described in Rule 518(d) if eligible, and cancelled if not eligible. Any unexecuted balance of a cAOAO order remaining upon the completion of the auction process is also cancelled. Similar to Immediate-or-Cancel orders, the cAOAO order type is designed to assist Members<sup>8</sup> in achieving an expeditious execution by exposing eligible Complex Orders for potential price improvement before cancelling any unexecuted balance.

#### Example 1

Suppose the following market in complex strategy ABC:

MIAX dcMBBO:<sup>9</sup> 1.00 - 1.10 (10 x 10)

A cAOAO order is entered to buy 20 @ 1.07.

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<sup>6</sup> See Exchange Rule 518(b)(2)(ii); The “Strategy Book” is the Exchange’s electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

<sup>7</sup> Any unexecuted portion of a Complex Auction-eligible order remaining at the end of the Response Time Interval will either be: (A) evaluated to determine if it may initiate another Complex Auction; or (B) placed on the Strategy Book and ranked pursuant to subparagraph (c)(3) of Exchange Rule 518. See Exchange Rule 518(d)(5)(ii).

<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> The dcMBBO is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. For stock-option orders, the dcMBBO for a complex strategy will be calculated using the Exchange’s best displayed bid or offer in the individual option component(s) and the NBBO in the stock component. See Exchange Rule 518(a)(8).

A Request For Response (RFR) message is sent identifying the complex strategy, the price, quantity of matched complex quotes and/ or orders at that price, imbalance quantity and side of the market of the Complex Auction-eligible order, in accordance to Rule 518(d)(2).<sup>10</sup>

During the Response Time Interval, the following RFR Responses<sup>11</sup> are received:

Response 1: Sell 10 @ 1.07

Response 2: Sell 5 @ 1.06

At the conclusion of the Response Time Interval, the cAOAO order trades 15 @ 1.07.

The remaining quantity of 5 contracts from the cAOAO order is then cancelled.

The Exchange also proposes to amend subsection (b), Types of Complex Orders, to adopt a new Complex Auction-on-Arrival Only Order type to be included among other complex order types that may be submitted to the Exchange as provided by Exchange Rule 518(b)(1). Certain provisions in current Exchange Rule 518 that apply to cAOA orders would similarly apply to cAOAO orders. Therefore, the Exchange proposes to amend the Rule to incorporate cAOAO orders as necessary. Specifically, the Exchange proposes to amend subsection (c)(6) to provide that complex orders may be submitted as market orders and may be designated as cAOA or cAOAO. Additionally, the Exchange proposes to amend subsection (c)(6)(i) to provide that complex market orders designated as cAOA or cAOAO may initiate a Complex Auction upon arrival or join a Complex Auction in progress. Finally, the Exchange proposes to amend subsection (c)(6)(ii) to provide that complex market orders not designated as cAOA or cAOAO

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<sup>10</sup> An auction is commenced as the cAOAO order satisfies the URIP requirement described in Exchange Rule 518(c)(5)(i).

<sup>11</sup> Members may submit a response to the RFR message (an “RFR Response”) during the Response Time Interval. RFR Responses may be submitted in \$0.01 increments. RFR Responses must be a cAOC order or a cAOC eQuote as defined in Interpretations and Policies .02 of Exchange Rule 518 and may be submitted on either side of the market. See Exchange Rule 518(d)(4).

will trade immediately with any contra-side complex orders or quotes, or against the individual legs, up to an including the dcMBBO, and may be subject to the managed interest process described in subparagraph (c)(4) of Exchange Rule 518, and the evaluation process described in subparagraph (c)(5) of Exchange Rule 518.

The Exchange also proposes to amend subsection (d)(1) to provide that, in order to initiate a Complex Auction upon receipt, a Complex Auction-eligible order must be designated as cAOA or cAOAO and must meet the criteria described in Interpretations and Policies .03(b) of Exchange Rule 518 regarding the URIP.<sup>12</sup> A complex order not designated as cAOA or cAOAO (i.e., a complex order considered by default to be “do not auction on arrival” by the System) may (i) join a Complex Auction in progress at the time of receipt; (ii) become a Complex Auction-eligible order after resting on the Strategy Book and may then automatically join a Complex Auction then in effect for the complex strategy; or (iii) initiate a Complex Auction if it meets the criteria described in Interpretations and Policies .03(a) of Exchange Rule 518 regarding the IIP or .03(c) of Exchange Rule 518 regarding the RIP. Complex orders processed through a Complex Auction may be executed without consideration to prices of the same complex interest that might be available on other exchanges.

The Exchange also proposes to amend subsection (d)(9) to provide that a complex order not designated as cAOA or cAOAO will either be (i) executed in full at a single price or at multiple prices up to its limit price, with remaining contracts placed on the Strategy Book; (ii)

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<sup>12</sup> Upon receipt of a complex order when the complex strategy is open, the System will calculate an Upon Receipt Improvement Percentage (“URIP”) value, which is a defined percentage of the current dcMBBO bid/ask differential. Such percentage will be defined by the Exchange and communicated to Members via Regulatory Circular. If a Complex Auction-eligible order is priced equal to, or improves, the URIP value and is also priced to improve other complex orders and/or quotes resting at the top of the Strategy Book, the complex order will be eligible to initiate a Complex Auction. See Interpretations and Polices .03(b) of Exchange Rule 518.

executed until the order exhausts the opposite side dcMBBO, at which time the order will be placed on the Strategy Book and evaluated for Complex Auction eligibility, or (iii) cancelled.

The Exchange believes the proposed changes will allow the Exchange to effectively implement the proposed cAOAO order type.

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

## 2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>13</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>14</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 its proposal to adopt a cAOAO order type 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. The Exchange believes it is reasonable to provide an opportunity for investors to seek to have their complex orders exposed for an opportunity for price improvement and to also provide investors the option to have such orders canceled if they are not filled. The Exchange believes its proposal

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<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

to amend other portions of Exchange Rule 518 to accurately describe the operation and behavior of a cAOAO order benefits investors and the public interest by providing information that investors can use to ascertain the suitability of an order type relative to their investment objectives.

The Exchange believes its proposed rule change promotes just and equitable principles of trade and 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 providing an opportunity for investors to have their complex orders exposed for an opportunity for price improvement. Furthermore, the Exchange believes that it is appropriate to give Members the option to have such orders canceled if they are not eligible to be posted.

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 but will rather promote inter-market competition as the Exchange is proposing an order type that already exists on at least one other options exchange.<sup>15</sup> The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. The Exchange believes the proposed rule change will enhance competition among the various markets for Complex Order execution, potentially resulting in more active Complex Order trading on all exchanges.

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, and any Member of the Exchange may use the cAOAO order type.

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<sup>15</sup> See Nasdaq ISE Exchange Rules, Options 3, Section 14(b)(14).

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, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>16</sup> and Rule 19b-4(f)(6)<sup>17</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:

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>17</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.

- 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-2020-20 on the subject line

Paper Comments:

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

All submissions should refer to File Number SR-MIAX-2020-20. 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-2020-20 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>18</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

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<sup>18</sup> 17 CFR 200.30-3(a)(12).