SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71968; File No. SR-MIAX-2014-08)

April 17, 2014

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Order Approving
Proposed Rule Change to Modify Price Protection Provisions for the Execution of Orders

I.   Introduction

On February 14, 2014, Miami International Securities Exchange LLC (the "Exchange" or

"MIAX") filed with the Securities and Exchange Commission ("Commission"), pursuant to

Section 19(b)(1)[1] of the Securities Exchange Act of 1934 ("Act"),[2] and Rule 19b-4 thereunder,[3]

a proposed rule change to modify the price protection provisions in certain of its rules that

govern the execution of orders. The proposed rule change was published for comment in the

Federal Register on March 6, 2014.[4] The Commission did not receive any comments on the

proposal. This order approves the proposed rule change.

II.   Description of the Proposal

The Exchange proposes a number of revisions to MIAX Rules 515 and 529, which

govern the execution and routing of orders. The primary purpose of the proposal is to amend the

existing "price protection" provisions in those rules that apply to non-Market Maker orders to

permit market participants to specify the level of price protection on an order by order basis and

allow for executions of non-Market Maker orders at additional price points. The Exchange also

proposes several conforming changes to other provisions in order to accommodate the amended

price protection process. Finally, the Exchange's proposal amends Rule 529 to provide an

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[1]   15 U.S.C. 78s(b)(1).

[2]   15 U.S.C. 78a.

[3]   17 CFR 240.19b-4.

[4]   See Securities Exchange Act Release No. 71634 (February 28, 2014), 79 FR 12713
        ("Notice").

additional situation in which MIAX will immediately route a Public Customer to an away market for execution.

MIAX Rule 515(c) governs the execution of non-Market Maker orders that cannot be executed on MIAX, in whole or in part, at the National Best Bid or Offer ("NBBO") upon receipt. Currently, Rule 515(c)(1) provides that certain non-Market Maker orders are subject to price protection, which prevents an order from executing at a price that is more than one minimum price variation ("MPV") inferior to the NBBO prevailing at the time the order is received (the "original NBBO"). Under the current price protection rules, MIAX imposes across-the-board price protection and will cancel the remaining portion of any order that can potentially trade at a price that is more than one MPV away from the original NBBO.[5]

MIAX has proposed to modify the one-size-fits-all price protection process so that market participants may instead choose to allow their orders to execute at more than one MPV away from the original NBBO. Specifically, MIAX will allow market participants to designate, on an order-by-order basis, price protection instructions that are expressed in units of MPV away from the NBBO at the time of the order's receipt, or the MIAX Best Bid or Offer ("MBBO") if the Away Best Bid or Offer ("ABBO") is crossing the MBBO at the time order is received.[6] Such price protection will prevent an order from being executed beyond the price designated in the order's price protection instructions ("price protection limit"). If an order does not contain custom price protection instructions from the market participant, MIAX will apply as a default

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[5]   See current MIAX Rules 515(c)(1)(ii)(A), (c)(1)(ii)(B)(1)(b), (c)(1)(ii)(B)(2)(b), (c)(1)(iii)(A)(1)(a)2), (c)(1)(iii)(A)(1)(b)2), (c)(1)(iii)(B)(1)(b), and (c)(1)(iii)(B)(2)(b) (instances where the System cancels orders that are priced more than one MPV away from the NBBO).

[6]   See MIAX Rule 100 (defining MBBO and ABBO).

the one-MPV price protection limit that exists under current MIAX rules. Further, market

participants will have the ability to elect to disable price protection on an order by order basis.

Similar to how the price protection process operates under MIAX's current rules, when

an order reaches its price protection limit (either the number of MPVs designated by the market

participant for the order or the default of one MPV if a limit was not specified), MIAX will

cancel the remaining portion of the order. Market participants can then determine whether to

resubmit the order. In the Notice, MIAX represented that under both the existing and proposed

price protection process, MIAX will not execute orders at prices inferior to the NBBO.[7]

In the Notice, MIAX explained how the new price protection process will apply to both

routable and non-routable non-Market Maker orders.[8] For routable orders, MIAX will seek to

execute the order to the extent possible at MIAX before routing to the ABBO. Unlike the current

process, which limits an order to trading at two price points (i.e., the original NBBO and one

MPV away from the original NBBO at the time the order is received), the proposed process will

allow orders to trade on MIAX or route to away markets at multiple price points, up to any

custom price protection limit designated with the order. Thus, MIAX will trade and/or route a

routable order until the order is: fully executed; traded or routed up to, and including, its price

protection limit; or traded or routed up to, and including, its limit price. As is currently the case,

a routable order that would otherwise trade and/or route through its price protection limit will be

cancelled. A routable order that has traded or routed up to, and including, its limit price will be

displayed and booked at its limit price to await further execution in accordance with Rule 515.

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[7]   See Notice, supra note 4, at 12714.

[8]   MIAX provided several detailed examples in the Notice to illustrate how the revised
        price protection functionality and other proposed changes will operate. See Notice, supra
        note 4.

MIAX noted in the Notice that the proposed new process could trigger successive Route Timers at each price point at which the order could be routed to an away market.[9]

For non-routable non-Market Maker orders,[10] MIAX will similarly allow orders to execute at multiple price points, rather than limiting orders to being executed at either the original NBBO or only one MPV away from the NBBO as provided under existing MIAX rules. As proposed, MIAX will execute non-routable non-Market Maker orders until the order is: fully executed; traded up to, and including, its custom designated price protection limit; or traded up to, and including, its limit price. A non-routable order that reaches its price protection limit before it reaches its limit price will be cancelled. If a non-routable order reaches its limit price, MIAX will attempt to display the order at its limit price unless doing so would lock or cross the current opposite-side of the NBBO, in which case MIAX will handle the order in accordance with its "managed interest process."[11]

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[9]   See Notice, supra note 4, at n. 17. After each route, MIAX will reevaluate the order to consider any updates to the away market quotes and may trigger additional Route Timers. The MIAX Route Timer process is described in Rule 529.

[10]   Non-routable non-Market Maker orders include, for example, Public Customer orders that are marked "Do Not Route." Consistent with the existing price protection process, a non-routable order is never routed outside of the Exchange regardless of prices displayed by away markets and can trade only the Exchange only at a price equal to or better than, but not inferior to, the ABBO.

[11]   The "managed interest process" provides that when MIAX cannot display an order at its limit price because doing so would lock or cross the NBBO, MIAX will display the "managed" order one MPV away from the prevailing opposite side NBBO and book the order internally at a price that would lock the prevailing opposite side NBBO. See current MIAX Rule 515(c)(2). While the proposed rule change proposes some modifications to the "managed interest process" to allow for executions at multiple price points as a result of custom designated price protection instructions, MIAX will continue to "manage" non-routable orders in essentially the same way it does now by displaying the order one MPV away from the prevailing opposite side NBBO and booking the order at a price that would lock the opposite side NBBO. See proposed MIAX Rule 515(c)(1)(ii). However, because "managed" orders could trade at multiple price points as

To accommodate the proposed changes to MIAX's price protection process as described above, MIAX's proposal also revises its "Liquidity Refresh Pause" mechanism to account for potential executions at multiple price points. Consistent with current MIAX rules, the Liquidity Refresh Pause will continue to be triggered when: (A) either an incoming order is a limit order whose limit price crosses the NBBO or the initiating order is a market order, and the limit order or market order could only be partially executed ("initiating order"); (B) a Market Maker quote was all or part of the MBBO when the MBBO is alone at the NBBO; and (C) the Market Maker quote was exhausted. In such cases, rather than immediately executing at the next available price, the MIAX system pauses the market for a period of time not to exceed one second to allow Marker Makers to refresh their quotes and orders as well as to allow other market participants to submit orders to execute against the remaining portion of the initiating order.

Much of the Liquidity Refresh Pause process remains the same under the proposal. However, because orders with custom price protection instructions may now trade at multiple price points, MIAX proposes to trigger a Liquidity Refresh Pause either at the time it receives the order, or when MIAX "reevaluates" an order at the various price points at which it may execute. In addition, as a result of the proposed "reevaluation" of orders at different price points, MIAX's proposal revises the message that it will disseminate during the Liquidity Refresh Pause. Currently, MIAX disseminates a message to announce the Liquidity Refresh Pause that

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a result of the filing, MIAX also proposes to add supplementary material to Rule 515 to provide that if managed interest becomes tradable at multiple price points on MIAX due to the ABBO transitioning from a crossed state to an uncrossed state, then the midpoint of the MBBO, rounded up to the nearest MPV if necessary, will be used for the initial trade price. See proposed MIAX Rule 515, Interpretations and Policies .02. In the Notice, MIAX stated that this provision regarding midpoint pricing "codifies" existing functionality used during the managed interest process, while updating the functionality to correspond with the new proposed price protection rules.

includes, in addition to a description of the option and the size and side of the order, "the original NBBO price, which has been exhausted."[12] Under the proposed rules, the liquidity refresh message will disseminate a description of the option, size and side of the order, and "the exhausted MBBO price."[13] The Exchange states that this change is necessary because orders may now trade at multiple price points and the pause may therefore occur at multiple successive price points.

MIAX's proposal also will change the way MIAX handles new quotes or orders that it receives during the Liquidity Refresh Pause on the same side of the market as the initiating order's remaining contracts. Currently, when new quotes or orders are received during a Liquidity Refresh Pause on the same side as the order that initiated the pause, with a price that would lock or cross the original NBBO, MIAX adds the orders and quotes to its MBBO and the pause continues to run.[14] Under the proposal, MIAX will instead terminate the pause when new orders or quotes are received on the same side of the initiating order with a price that would lock or cross the NBBO, and MIAX will then process all orders and quotes.[15] Under both the existing

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[12]   See current MIAX Rule 515(c)(iii)(A).

[13]   See proposed MIAX Rule 515(c)(2). As noted in the filing, the liquidity refresh message is disseminated only to subscribers of MIAX's proprietary data feeds. The message is not disseminated publicly through the Options Price Reporting Authority (OPRA) feed.

[14]   See current MIAX Rule 515(c)(1)(iii)(A)(1)(c).

[15]   See proposed MIAX Rule 515(c)(2)(i)(C). The proposal also amends how Immediate or Cancel ("IOC") or Fill or Kill ("FOK") orders interact with the Liquidity Refresh Pause. Specifically, rather than an IOC or FOK order getting cancelled if received on the same side of the market as the initiating order's remaining contracts, as it does under the current MIAX rules, if an IOC or FOK order is received on the same side of the market as the initiating order that locks or crosses the opposite side NBBO, it will cause the Liquidity Refresh Pause to terminate early and will be eligible to be executed in order of receipt, after the initiating order. The proposal will not change how same-side Auction or Cancel or Intermarket Sweep Orders are handled during a Liquidity Refresh Pause (they

and proposed rules, orders and quotes are executed in the order in which they were received,

meaning the initiating order will execute first, followed by any new same-side orders or quotes

based on their time of receipt. Similar to how the proposal will "reevaluate" an order for

execution until exhausted, and thus will allow for multiple Route Timers and different price

points, MIAX will allow an order to potentially trigger multiple Liquidity Refresh Pauses at

different price points if the initiating order is not completely filled after the first pause.

The Exchange also proposes to amend MIAX Rules 515(e) and 515(f) to permit market

participants to also be able to designate custom price protection instructions on an order by order

basis for Immediate or Cancel ("IOC") and Fill or Kill ("FOK") order types, respectively.[16]

With regard to IOC orders, the Exchange proposes to allow trading at multiple prices not to

exceed the IOC order's limit price or the order's price protection limit, provided the execution

does not trade at a price inferior to the current ABBO. With regard to FOK orders, receipt of a

FOK order during a liquidity refresh pause currently causes the pause to terminate early, in

which case the FOK order might not get a fill because the initiating order has priority. As

proposed, MIAX will provide an additional opportunity for a FOK that is received during a

liquidity refresh pause to access more liquidity after the pause ends. If MIAX is at the NBBO,

then MIAX will execute the FOK order at the NBBO price or better and if the FOK order could

not be executed in full at a single price, the FOK order is cancelled. If the MBBO is not at the

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are cancelled), nor will it change how the pause terminates if the NBBO becomes
crossed.

[16] Specifically, this includes: (i) price protection instructions being expressed in units of
MPV away from the NBBO at the time of the order's receipt, or the MBBO if the ABBO
is crossing the MBBO; (ii) the default price protection being one MPV away from the
NBBO at the time of receipt, or the MBBO if the ABBO is crossing the MBBO; and (iii)
market participants being able to elect to disable price protection on an order by order
basis.

NBBO or the FOK order is not fully executable against any orders or quotes on MIAX, the FOK

order will be cancelled immediately.

Finally, the proposal would revise MIAX Rule 529, which governs the routing of orders

to other markets. Currently, MIAX does not route Public Customer orders once they are resting

on the MIAX book. As proposed, however, Rule 529 will provide that a resting Public Customer

order will not initiate a route timer, but instead may be routed together with an incoming Public

Customer order that separately has initiated a Route Timer. Specifically, when applicable,

MIAX will immediately route the initiating Public Customer order, together with any routable

resting interest on the same side of the market, to the opposite side ABBO, and the orders will be

processed in the order in which they were received.

III.   Discussion and Commission Findings

The Commission has carefully reviewed the proposed rule change and finds that it

consistent with the requirements of the Act.[17]   Specifically, the Commission believes MIAX's

proposal is consistent with Section 6(b)(5) of the Act,[18] 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.

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[17]   15 U.S.C. 78f. In approving this proposed rule change, the Commission has considered
the proposed rule's impact on efficiency, competition, and capital formation. See 15
U.S.C. 78c(f).

[18]   15 U.S.C. 78f(b)(5).

The Commission believes that the Exchange's proposed revised price protection process, which is more flexible and customizable than the current fixed one-MPV price protection scheme, could allow market participants greater control over the execution of their orders. Specifically, the proposal may help market participants avoid having orders cancelled as a result of a narrow one-MPV price protection limit, particularly in instances when the order's limit price expresses a willingness to trade more than one MPV away from the NBBO that prevailed at the time the order was received. The Commission notes, however, that such a result may still occur under the proposal, when either the default one-MPV price protection limit applies as a result of the member not providing customized instructions, or when a custom price protection limit sits between an order's limit price and the NBBO at the time the order is received. The Commission notes further that, in order to accommodate the amended price protection functionality, the proposal will allow orders to trigger pauses at multiple successive price points, either through the Route Timer or Liquidity Refresh mechanisms.

In addition to providing market participants greater control over the execution of their orders, the Commission believes that the proposal also could facilitate more order interaction. By allowing orders to execute at multiple price points, up or down to their price protection limit or limit price, and to route to away markets at multiple price points, the proposal will allow market participants to interact with greater liquidity both on MIAX and on away markets and increase the opportunity for their orders to receive an execution. Importantly, as is the case under the current price protection functionality, the Commission notes that under the revised process, MIAX will not execute incoming orders at prices inferior to the then-current NBBO.

The Commission believes that the change regarding terminating a Liquidity Refresh Pause when a new quote or order is received during a Liquidity Refresh Pause on the same side

of the market as the initiating orders' remaining contracts that locks or crosses the original

NBBO is consistent with the Act. The Commission notes that terminating the pause in such a

situation allows the displayed opposite side of the MBBO to receive an immediate execution.

Further, the Commission notes that, as under the current MIAX rules, orders will then be

processed in the order in which they were received.

Finally, the Commission believes that the proposed change to permit immediate routing

in an additional situation (i.e., for Public Customer orders resting on the book when an incoming

Public Customer order has initiated a Route Mechanism) will benefit Public Customers by

providing such orders with greater access to marketable away liquidity and will allow such

orders more promptly to receive an execution instead of being restricted from immediately

routing away. As the Commission noted in its approval of MIAX's application for registration

as a national securities exchange, pursuant to MIAX's immediate routing process in Rule 529,

orders have to meet a number of criteria to be eligible for immediate routing, and as such, many,

if not most, orders are likely subject to the one second Route Timer, rather than immediately

routing to an away exchange displaying the NBBO.[19] While MIAX is not specifically required

to route to away markets, the Commission believes that providing an additional opportunity for

immediate routing should be beneficial to Public Customer orders.

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[19]   See Securities Exchange Act Release No. 68341 (December 3, 2012), 77 FR 73065,
73086-87 (December 7, 2012) (noting that broker-dealers have a duty of best execution
and thus broker-dealers need to consider and evaluate the functioning of the MIAX
routing mechanisms and the quality of any resulting executions in making their
determination of whether to route customer orders to MIAX).

IV.   Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[20] that the

proposed rule change (SR-MIAX-2014-08), is approved.

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

authority.[21]

Kevin M. O'Neill
Deputy Secretary

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[20]   15 U.S.C. 78f(b)(2).

[21]   17 CFR 200.30-3(a)(12).