

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69507; File No. SR-MIAX-2013-20)

May 3, 2013

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Allow All Lead Market Makers to Receive Directed Orders

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 1, 2013, Miami International Securities Exchange LLC (“MIAX” 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 provide that an Electronic Exchange Member can designate a Lead Market Maker, regardless of appointment, on orders it enters into the System.

The text of the proposed rule change is available on the Exchange’s website at http://www.miaxoptions.com/filter/wotitle/rule_filing, 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 the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to provide that an Electronic Exchange Member (“EEM”) can designate a Lead Market Maker (“LMM”), regardless of appointment, on orders it enters into the System. Currently, Rule 514(h) provides that a “Lead Market Maker must have an appointment in the relevant option class in order to receive a Directed Order in that option class.” The Exchange proposes modifying that sentence so that it would apply to eligibility for the Directed Lead Market Maker (“DLMM”) participation entitlement rather than the ability to be sent a Directed Order by an EEM. As proposed, the sentence would read: “[t]he Directed Lead Market Maker must have an appointment in the relevant option class at the time of receipt of the Directed Order to be eligible to receive the Directed Lead Market Maker participation entitlement.” The proposal would allow an EEM to send a Directed Order to any LMMs – which includes both (i) LMMs with an appointment in the relevant option class and (ii) LMMs without an appointment in the relevant option class. The first group, LMMs with an appointment, represents no change from the current rule. The second group, however, would be a new addition to the current rule. This modification would preserve the current structure of reserving the DLMM participation entitlement for DLMMs with an appointment in the relevant option class, yet would allow an EEM to send a Directed Order to any LMM as consistent with the proposed language of Rule 100, described below.

The Exchange believes that allowing EEMs to direct orders to LMMs regardless of appointment promotes increased order flow to the Exchange while maintaining the existing

appropriate balance between benefits and obligations regarding the DLMM participation entitlement. Directed Orders serve as a tool for LMMs to attract order flow to the exchange. An LMM without an appointment in an option class cannot quote in that option class and will therefore most likely never trade with a Directed Order sent to it in that option class. However, the LMM without an appointment can be incentivized to attract Directed Orders in such option classes through the collection of related marketing fees.³ The increased order flow provided by these Directed Orders benefits Exchange market participants, such as customers with resting orders on the System and LMMs with an appointment in the relevant option class that can quote in the option. However, LMMs without an appointment in the relevant option class cannot partake in the DLMM participation entitlement. Instead, this benefit is reserved for LMMs appointed in the relevant option class, who must meet various quoting and other obligations not applicable to LMMs without an appointment in the relevant option class.⁴ Additionally, pursuant to Rule 514(h)(1) the DLMM participation entitlement can only be earned, among other things, if the DLMM has a priority quote at the national best bid or offer.

The Exchange notes that several other options exchanges also have Directed Order programs.⁵ The Chicago Board of Options Exchange, LLC (“CBOE”), for instance, operates its

³ See Securities Exchange Act Release No. 68131 (November 1, 2012), 77 FR 67032 (November 8, 2012) (SR-CBOE-2012-101) in which CBOE amended its Fees Schedule to allow PMMs to access marketing fees generated from Preferred Orders (its equivalent of Directed Orders), regardless of whether the order is for a class in which the PMM has an appointment. The Exchange notes that this proposal is limited to changes to Rule 514 only and not the Exchange’s Fee Schedule, which will be addressed in a separate filing.

⁴ See Exchange Rule 603 (Obligations of Market Makers) and Rule 604 (Market Maker Quotations).

⁵ See Chicago Board of Options Exchange, LLC Rule 8.13; NASDAQ OMX Phlx, LLC Rule 1080(l); NYSE Amex Options Rule 964.1NY; International Securities Exchange, LLC Rule 811.

“Preferred Market-Maker Program” where members can designate a specific Market-Maker (“Preferred Market-Maker” or “PMM”) on an order sent to CBOE.⁶ CBOE allows the PMM to collect marketing fees, regardless of whether the PMM has an appointment in the relevant option class.⁷ Finally, CBOE reserves its participation entitlement for PMMs with an appointment in the relevant option class quoting at the best bid or offer on the CBOE.⁸ The Exchange believes that its proposal would allow the Exchange’s Directed Order program to operate similar to and in a consistent manner as equivalent programs at the exchanges cited above.

The Exchange also proposes a technical change to relocate existing language found in 514(a) and (h) to the definition section in Rule 100. Specifically, the Exchange proposes adding “Directed Order” as a defined term in Rule 100. In Rule 100, “Directed Order” would be defined as “an order entered into the System by an Electronic Exchange Member with a designation for a Lead Market Maker (referred to as a “Directed Lead Market Maker”). Only Priority Customer Orders will be eligible to be entered into the System as a Directed Order by an Electronic Exchange Member.” The Exchange proposes replacing the definition of “Directed Order” currently found in Rule 514(a) with a reference to the proposed Rule 100 definition. The language of the proposed Rule 100 definition contains a slight change from Rule 514(a) to reflect that an EEM technically “enters” a Directed Order into the Exchange System rather than “routes” such a Directed Order.

⁶ See CBOE Rule 8.13 (Preferred Market-Maker Program).

⁷ See CBOE Fees Schedule, table entitled “Marketing Fee” and Footnote 6 for more details regarding the marketing fee. See also Securities Exchange Act Release No. 68131 (November 1, 2012), 77 FR 67032 (November 8, 2012) (SR-CBOE-2012-101) in which CBOE amended its Fees Schedule to allow PMMs to access marketing fees generated from Preferred Orders (which are similar to Directed Orders), regardless of whether the order is for a class in which the PMM has an appointment.

⁸ See CBOE Rule 8.13(b).

Because of the technology changes associated with this rule proposal, the Exchange will announce the implementation date of the proposal in a Regulatory Circular to be published no later than 30 days after the publication of the notice in the Federal Register. The implementation date will be no later than 30 days following publication of the Regulatory Circular announcing publication of the notice in the Federal Register.

2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁰ 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, and it is not designed to permit unfair discrimination among customers, issuers, brokers, or dealers.

The Exchange believes that this proposal removes a requirement that other exchanges do not share and perfects the mechanism for a free and open market and a national market system by allowing the Exchange's Directed Order program to operate in a manner similar to competing options exchanges.

The Exchange believes that allowing LMMs without an appointment in the relevant option class to be sent Directed Orders promotes just and equitable principles of trade because such LMMs have provided a valued service to the Exchange through their appointment in other options traded on the Exchange in a manner that protects investors and the public interest. In

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

other options classes, these LMMs have met additional quoting and other regulatory obligations compared to other Exchange participants and have thus demonstrated a commitment to providing liquidity on the Exchange. The proposal preserves the benefit of the DLMM participation entitlement to LMMs who have an appointment in the relevant option class and must therefore satisfy additional quoting and other obligations not faced by Market Makers in the relevant class and LMMs without an appointment in the relevant class. The Exchange believes that satisfying such additional quoting and other obligations balances the benefit of the DLMM participation entitlement and justifies limiting the DLMM participation entitlement to LMMs with an appointment in the relevant option class.

Finally, the Exchange believes the proposal will encourage greater order flow to be sent to the Exchange through Directed Orders and that this increased order flow will benefit all market participants on the Exchange.

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 not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that allowing EEMs to be able to direct orders to all LMMs will increase order flow and liquidity for all market participants on the Exchange. The Exchange believes that limiting the class of market participants that can be directed orders to LMMs to be fair and reasonable because LMMs provided a valued service to the Exchange through their appointment in options traded on the Exchange. LMMs meet additional quoting and other regulatory obligations compared to other Exchange participants and have thus demonstrated a commitment to providing liquidity on the Exchange. The Exchange believes that limiting the benefit of the DLMM participation entitlement to DLMMs who have an appointment in the relevant option

class to be fair and reasonable because these DLMMs satisfy additional quoting and other obligations in the specific option class not faced by either Market Makers in the relevant class or DLMMs without an appointment in the relevant class. The Exchange believes that satisfying additional quoting and other obligations balances the benefit of the DLMM participation entitlement and justifies limiting it to DLMMs with an appointment in the relevant option class. The Exchange notes that such a limitation on the DLMM participation is not new to this proposal, but is a continuation of the current operation of Rule 514(h).

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. Many competing venues offer similar functionality to market participants. To this end, the Exchange is proposing a market enhancement to encourage market participants to trade on the Exchange. The Exchange believes the proposed rule change is procompetitive because it would enable the Exchange to provide member organizations with functionality that is similar to that of other exchanges.

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 Act¹¹ and Rule 19b-4(f)(6)¹² 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. Please include File Number SR-MIAX-2013-20 on the subject line.

Paper comments:

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

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 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.

All submissions should refer to File Number SR-MIAX-2013-20. 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; the Commission does not edit personal identifying information from submissions. You should

submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2013-20 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.¹³

Kevin M. O'Neill
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).