



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104294; File No. SR-SAPPHIRE-2025-32]

Self-Regulatory Organizations; MIAX Sapphire, LLC; Notice of Filing of Amendment No. 1 and Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1, to Amend Exchange Rule 527
December 2, 2025.

On August 15, 2025, MIAX Sapphire, LLC (“MIAX Sapphire” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend Exchange Rule 527, Exchange Liability, to provide a one-time accommodation payment to Members for claims arising from the systems difficulties that the Exchange experienced on June 3, 2025 as a result of an operational error. The proposed rule change was published for comment in the Federal Register on September 3, 2025.³ The Commission has received no comment letters on the proposed rule change.

On September 25, 2025, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.⁵ On September 26, 2025, the Exchange filed Amendment No. 1 to the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. Amendment No. 1 amended and replaced the proposed rule change as originally filed and superseded such filing in its entirety. The Commission is publishing this notice and order to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities and Exchange Act Release No. 103795 (Aug. 28, 2025), 90 FR 42651.

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 104050, 90 FR 47008 (Sept. 30, 2025). The Commission designated December 2, 2025, as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

solicit comments on the proposed rule change, as modified by Amendment No. 1, from interested persons and to institute proceedings under Section 19(b)(2)(B) of the Act⁶ to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.

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

The Exchange proposes to amend Exchange Rule 527, Exchange Liability, to provide a one-time payment to Members⁷ for claims arising from the system difficulties that the Exchange experienced on June 3, 2025 as a result of an operational error (referred to herein as the "Operational Error"). Upon approval of this proposal by the U.S. Securities and Exchange Commission (the "Commission"), the Exchange will implement the payment process described in proposed subparagraph (e) to Exchange Rule 527 and expects to fully compensate all Members that incurred a loss validated by the Exchange as a result of the Operational Error (described in more detail below). The Exchange initially submitted this rule filing (SR-SAPPHIRE-2025-32) to the Commission on August 15, 2025 (the "Initial Rule Filing"). This Amendment No. 1 supersedes the Initial Rule Filing and replaces it in its entirety.

The text of the proposed rule change is available on the Exchange's website at <https://www.miaxglobal.com/markets/us-options/miax-sapphire/rule-filings> and at the Exchange's principal office.

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

⁶ 15 U.S.C. 78s(b)(2)(B).

⁷ The term "Member" means an individual or organization that is registered with the Exchange pursuant to Chapter II of the Exchange's Rules for purposes of trading on the Exchange as an "Electronic Exchange Member" or "Market Maker." Members are deemed "members" under the Exchange Act. See Exchange Rule 100.

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

On June 3, 2025, the Exchange experienced system difficulties as a result of the Operational Error, which caused the Exchange’s simulation/testing environment to connect to the MIAX Sapphire production ports and inject data into the MIAX Sapphire matching engines in the live trading environment. Upon discovery of this issue, trading in all symbols on the Exchange was halted at 11:49 a.m.⁸ and the Exchange published a Trading Alert at 11:53 a.m. to announce the trading halt. In the interest of ensuring fair and orderly markets and for the protection of investors, the Exchange determined that it would cancel all trades that occurred between approximately 11:18 a.m. and 11:33 a.m. (the “Timeframe”).⁹ Members were notified at 1:07 p.m. that all trades during that time period would be canceled. By 1:54 p.m., the Exchange provided all impacted Members with specific trade details relating to their canceled trades. The Exchange fully remediated the issue and all trading systems began operating normally that same day. The Exchange issued several alerts throughout this period, including alerts to announce the halt, that the Exchange would cancel all trades, the time when the Exchange would resume trading, the time for Members to submit claims for losses, and a post mortem of the Operational Error.¹⁰

⁸ All times referenced in this filing are in Eastern Standard Time.

⁹ The Exchange canceled these trades under the authority provided by Exchange Rule 523, Authority to Take Action Under Emergency Conditions. See Exchange Rule 523(a) (providing that the “Chairman of the Board...shall have the power to halt or suspend trading...for the maintenance of a fair and orderly market or the protection of investors...due to emergency conditions...such as (1)...loss or interruption of facilities utilized by the Exchange...”).

¹⁰ See Regulatory, Technical and Trading Alerts issued by the Exchange on June 3, 2025 and June 4, 2025, available at <https://miaxglobal.com/alert/2025/06/03/miax-sapphire-options-exchange-halted-all-symbols-114929-am>; <https://www.miaxglobal.com/alert/2025/06/03/miax-sapphire-options-exchange-busting-all-trades-between-111828506201536>; <https://www.miaxglobal.com/alert/2025/06/03/miax-sapphire-options-exchange-will-resume-trading-230-pm>; <https://www.miaxglobal.com/alert/2025/06/03/miax-sapphire-options-exchange-all-trades-busted-between-111828506201536>;

Since the June 3, 2025 Operational Error, Members compiled their trade data showing losses as a result of the Operational Error and the Exchange canceling all trades during the Timeframe. The Exchange reviewed the events of June 3, 2025 with the goal of proposing a fair and equitable payment policy that is consistent with the Exchange Act and MIAX Sapphire's self-regulatory obligations. The Exchange believes this proposal reflects MIAX Sapphire's effort to: (i) identify the categories of investors and Members that the Operational Error caused objective, discernible harm, and the type and scope of such harm; and (ii) propose an objectively reasonable and balanced payment plan for paying Members and their investor customers for such harm by providing a payment in excess of the Exchange's current rules regarding limitation of liability. MIAX Sapphire has undertaken this effort notwithstanding the liability protections afforded by its contractual limitations of liability and Exchange Rule 527 – the rule that MIAX Sapphire proposes to modify.

The Exchange's current limitation of liability rules, described in detail below, limit the maximum amount of compensation Members are able to receive from the Exchange arising out of a system issue that impacts the use or enjoyment of the facilities or services afforded by the Exchange, such as the Operational Error. In the interest of protecting Members and their investor customers¹¹, the Exchange proposes to amend Exchange Rule 527 to provide a one-time voluntary payment for claims arising from the June 3, 2025 Operational Error.

This type of payment plan is not without precedent. In 2012, the Nasdaq Stock Market LLC ("Nasdaq") experienced system difficulties in the Nasdaq halt and imbalance cross process in connection with the initial public offering ("IPO") of Facebook, Inc. ("Facebook"). In response, Nasdaq filed with the Commission a proposal to establish a payment policy providing compensation for impacted investors in excess of Nasdaq's then-applicable limitation of liability

<https://www.miaxglobal.com/alert/2025/06/03/miax-sapphire-options-claims-related-issue-today-sapphire-options>; and <https://www.miaxglobal.com/alert/2025/06/04/miax-sapphire-options-exchange-post-mortem>.

¹¹ The majority of claims are from customers of Member firms who utilize a Member firm as their introducing broker to access and submit orders to the Exchange for execution.

rules, which proposal was approved by the Commission.¹²

Current Limitation of Liability Provisions

Exchange Rule 527(a) describes the general limitations on liability of the Exchange, its directors, officers, committee members, limited liability company members, employees or agents. Exchange Rule 527(a) provides, in relevant part, that except as provided in paragraph (b) of Exchange Rule 527 or otherwise expressly provided in the Exchange's rules, neither the Exchange nor its directors, officers, committee members, limited liability company members, employees or agents shall be liable to Members or persons associated therewith for any loss, expense, damages, or other claims arising out of the use or enjoyment of the facilities or services afforded by the Exchange, including the interruption in or failure or unavailability of such facilities or services, or any action taken or omitted in respect to the business of the Exchange. Exchange Rule 527(a) provides limited exceptions to these limitations in connection with Exchange employee acts where the extent of such loss, expense, damages or claims are attributable to the willful misconduct, gross negligence, bad faith or fraudulent or criminal acts of the Exchange or its officers, employees or agents acting within the scope of their authority.

Exchange Rule 527(b) further describes exceptions to the Exchange's general limitation of liability rule that allows for the payment of compensation to Members for Exchange System¹³ issues, subject to certain conditions, which limit the maximum amount of Exchange liability.

¹² See Securities Exchange Act Release No. 69216 (March 22, 2013), 78 FR 19040 (March 28, 2013) (SR-NASDAQ-2012-090); see also Nasdaq Rules, Equity 2, Section 17. The Exchange's proposal differs from the Nasdaq payment filing in several minor respects but ultimately provides a substantively similar payment plan for Members impacted by the Operational Error to be compensated in excess of the Exchange's current limitation of liability limits. Nasdaq also undertook a two-step process to compensate its members and customers by first proposing the payment policy and then filing a separate rule proposal with the Commission to implement the payment policy. See Securities Exchange Act Release No. 71098 (December 17, 2023), 78 FR 77540 (December 23, 2013) (SR-NASDAQ-2013-152). The Exchange proposes a single-step process since the Exchange has already received and validated all claims from Members that were impacted by the Operational Error; brought the proposed payment plan and total value of eligible claims to its Board of Directors for approval; and is ready to promptly compensate Members for their validated claims upon approval of this proposal by the Commission.

¹³ The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

The exceptions under Exchange Rule 527(b) apply whenever custody of an unexecuted order¹⁴ or quote¹⁵ is transmitted by a Member to or through the Exchange's System or to any other automated facility of the Exchange whereby the Exchange assumes responsibility for the transmission or execution of the order or quote, provided that the Exchange has acknowledged receipt of such order or quote.

Subparagraphs (b)(1) through (b)(3) of Exchange Rule 527 set forth the limits for claims made by Members, individually and in the aggregate, related to Exchange System issues that impact the use or enjoyment of the facilities of the Exchange. The liability limits provided for in Exchange Rules 527(b)(1)-(3) are as follows: (1) as to any one or more claims made by a single Member growing out of the use or enjoyment of the facilities afforded by the Exchange on a single trading day, the Exchange shall not be liable in excess of the larger of \$100,000 or the amount of any recovery obtained by the Exchange under any applicable insurance maintained by the Exchange; (2) as to the aggregate of all claims made by all Members growing out of the use or enjoyment of the facilities afforded by the Exchange on a single trading day, the Exchange shall not be liable in excess of the larger of \$250,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange; and (3) as to the aggregate of all claims made by all Members growing out of the use or enjoyment of the facilities afforded by the Exchange during a single calendar month, the Exchange shall not be liable in excess of the larger of \$500,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange.

Exchange Rule 527(c) provides that if all of the claims arising out of the use or enjoyment of the facilities afforded by the Exchange cannot be fully satisfied because, in the

¹⁴ The term "order" means a firm commitment to buy or sell option contracts. See Exchange Rule 100.

¹⁵ The term "quote" or "quotation" means a bid or offer entered by a Market Maker as a firm order that updates the Market Maker's previous bid or offer, if any. When the term order is used in these Rules and a bid or offer is entered by the Market Maker in the option series to which such Market Maker is registered, such order shall, as applicable, constitute a quote or quotation for purposes of these Rules. See Exchange Rule 100.

aggregate, they exceed the applicable maximum amount of liability provided for in subparagraph (b) of Exchange Rule 527, then such maximum amount shall be allocated among all such claims arising on a single trading day or during a single calendar month, as applicable, based upon the proportion that each claim bears to the sum of all claims. Subparagraph (c) further provides that in order for claims to be included in this allocation, Members must submit written notice of their claim to the Exchange no later than the opening of trading on the next business day following the day on which the use or enjoyment of Exchange facilities giving rise to the claim occurred.

Background of the Operational Error and Calculation of Losses

As described above, due to the Operational Error on June 3, 2025, the Exchange determined to cancel all trades executed on MIAX Sapphire between 11:18 a.m. and 11:33 a.m. Upon learning of the Operational Error, members of the Exchange's Regulatory Operations Department contacted all Members to discuss the Operational Error, the Exchange's proposed method of remedying trades based on erroneous simulation/testing environment data, and the manner in which Members should submit claims for compensation. Members were advised to immediately contact their customers and to compile execution reports for trades made during the Timeframe of the Operational Error as well as execution reports for "replacement trades"¹⁶ made following the Timeframe of the Operational Error to fulfill the original terms of the trades that the Exchange canceled. In some instances, Members executed new valid trades at away-exchanges. Some Members executed the new valid trade several days following the Operational Error as some of their customers did not learn of the cancelations until they logged back into their brokerage accounts.¹⁷ Members summed the difference between the execution price of the canceled trade on MIAX Sapphire and the execution price for the replacement trade made on

¹⁶ For the purposes of this filing and the proposed new rule text, unless stated otherwise, the term "replacement trade" shall be construed to mean the new trade executed by a Member on MIAX Sapphire or at an away-exchange that was executed to replace the original trade that was canceled by MIAX Sapphire during the Timeframe of the Operational Error. See proposed Exchange Rule 527(e)(1)(iii).

¹⁷ For example, the Exchange was made aware that certain retail customers that send orders to an Exchange Member for execution do not routinely check their brokerage accounts and only learned of the canceled trade due to the Operational Error days after originally placing the trade.

MIAX Sapphire or at an away-exchange and then provided such information to the Exchange. This information included the following for each original trade that was cancelled by the Exchange that took place during the Timeframe of the Operational Error and each replacement trade: (A) trade date; (B) execution time; (C) symbol; (D) strike price; (E) expiration date; (F) side (buy or sell); (G) quantity; (H) venue (on MIAX Sapphire or an away-exchange); (I) notional value; and (J) claimed loss amount.

After receipt of all Members' claims over the course of several weeks, Exchange officials reviewed each claimed loss by validating the canceled trade execution prices reported during the Timeframe of the Operational Error and the execution prices of the subsequent replacement trades. For trading losses that resulted from a Member executing the replacement trade on MIAX Sapphire, the Exchange: (A) first validated that the canceled trade took place on MIAX Sapphire during the Timeframe of the Operational Error based on the Member's MPID¹⁸; (B) validated the execution price of the canceled trade; (C) validated that the replacement trade took place on MIAX Sapphire; and (D) validated the execution price of the replacement trade. The measure of loss was calculated based on the difference between the execution price of the canceled trade and the execution price of the replacement trade.

For trading losses that resulted from a Member executing the replacement trade on an away-exchange, the Exchange: (A) first validated that the canceled trade took place on MIAX Sapphire during the Timeframe of the Operational Error based on the Member's MPID; (B) validated the execution price of the canceled trade; and (C) validated the execution price of the replacement trade by comparing such price against the closing or opening price of the option, depending on the time of execution, as well as the size of the replacement trade in comparison to the original trade that was canceled. The measure of loss was calculated based on the difference between the execution price of the canceled trade and the execution price of the replacement

¹⁸ The term "MPID" means unique market participant identifier. See Exchange Rule 100.

trade.

The Exchange determined to use the closing or opening price of the option for replacement trades executed on away-exchanges as an initial check to determine whether the claimed replacement trade execution price was within a reasonable range for that particular option. As described above, the Exchange issued an alert to inform all Members that it would cancel all trades during the Timeframe of the Operational Error on June 3, 2025 at 1:07 p.m. At 1:54 p.m., the Exchange notified Members of the specific trade details for their canceled trades. As a result, the Exchange believes that customers of Members may not have been aware of the Operational Error until a day or two (or longer) following the Operational Error, thereby not executing the replacement trade until that time.¹⁹ Exchange officials utilized closing and opening options trade prices between June 3, 2025 and June 6, 2025²⁰, depending on the date when Members executed the replacement trades, as a reasonable baseline to compare against replacement values supplied by the Members to validate the claimed losses. In particular, if the replacement trade took place a day or more after the Operational Error, Exchange officials were able to utilize the Cboe Exchange, Inc. LiveVol® analytics platform to filter options executions by price and day to determine if the claimed replacement trade execution price and size aligned with trade executions in the same option series and size at the later date and, if so, the new execution price. The Exchange did not unilaterally adjust any individual claim submitted by a Member. During the review and validation process by Exchange officials, if it was determined a claim amount could not be independently validated in an objective manner, an Exchange official contacted the Member to obtain the necessary information to make such validation. The Exchange did not make any subjective determination regarding each Member's claim. The Exchange's Regulatory Operations Department followed up with all Members and received all

¹⁹ See supra note 17.

²⁰ Based on records provided by Members with claimed losses, June 6, 2025 was the latest date that a Member executed a valid replacement trade.

claims from Members, including the total value of such claims, all of which were validated by Exchange officials using the methodology described above. In total, the Exchange's Regulatory Operations Department reviewed and validated over 2,200 claims that occurred during the Operational Error, all of which are eligible to be compensated.

Proposal

The Exchange now proposes to amend Exchange Rule 527 to provide a one-time payment for Members with claims arising from the Operational Error that the Exchange experienced on June 3, 2025 that exceed the limitations provided for in Exchange Rule 527(b)(1)-(3), including the amount of compensation on a per-Member basis. The modifications proposed in this rule change are not intended to and do not affect the limitations of liability set forth in the Exchange's agreements or Commission-sanctioned rules, or those limitations or immunities that bar claims for damages against MIAX Sapphire as a matter of law. Rather, as noted above, they reflect the Exchange's determination to adopt a fair and equitable payment policy that takes into account the impacts of the Exchange's Operational Error on Members and their investor customers.

The Exchange proposes to establish new paragraph (e), which will state that notwithstanding paragraphs (b)(1)-(3) and paragraph (c)²¹ of Exchange Rule 527 for the single trading of June 3, 2025 and the full calendar month of June 2025, for the aggregate of all claims alleged by all market participants related to the system difficulties as a result of the Operational Error on June 3, 2025, where the Exchange's simulation/testing environment connected to the production ports (the "Operational Error"), the total amount of the Exchange's liability shall not

²¹ As mentioned above, subparagraph (c) of Exchange Rule 527 provides that "[i]f all of the claims arising out of the use or enjoyment of the facilities afforded by the Exchange cannot be fully satisfied because in the aggregate they exceed the applicable maximum amount of liability provided for in paragraph (b)...then such maximum amount shall be allocated among all such claims arising on a single trading day or during a single calendar month, as applicable, *written notice of which has been given to the Exchange no later than the opening of trading on the next business day following the day on which the use or enjoyment of Exchange facilities giving rise to the claim occurred*, based upon the proportion that each such claim bears to the sum of all such claims" (emphasis added). See Exchange Rule 527(c). Accordingly, the Exchange proposes that the notice requirement of Exchange Rule 527(c) will not apply to claims submitted under proposed paragraph (e) to Exchange Rule 527.

exceed \$525,000. Further, eligibility of all claims for payment shall be determined in accordance with proposed Exchange Rule 527(e) and only applies to claims previously filed with and validated by the Exchange and no new additional claims will be accepted. As noted above, the Exchange received all claims related to the Operational Error and expects that, subject to Commission approval of this proposal, all Members will be fully compensated for their claims as a result of the Operational Error.

Proposed subparagraph (e)(1) of Exchange Rule 527 will provide that all claims for compensation under this paragraph (e) shall arise solely from realized trading losses from executions that occurred on the Exchange on June 3, 2025 between 11:18 a.m. and 11:33 a.m. Eastern Time that the Exchange subsequently canceled pursuant to Exchange Rule 523, causing Members to execute a new trade on the Exchange or at an away-exchange to replace the canceled trade. The measure of loss was determined by the Exchange pursuant to the methods set forth in proposed subparagraphs (e)(1)(i)-(ii), described below.

Proposed subparagraph (e)(1)(i) of Exchange Rule 527 will provide that for trading losses that resulted from a Member executing the replacement trade on MIAX Sapphire, the Exchange: (A) first validated that the canceled trade took place on MIAX Sapphire during the Timeframe of the Operational Error based on the Member's MPID; (B) validated the execution price of the canceled trade; (C) validated that the replacement trade took place on MIAX Sapphire; and (D) validated the execution price of the replacement trade. The measure of loss was calculated based on the difference between the execution price of the canceled trade and the replacement trade.

Proposed subparagraph (e)(1)(ii) of Exchange Rule 527 will provide that for trading losses that resulted from a Member executing the replacement trade on an away-exchange, the Exchange: (A) first validated that the canceled trade took place on MIAX Sapphire during the Timeframe of the Operational Error based on the Member's MPID; (B) validated the execution price of the canceled trade; and (C) validated the execution price of the replacement trade by comparing such price against the closing or opening price of the option, depending on the time of

execution, as well as the size of the replacement trade in comparison to the original trade that was canceled. The measure of loss was calculated based on the difference between the execution price of the canceled trade and the replacement trade.

Proposed subparagraph (e)(1)(iii) of Exchange Rule 527 will provide a definition for the term “replacement trade,” as described above.²²

Proposed subparagraph (e)(2) of Exchange Rule 527 will state that in no event shall the Exchange make any payments on claims pursuant to proposed paragraph (e) until the rule proposal filed with the Commission setting forth the aggregate amount of eligible claims becomes effective and final. The Exchange proposes to make all payments for approved claims in cash.

Proposed subparagraph (e)(3) of Exchange Rule 527 will provide that payments to Members under proposed paragraph (e) are contingent upon the submission to the Exchange of an attestation within 14 calendar days after the effective date of the rule proposal described in proposed paragraph (e)(2), detailing the following for each original trade that was cancelled by the Exchange that took place during the Timeframe of the Operational Error and each replacement trade: (A) trade date; (B) execution time; (C) symbol; (D) strike price; (E) expiration date; (F) side (buy or sell); (G) quantity; (H) venue (on MIAX Sapphire or an away-exchange); (I) notional value; and (J) claimed loss amount. Proposed subparagraph (e)(3) of Exchange Rule 527 will also state that failure to provide the required attestation will void the Member’s eligibility to receive a payment pursuant to proposed paragraph (e) of Exchange Rule 527. The Exchange will also require each Member to maintain books and records that detail the nature and amount of these losses.²³

Proposed subparagraph (e)(4) of Exchange Rule 527 will provide that all payments to Members under proposed paragraph (e) will be contingent upon the execution and delivery to the

²² See supra note 16.

²³ Nasdaq included similar requirements in its payment policy and rule text related to the Facebook IPO system issues. See Nasdaq Rules, Equity 2, Section 17(b)(3)(I)(i).

Exchange of a release by the Member of all claims by it or its affiliates²⁴ against the Exchange or its affiliates for losses that arise out of, are associated with, or relate in any way to the Operational Error or to any actions or omissions related in any way to the Operational Error. Failure to provide the required release within 14 calendar days after the effective date of the rule proposal described in proposed subparagraph (e)(2) will void the Member's eligibility to receive a payment pursuant to this proposed paragraph (e). The purpose of imposing the release requirement notwithstanding the limitations of liability and immunities, which apply in any event pursuant to the Exchange's rules and agreements and/or otherwise as a matter of law, are to avoid the disruption and expense of unnecessary litigation in connection with the June 3, 2025 Operational Error and to ensure equal treatment of all claimants.²⁵

The proposed payment policy proposed herein is a voluntary step taken by the Exchange to provide a substantial and rare payment to its Members and their customers, and participation in the program is likewise voluntary on the part of Members. The Exchange believes this type of occurrence warrants the establishment of a payment plan because, prior to the Operational Error, neither the Exchange nor any of its affiliates experienced a systems issue similar to that of the Operational Error. The Exchange believes that it would be inequitable to approve the Exchange's voluntary program without also allowing it to establish conditions that promote certainty and finality.²⁶

The Exchange notes that it has received all claims that apply to the Operational Error and that no new additional claims will be accepted. As described above, immediately following the June 3, 2025 Operational Error, the Exchange's Regulatory Operations Department spoke to each

²⁴ The term "affiliate" or of person "affiliated with" another person means a person who, directly, or indirectly, controls, is controlled by, or is under common control with, such other person. See Exchange Rule 100.

²⁵ Nasdaq also included a similar release requirement in its payment policy and rule text related to the Facebook IPO system issues. See Nasdaq Rules, Equity 2, Section 17(b)(3)(H).

²⁶ See Securities Exchange Act Release No. 69216 (March 22, 2013), 78 FR 19040 (March 28, 2013) (SR-NASDAQ-2012-090). In the approval order for the payment plan that Nasdaq proposed for its systems issues related to the Facebook IPO, the Commission approved similar conditions as proposed herein in order for Nasdaq members to be compensated for their claims.

Member to discuss the Operational Error, the Exchange's proposed method of remedying trades based on erroneous simulation/testing environment data and the manner in which Members should submit claims for compensation. The Exchange independently verified each Member's claim and confirmed the loss amount with each Member prior to submitting this rule filing. The Exchange believes its proposal is designed to implement a fair and equitable payment policy that takes into account the impacts of the Operational Error on the investing public and Exchange Members.

The total claims received by the Exchange and validated equal approximately \$500,000.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,²⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,²⁸ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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 Exchange also believes the proposed rule change is consistent with the Section 6(b)(5)²⁹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposal to expand its limitation of liability payment policy in this unique set of circumstances will balance several important goals in keeping with the foregoing statutory objectives. First, the Exchange acknowledges that the June 3, 2025 Operational Error had an impact on certain of its Members and their customers. As a result, the Exchange believes that the public interest would be served by a payment policy that quantifies

²⁷ 15 U.S.C. 78f(b).

²⁸ 15 U.S.C. 78f(b)(5).

²⁹ Id.

and provides compensation for customer losses that were directly attributable to those system issues in an objectively discernible manner. Specifically, the Exchange believes that the public interest would be served by the Exchange making payments in excess of its limitation of liability rules to fully compensate Members that provided details regarding their claimed losses as a result of the Operational Error in an objectively discernible manner. The Exchange further believes that the public interest would be served by the Exchange providing as a payment the loss differential for the trade execution canceled by MIAX Sapphire and the replacement trade – that is the difference between the price that was expected upon execution on MIAX Sapphire during the Timeframe of the Operational Error and the subsequent execution price for the replacement trade that was actually obtained on the Exchange or at an away-exchange.

Second, the Exchange believes that it is important to recognize the regulatory policy objectives underlying Exchange Rule 527 and ensure that they are not compromised. Hundreds of billions of dollars (or more) of securities transactions are matched through the systems of the Exchange and other exchanges every day. Through the operation of those systems, exchanges provide invaluable services in support of capital formation, price discovery, and investor protection. If exchanges could be called upon to bear all costs associated with system malfunctions and the varying reactions of market participants taken in their wake, the potential would exist for a single catastrophic event to bankrupt one or multiple exchanges, with attendant consequences for investor confidence and macroeconomic stability. Alternatively, the cost of providing exchange services would have to rise dramatically for all investors to cover this material and new risk.³⁰ In addition, exchanges would be less inclined to implement innovative

³⁰ See Securities Exchange Act Release No. 67507 (July 26, 2012), 77 FR 45706 (August 1, 2012) (SR-NASDAQ-2012-090) (Notice of Filing of Proposed Rule Change to Amend Rule 4626 – Limitation of Liability). Nasdaq stated in their filing that trading costs in the United States are among the lowest in the world, and thus a contributor to economic growth. Id. The Nasdaq filing cites the following sources as examples for this assertion: Michael S. Pagano, *Which Factors Influence Trading Costs in Global Equity Markets?*, THE J. OF TRADING, Winter 2009, at 7; Ian Domowitz et al., *Liquidity, Volatility, and Equity Trading Costs Across Countries and Over Time*, 4 INT'L FIN. 221 (Summer 2001); Asli Demirgüç-Kunt & Ross Levine, *Bank-based and Market-based Financial Systems: Cross-country Comparisons* 51 (The World Bank Working Paper No. 2143, July 1999). Id.

systems³¹ consistent with the goals of Section 6(b)(5) of the Act.³² Accordingly, the Commission has recognized that it is consistent with the purposes of the Act for a self-regulatory organization to limit its liability with respect to the use of such facilities by its members through rules such as Exchange Rule 527.³³

Moreover, if the potential for such catastrophic losses existed, as noted above, it would need to be reflected in the fees charged by exchanges to market participants in a manner that is not currently the case, making trading more expensive for all investors all the time. Rather, as the Commission has recognized, provisions such as Exchange Rule 527 reflect the view that risks associated with system malfunctions should be allocated among all exchange members, rather than being borne solely by the exchange. Indeed, this view is consistently reflected in the limitation of liability rules common among United States exchanges.³⁴ This view is also reflected in the Exchange's proposal to condition any payment on the execution of a release of claims against MIAX Sapphire for the Operational Error experienced on June 3, 2025, because this condition is aimed at avoiding unnecessary litigation and ensuring equal treatment of all claimants.

³¹ See Securities Exchange Act Release No. 14777 (May 17, 1978) (SR-CBOE-78-14) (in proposing a limitation on liability, the Cboe Exchange, Inc. explained that an exchange “cannot proceed with innovative systems and procedures for the execution, clearance, and settlement of Exchange transactions . . . unless it is protected against losses which might be incurred by members as a result of their use of such systems,” and further that “[t]o the extent [a limitation of liability rule] enables the Exchange to proceed with innovative systems, competition should be enhanced”); see also Securities Exchange Act Release No. 58137 (July 10, 2008), 73 FR 41145 (July 17, 2008) (SR-NYSE-2008-55) (explaining that exchange’s limitation of liability rule encourages vendors to provide services to the exchange, which results in faster and more innovative products for order entry, execution, and dissemination of market information).

³² 15 U.S.C. 78f(b)(5) (requiring that an exchange’s rules be “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 mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and not [be] designed to permit unfair discrimination between customers, issuers, brokers, or dealers, or to regulate by virtue of any authority conferred by this chapter matters not related to the purposes of this chapter or the administration of the exchange”).

³³ See, e.g., Cboe Rule 1.10; Cboe EDGX Rule 11.14; Cboe BZX Rule 11.16; BOX Rule 7230; Nasdaq Rules, Equity 2, Section 17.

³⁴ Id.

The Exchange further believes that, consistent with Section 6(b)(5) of the Act,³⁵ its proposal will promote just and equitable principles of trade and protect investors and the public interest by establishing a fair process through which affected Members may be compensated for the claims they submitted, which losses will be fully covered by the proposed payment policy. The Exchange believes that this filing will enhance the transparency of the process to compensate Members for their losses. The Exchange further believes that its proposed process for distributing payments will benefit investors and promote the public interest by providing incentives for Members to use funds for the benefit of investors. Specifically, the Exchange believes that its proposal will benefit investors and promote the public interest by requiring a claimant to submit to the Exchange an attestation detailing the compensation the Member has provided or will provide to its customers, and detailing the extent to which the Member incurred the losses covered by the proposed payment when trading for its own account.

As described above, this type of proposal is not without precedent and is based on the payment plan implemented by Nasdaq in 2012 for system difficulties in the Nasdaq halt and imbalance cross process in connection with the IPO of Facebook.³⁶

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

The proposed rule change would not impose any burden on competition. The proposed rule change is designed to promote fairness in the marketplace by providing compensation to Members and their customers that experienced a loss as a result of the June 3, 2025 Operational Error. The Exchange believes that the proposed rule change will not burden intra-market competition because all Members would be subject to the same standards and requirements to receive payments as set forth in proposed Exchange Rule 527(e). The Exchange believes that the proposed rule change will not burden inter-market competition because the proposed rule change is not designed to address any competitive issues.

³⁵ 15 U.S.C. § 78f(b)(5).

³⁶ See supra note 12.

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. Proceedings to Determine Whether to Approve or Disapprove SR-SAPPHIRE-2025-32, as Modified by Amendment No. 1, and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act³⁷ to determine whether the proposed rule change, as modified by Amendment No. 1, should be approved or disapproved. Institution of proceedings is appropriate at this time in view of the legal and policy issues raised by the proposal. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, the Commission seeks and encourages interested persons to provide comments on the proposal to inform the Commission's analysis of whether to approve or disapprove the proposed rule change, as modified by Amendment No.1.

Pursuant to Section 19(b)(2) of the Act,³⁸ the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of the proposed rule change's consistency with Section 6(b)(5) of the Act,³⁹ which requires, among other things, that the rules of a national securities exchange be 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 mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.⁴⁰

³⁷ 15 U.S.C. 78s(b)(2)(B).

³⁸ 15 U.S.C. 78s(b)(2)(B).

³⁹ 15 U.S.C. 78f(b)(5).

⁴⁰ Id.

The Commission asks that commenters address the sufficiency of the Exchange’s statements in support of the proposal, in addition to any other comments they may wish to submit regarding the proposal, as modified by Amendment No. 1. In particular, the Commission seeks comment on whether the proposal to amend Exchange Rule 527 to provide a one-time accommodation payment to Members for claims arising from an operation error on June 3, 2025, in excess of the liability limits set forth in Exchange Rule 527 for claims made by Members, is consistent with the requirements of Section 6(b)(5) of the Act.

IV. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the proposal, as modified by Amendment No. 1. In particular, the Commission invites the written views of interested persons concerning whether the proposed rule change is consistent with Section 6(b)(5) of the Act⁴¹ or any other provision of the Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of data, views, and arguments, the Commission will consider, pursuant to Rule 19b-4 under the Act,⁴² any request for an opportunity to make an oral presentation.⁴³

Interested persons are invited to submit written data, views, and arguments regarding whether the proposed rule change, as modified by Amendment No. 1, should be approved or disapproved by [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Any person who wishes to file a rebuttal to any other person’s

⁴¹ 15 U.S.C. 78f(b)(5).

⁴² 17 CFR 240.19b-4.

⁴³ Section 19(b)(2) of the Exchange Act, as amended by the Securities Acts Amendments of 1975, Pub. L. 94-29 (June 4, 1975), grants to the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Acts Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

submission must file that rebuttal by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-SAPPHIRE-2025-32 on the subject line.

Paper Comments:

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

All submissions should refer to file number SR-SAPPHIRE-2025-32. This file number should be included on the subject line if email 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 (<https://www.sec.gov/rules/sro.shtml>).

Copies of the filing will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection.

All submissions should refer to file number SR-SAPPHIRE-2025-32 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Rebuttal comments should be submitted by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁴

Sherry R. Haywood,

Assistant Secretary.

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⁴⁴ 17 CFR 200.30-3(a)(12); 17 CFR 200.30-3(a)(57).