

trading of Managed Fund Shares: the Fidelity Investment Grade Bond ETF; Fidelity Limited Term Bond ETF; and Fidelity Total Bond ETF. On April 30, 2014, the Exchange filed Amendment No. 1 to the proposed rule change, which amended and replaced the proposed rule change in its entirety. The proposed rule change was published for comment in the **Federal Register** on May 6, 2014.<sup>3</sup> The Commission has not received any comments on the proposed rule change.

Section 19(b)(2) of the Act<sup>4</sup> provides that, within 45 days of the publication of notice of the filing of a proposed rule change, or within such longer period up to 90 days as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding, or as to which the self-regulatory organization consents, the Commission shall either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved. The Commission is extending this 45-day time period.

The Commission finds that it is appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider the proposed rule change. Accordingly, the Commission, pursuant to Section 19(b)(2) of the Act,<sup>5</sup> designates August 4, 2014, as the date by which the Commission shall either approve or disapprove or institute proceedings to determine whether to disapprove the proposed rule change (File Number SR-NYSEArca-2014-46).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

**Kevin M. O'Neill,**  
*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72418; File No. SR-MIAX-2014-23]

### Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Exchange Rule 515A

June 18, 2014.

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) <sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 5, 2014, 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 amend Exchange Rule 515A.

The text of the proposed rule change is available on the Exchange’s Web site at [http://www.miaxoptions.com/filter/wotitle/rule\\_filing](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 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 adopted Rule 515A to establish a price improvement auction (“PRIME Auction”) and a solicited order

mechanism (“Solicitation Auction”).<sup>3</sup> The Exchange has identified several additional enhancements to the functionality that the Exchange believes should be included in the Rules prior to deployment of the new PRIME Auction and Solicitation Auction functionality. The Exchange proposes to amend Exchange Rules 515A accordingly.

The Exchange proposes to amend Rule 515A(a)(2)(ii)(B) and Rule 515A(b)(2)(ii)(B) in order to provide that the PRIME Auction and Solicitation Auction will conclude upon the receipt by the System of an unrelated order (in the same option as the Agency Order) on the opposite side of the market from the RFR responses, that is marketable against either the NBBO, the initiating price,<sup>4</sup> or the RFR responses. In addition, the Exchange proposes to separately provide in amended Rule 515A(a)(2)(ii)(C) and Rule 515A(b)(2)(ii)(C) that the PRIME Auction and Solicitation Auction will conclude upon the receipt by the System of an unrelated order (in the same option as the Agency Order) on the same side of the market as the RFR responses, that is marketable against the NBBO. Currently, the Rules state that the PRIME Auction and a Solicitation Auction will conclude upon the receipt by the System of an unrelated order on the same side or opposite side of the market from the RFR responses, that is marketable against either the MBBO (when such quote is the NBBO) or the RFR responses.<sup>5</sup> The proposed change will add the initiating price of the Auction as an additional trigger to cause the early termination of an Auction upon the receipt of an unrelated order on the opposite side of the market from the RFR responses. The proposed change will also use the NBBO as a trigger to cause the early termination of an Auction in lieu of the MBBO when such quote is the NBBO. In addition, the proposed change will restructure the Rules so that the treatment of same side and opposite side unrelated orders are described in separate provisions in order to provide additional clarity and reduce the potential for confusion on behalf of market participants. The Exchange proposes to make these enhancements to further ensure that the PRIME Auction and Solicitation Auction will work seamlessly with the

<sup>3</sup> See Securities Exchange Act Release Nos. 71640 (March 4, 2014), 79 FR 13334 (March 10, 2014) (SR-MIAX-2014-09) (“Notice”); 72009 (April 23, 2014), 79 FR 24032 (April 29, 2014) (SR-MIAX-2014-09).

<sup>4</sup> The “initiating price” is the stopped price specified by the Initiating Member on the Agency Order. See Rule 515A(a)(2)(i)(A).

<sup>5</sup> See Rules 515A(a)(2)(ii)(B) and 515A(b)(2)(ii)(B). See also CBOE Rules 6.74A(b)(2) and 6.74B(b)(2).

<sup>3</sup> See Securities Exchange Act Release No. 72064 (May 1, 2014), 79 FR 25908.

<sup>4</sup> 15 U.S.C. 78s(b)(2).

<sup>5</sup> *Id.*

<sup>6</sup> 17 CFR 200.30-3(a)(31).

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

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

Exchange's Book in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange. The Exchange believes that by using such additional reasons for terminating an Auction early will improve the interaction between the Auction and the Exchange's Book and the national market system.

The following examples show how the proposed amendments described above would affect the outcome of the PRIME Auction.

*Example 1—Early Conclusion of Auction, limit order on the same side of the market as RFR Responses that is marketable against NBBO at the time of arrival*

NBBO = \$1.20–\$1.24 200 × 100

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy 50 contracts with a limit of \$1.24

Initiating Member's Contra Order selling 50 contracts with a stop price of \$1.24

RFR sent identifying the option, side and size, initiating price of \$1.24 (Auction Starts)

- @ 200 milliseconds MM3 response received, AOC eQuote to Sell 50 at \$1.22
- @ 210 milliseconds MM1 response received, AOC eQuote to Sell 50 at \$1.22
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.23
- @ 400 milliseconds BD1 Unrelated Order received Sell 10 at \$1.20 (Opposite-side order marketable against the NBB causes an early conclusion to the Auction)

Under this scenario, the Agency Order would be executed as follows:

1. 10 contracts trade with the unrelated order for BD1 @ \$1.21 (midpoint of the best RFR response of \$1.22 and the opposite side of the market from the RFR response of \$1.20)
2. 20 contracts trade with MM3 @ \$1.22
3. 20 contracts trade with MM1 @ \$1.22 (This fills the entire Agency Order)
4. MM4 does not trade any contracts
5. Contra Order does not trade any contracts

*Example 2—Early Conclusion of Auction, limit order on the same side of the market as RFR Responses that is marketable against NBBO at the time of arrival*

NBBO = \$1.20–\$1.24 200 × 100

BBO = \$1.18–\$1.26 100 × 100

Agency Order to buy 50 contracts with a limit of \$1.24

Initiating Member's Contra Order selling 50 contracts with a stop price of \$1.24

RFR sent identifying the option, side and size, initiating price of \$1.24 (Auction Starts)

- @ 200 milliseconds MM3 response received, AOC eQuote to Sell 50 at \$1.22
- @ 210 milliseconds MM1 response received, AOC eQuote to Sell 50 at \$1.22
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.23
- @ 400 milliseconds BD1 Unrelated Order received Sell 10 at \$1.20 (Opposite-side order marketable against the NBB causes an early conclusion to the Auction)

Under this scenario, the Agency Order would be executed as follows:

1. 10 contracts trade with the unrelated order for BD1 @ \$1.21 (midpoint of the best RFR response of \$1.22 and the opposite side of the market from the RFR response of \$1.20)
2. 20 contracts trade with MM3 @ \$1.22
3. 20 contracts trade with MM1 @ \$1.22 (This fills the entire Agency Order)
4. MM4 does not trade any contracts
5. Contra Order does not trade any contracts

In Example 1, since the MBBO is the same as the NBBO, the outcome of the PRIME Auction will be identical under the proposal as the current approved Rule.<sup>6</sup> However, in Example 2, under the proposal, the PRIME Auction terminates early upon the receipt of the unrelated order that is marketable against the NBBO, but not the MBBO. In contrast, in Example 2 under the current approved Rule, the PRIME Auction would not have terminated early upon the receipt of the unrelated order that is marketable against the NBBO and could have continued another 100 milliseconds.<sup>7</sup>

*Example 3—Early Conclusion of Auction, IOC marketable against either side of NBBO at time of arrival*

NBBO = \$1.20–\$1.24 200 × 200

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy with a limit price of \$1.22 for 20 contracts

Initiating Member's Contra Order selling 20 contracts at \$1.22

RFR sent identifying the option, side and size, with initiating price of \$1.22 (Auction Starts)

- @ 100 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.22
- @ 210 milliseconds MM1 response received, AOC eQuote to Sell 20 at \$1.22
- @ 330 milliseconds MM4 response received, AOC eQuote to Sell 20 at \$1.22
- @ 400 milliseconds C1 Unrelated IOC Order received Buy 100 at \$1.24 (Same side IOC order to buy marketable against the NBO causes the Auction to conclude early)

Under this scenario, the Agency Order would be executed as follows:

1. 8 contracts trade with the Contra Order @ \$1.22 (This satisfies their 40% participation guarantee)
2. 4 contracts trades with MM3 @ \$1.22
3. 4 contracts trades with MM1 @ \$1.22
4. 4 contracts trade with MM4 @ \$1.22 (This fills the entire Agency Order)
5. C1 unrelated IOC order then executes as follows:
  - a. 16 contracts trade with MM3 @ \$1.22
  - b. 16 contracts trade with MM1 @ \$1.22
  - c. 16 contracts trade with MM4 @ \$1.22
  - d. Remaining 52 contracts then executes with the posted market at the Exchange's \$1.24 BO

<sup>6</sup> See Notice, *supra* note 3, Example 17. See Rule 515A(a)(2)(ii)(B).

<sup>7</sup> See Rule 515A(a)(2)(ii)(B).

*Example 4—Early Conclusion of Auction, IOC marketable against either side of NBBO at time of arrival*

NBBO = \$1.20–\$1.24 200 × 200

BBO = \$1.18–\$1.26 100 × 100

Agency Order to buy with a limit price of \$1.22 for 20 contracts

Initiating Member's Contra Order selling 20 contracts at \$1.22

RFR sent identifying the option, side and size, with initiating price of \$1.22

(Auction Starts)

- @ 100 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.22
- @ 210 milliseconds MM1 response received, AOC eQuote to Sell 20 at \$1.22
- @ 330 milliseconds MM4 response received, AOC eQuote to Sell 20 at \$1.22
- @ 400 milliseconds C1 Unrelated IOC Order received Buy 100 at \$1.24 (Same side IOC order to buy marketable against the NBO causes the Auction to conclude early)

Under this scenario, the Agency Order would be executed as follows:

1. 8 contracts trade with the Contra Order @ \$1.22 (This satisfies their 40% participation guarantee)
2. 4 contracts trades with MM3 @ \$1.22
3. 4 contracts trades with MM1 @ \$1.22
4. 4 contracts trade with MM4 @ \$1.22 (This fills the entire Agency Order)
5. C1 unrelated IOC order then executes as follows:
  - a. 16 contracts trade with MM3 @ \$1.22
  - b. 16 contracts trade with MM1 @ \$1.22
  - c. 16 contracts trade with MM4 @ \$1.22
  - d. Remaining 52 contracts are then canceled

Similarly, in Example 3, since the MBBO is the same as the NBBO, the outcome of the PRIME Auction will be identical under the proposal as the current approved Rule.<sup>8</sup> However, in Example 4, under the proposal, the PRIME Auction terminates early upon the receipt of the unrelated order that is marketable against the NBBO, not the MBBO. In contrast, in Example 4 under the current approved Rule, the PRIME Auction would not have terminated early upon the receipt of the unrelated order that is marketable against the NBBO and could have continued another 100 milliseconds.<sup>9</sup>

As mentioned above, in Examples 2 and 4, the PRIME Auctions could have continued for another 100 milliseconds under the current approved rule, with the potential for additional price improvement beyond the NBBO to the MBBO. However, there is no guarantee that the market would not move to the detriment of the Agency Order, providing no additional price improvement. In other words, if market prices moved away from the Agency Order's price and better prices for the

<sup>8</sup> See Notice, *supra* note 3, Example 24.

<sup>9</sup> See Rule 515A(a)(2)(ii)(D).

Member's trading interest exist outside the PRIME Auction, Members might be unwilling to continue to provide additional price improvement even if the PRIME Auction continued. Further, the marketable unrelated order could have also executed prior to the end of the Auction Period, thus reducing the potential price improvement for the Agency Order which would be left to execute against any remaining RFR Responses or the initiating member's stop price. Under the proposal, the unrelated order benefits from receiving an execution sooner than anticipated against liquidity that they may not have known was there at the time. The Exchange believes that the benefits of terminating the PRIME Auction early for both the Agency Order and the marketable unrelated order outweigh any marginal loss of opportunity from terminating at the NBBO versus the MBBO.

The following examples show how the proposed amendments to terminate the PRIME Auction and Solicitation Auction early upon the receipt of an unrelated order on the opposite side of the market from the RFR Responses that is marketable against the initiating price would affect the outcome of the PRIME Auction and Solicitation Auction.

*Example 5—Early Conclusion of Auction, limit order on the opposite side of the market from RFR Responses improves initiating price*

NBBO = \$1.20–\$1.24 200 × 200

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy 20 contracts with a limit price of \$1.22

Initiating Member's Contra Order selling 20 contracts at \$1.22

RFR sent identifying the option, side and size, with an initiating price of \$1.22 (Auction Starts)

- @ 300 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.22
- @ 310 milliseconds MM1 response received, AOC eQuote to Sell 20 at \$1.22
- @ 430 milliseconds MM4 response received, AOC eQuote to Sell 20 at \$1.22
- @ 450 milliseconds C1 Unrelated Order received Buy 100 at \$1.23 (limit order to buy on the opposite side of the market from RFR Responses that improves (i.e., is priced higher than) the Agency Order's initiating price causes the Auction to conclude early)

Under this scenario, the Agency Order would be executed as follows:

1. 8 contracts trade with the Contra Order @ \$1.22 (This satisfies their 40% participation guarantee)
2. 4 contracts trades with MM3 @ \$1.22
3. 4 contracts trades with MM1 @ \$1.22
4. 4 contracts trade with MM4 @ \$1.22 (This fills the entire Agency Order)
5. C1 unrelated order then executes as follows:
  - a. 16 contracts trade with MM3 @ \$1.22
  - b. 16 contracts trade with MM1 @ \$1.22

- c. 16 contracts trade with MM4 @ \$1.22
- d. Remaining contracts post to the Book as new BB paying \$1.23 for 52 contracts

*Example 6—Early Conclusion of Auction, limit order on the opposite side of the market from RFR Responses matches the initiating price*

NBBO = \$1.20–\$1.24 200 × 200

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy 20 contracts with a limit price of \$1.22

Initiating Member's Contra Order selling 20 contracts at \$1.22

RFR sent identifying the option, side and size, with an initiating price of \$1.22 (Auction Starts)

- @ 300 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.22
- @ 310 milliseconds MM1 response received, AOC eQuote to Sell 20 at \$1.22
- @ 430 milliseconds MM4 response received, AOC eQuote to Sell 20 at \$1.22
- @ 450 milliseconds C1 Unrelated Order received Buy 100 at \$1.22 (limit order to buy on the opposite side of the market from RFR Responses that matches the Agency Order's initiating price causes the Auction to conclude early)

Under this scenario, the Agency Order would be executed as follows:

1. 8 contracts trade with the Contra Order @ \$1.22 (This satisfies their 40% participation guarantee)
2. 4 contracts trades with MM3 @ \$1.22
3. 4 contracts trades with MM1 @ \$1.22
4. 4 contracts trade with MM4 @ \$1.22 (This fills the entire Agency Order)
5. C1 unrelated order then executes as follows:
  - a. 16 contracts trade with MM3 @ \$1.22
  - b. 16 contracts trade with MM1 @ \$1.22
  - c. 16 contracts trade with MM4 @ \$1.22
  - d. Remaining contracts post to the Book as new BB paying \$1.22 for 52 contracts

*Example 7—Solicitation Auction—Customer gets price improved for AON size, unrelated order on the opposite side of the market from RFR Responses ends auction and trades vs. responses*

XYZ Jan 50 Calls

NBBO—1.10–1.25

BBO—1.10–1.30

Paired order to execute 2000 contracts AON (customer selling) @ 1.10

A RFR is broadcast to all subscribers showing option, size, side, and price; timer is started

System starts the auction at the Initiating Customer price to sell @ 1.10

- @ 100 milliseconds Response 1 to buy @ 1.10 2000 AOC order arrives
- @ 200 milliseconds Response 2 to buy @ 1.10 2000 AOC order arrives
- @ 220 milliseconds Response 3 to buy @ 1.10 5000 AOC order arrives
- @ 332 milliseconds Response 4 to buy @ 1.20 1000 AOC order arrives
- @ 400 milliseconds Response 5 to buy @ 1.15 2000 AOC order arrives
- @ 450 milliseconds, unrelated same side order arrives selling 100 @ 1.10—(limit order to sell on the opposite side of the market from RFR Responses that is marketable against Initiating Price or RFR

responses causes the Auction to conclude early)

Trade is allocated against Initiating Customer:

1. 1000 trade vs. Response 4 @ 1.20
2. 1000 trade vs. Response 5 @ 1.15
3. Solicited contra does not participate because entire size was price improved
4. Unrelated same side order trades 100 vs. Response 5 @ 1.15; balance of response size is cancelled

In Examples 5, 6,<sup>10</sup> and 7, the outcome of both the PRIME Auction and Solicitation Auction will be identical under the proposal as the current approved Rule.<sup>11</sup> The Exchange notes that there will be no impact on the allocation or priority.

The Exchange proposes to amend Rule 515A(a)(2)(i) and Rule 515A(b)(2)(ii) to provide that the PRIME Auction and Solicitation Auction will conclude any time an RFR response matches the NBBO on the opposite side of the market from RFR responses. Currently, the Rules state that the PRIME Auction will conclude any time an RFR response matches the MBBO on the opposite side of the market from the RFR responses.<sup>12</sup> The proposed change will use the NBBO as a trigger to cause the early termination of an Auction in lieu of the MBBO. The Exchange proposes to make this enhancement to further ensure that the PRIME Auction and Solicitation Auction will work seamlessly with the national market system in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange. The Exchange believes that by using the NBBO instead of the MBBO as a reason for terminating an Auction early will improve the interaction between the Auction and the national market system.

The following examples show how the proposed amendments to use the NBBO as a trigger to cause the early termination of an Auction in lieu of the

<sup>10</sup>The Commission notes that with respect to Examples 5 and 6, while the outcome of the PRIME auction is the same under the proposal as under the current Rule, the cause of early termination under the proposal differs from the current Rule. Under the current Rule, the PRIME auctions in Examples 5 and 6 would end early due to the receipt of an unrelated order on the same side of the market as the Agency Order that is marketable against an RFR response. See Rule 515A(a)(2)(ii)(B). However, under the amended Rule, the PRIME auctions would end early due to the receipt of an unrelated order on the same side as the Agency Order that is marketable against either the RFR responses or the initiating price. See amended Rule 515A(a)(2)(ii)(B). In both examples, the best RFR response matches the initiating price.

<sup>11</sup> See Notice, *supra* note 3, Examples 23 and 28.

<sup>12</sup> See Rules 515A(a)(2)(ii) and 515A(b)(2)(ii). See also CBOE Rules 6.74A(b)(2) and 6.74B(b)(2).

MBBO would affect the outcome of the PRIME Auction.

*Example 8—Single Price Submission, priority customer order on the Book on the same side locks the final Auction Price*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Agency Order to buy 50 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 50 contracts with a single stop price of \$1.20

RFR sent identifying the option, side and size, with initiating price of \$1.20

(Auction Starts)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 10 at \$1.22
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.15 (response matches the opposite side NBB causes the Auction to conclude early)

Under this scenario the Agency Order would be executed as follows:

1. 50 contracts trade with MM4 @ \$1.15 (This fills the entire Agency Order and Contra Order does not receive an execution)

*Example 9—Single Price Submission, priority customer order on the Book on the same side*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.14–\$1.25 100 × 100

Agency Order to buy 50 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 50 contracts with a single stop price of \$1.20

RFR sent identifying the option, side and size, with initiating price of \$1.20

(Auction Starts)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 10 at \$1.22
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.15 (response matches the opposite side NBB causes the Auction to conclude early)

Under this scenario the Agency Order would be executed as follows:

1. 50 contracts trade with MM4 @ \$1.15 (This fills the entire Agency Order and Contra Order does not receive an execution)

In Example 8, since the MBBO is the same as the NBBO, the outcome of the PRIME Auction will be identical under the proposal as the current approved Rule.<sup>13</sup> However, in Example 9, under the proposal, the PRIME Auction terminates early anytime an RFR Response matches the NBBO on the opposite side of the market from the RFR Response, but not the MBBO. In contrast, in Example 9 under the current approved Rule, the PRIME Auction would not have terminated early upon the receipt of the unrelated order that is marketable against the NBBO and could have continued another 270 milliseconds.<sup>14</sup>

The Exchange notes that the proposed changes detailed above will likely result in both the shortening of the Auction Period and an increase in the frequency

of early conclusions of the Auction for both the PRIME Auction and Solicitation Auction and the Agency Order potentially receiving less opportunity for price improvement. However, the Exchange believes that the benefits to market participants (including those participating in the Auctions and outside of the Auctions) as a result of the new proposed enhancements to make both the PRIME Auction and Solicitation Auction more integrated with the Exchange's Book and the national market system, exceed any potential loss of opportunity for price improvement caused by the proposed changes.

The Exchange proposes to amend Interpretations and Policies .06 and .07 of Rule 515A to provide that same treatment for interest subject to a route timer as the Rules currently provide for managed interest. Specifically, the Exchange proposes to amend Interpretation and Policy .06 to provide that if trading interest exists on the Exchange's Book that is subject to the managed interest process pursuant to Rule 515(c) or a route timer pursuant to Rule 529 for the option on the opposite side of the market as the Agency Order and when the MBBO is equal to the NBBO, the Agency Order will be automatically executed against the managed interest or route timer interest if the execution would be at a price equal to or better than the initiating price of the Agency Order. If the Agency Order is not fully executed after the managed interest or route timer interest is fully exhausted and is no longer at a price equal to the initiating price of the Agency Order, the Auction will be initiated for the balance of the order as provided in this rule. With respect to any portion of an Agency Order that is automatically executed against managed interest or route timer interest pursuant to this paragraph .06, the exposure requirements contained in Rule 520(b) and (c) will not be satisfied just because the member utilized the PRIME. Trading interest subject to a route timer on the opposite side of the market as the Agency Order pursuant to Rule 515(c) is posted at one minimum trading increment away from the NBBO, but is available for execution at the NBBO. In order to preserve the priority of trading interest subject to a route timer against incoming RFR responses to the Auction of the Agency Order, the System will execute the Agency Order to the extent possible. The Exchange believes that this provision is necessary to ensure that PRIME works seamlessly with the Exchange's Book in a manner that would ensure a fair and orderly market

by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange.

In addition, the Exchange proposes to amend Interpretation and Policy .07 to provide that if trading interest exists on the Exchange's Book that is subject to the managed interest process pursuant to Rule 515(c) or a route timer pursuant to Rule 529 for the option on the same side of the market as the Agency Order, the Agency Order will be rejected by the System prior to initiating an Auction or a Solicitation Auction. The Exchange also proposes to provide that if trading interest exists on the MIAX Book that is subject to the liquidity refresh pause pursuant to Rule 515(c) for the option on the same side or opposite side of the market as the Agency Order, the Agency Order will be rejected by the System prior to initiating an Auction or a Solicitation Auction. Trading interest subject to a liquidity refresh pause or a route timer is posted at one minimum trading increment away from the NBBO, but is available for execution at the NBBO. In order to preserve the priority of trading interest subject to a liquidity refresh pause or a route timer against incoming RFR responses to the Auction of the Agency Order, the System will reject the Agency Order. The Exchange believes that this provision is necessary to ensure that PRIME works seamlessly with the Exchange's Book in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange.

Finally, the Exchange proposes new Interpretation and Policy .09 to provide that if the market is locked or crossed as defined in Rule 1402 for the option, the Agency Order will be rejected by the System prior to initiating a PRIME Auction or a Solicitation Auction. The Exchange believes that this provision is necessary to ensure that PRIME works seamlessly with the national market system in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange.

The Exchange also proposes a couple minor technical changes to the Rules. The Exchange also proposes an updated comprehensive list of the data that the Exchange represents that it will collect in order to aid the Commission in its

<sup>13</sup> See Notice, *supra* note 3; Rule 515A(a)(2)(ii)(D).

<sup>14</sup> See Rule 515A(a)(2)(ii)(D).

evaluation of the PRIME that incorporates the changes proposed.<sup>15</sup>

## 2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b)<sup>16</sup> of the Act in general, and furthers the objectives of Section 6(b)(5)<sup>17</sup> of the Act in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The proposal to add the initiating price of the Auction and to use the NBBO as a trigger to cause the early termination of an Auction is designed to facilitate transactions, to remove impediments to and perfect the mechanism of a free and open market by freeing up interest in the Auction when conditions have changed that renders the initiating order no longer marketable to the benefit of market participants. The proposed enhancements to the Rules are designed to further ensure that the Auctions will work seamlessly with the national market system in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange. The Exchange believes that by using the NBBO instead of the MBBO as a reason for terminating an Auction early will improve the interaction between the Auction and the national market system.

The proposal to provide similar treatment for interest subject to a liquidity refresh pause and a route timer as the Rules currently provide for managed interest is also designed to ensure that PRIME works seamlessly with the Exchange's Book in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange in a manner that also protects investors and the public interest.

Finally, the proposal to reject Agency Orders if the market is locked or crossed is designed to ensure that PRIME works seamlessly with the national market

system in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced 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 PRIME Auction and Solicitation Auction are designed to increase competition for order flow on the Exchange in a manner intended to be beneficial to investors seeking to effect option orders with an opportunity to access additional liquidity and receive price improvement. 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 that the proposed changes to the Auctions are pro-competitive by providing market participants with functionality that is similar to that of other options exchanges. The Exchange notes that not having the PRIME Auction and Solicitation Auction places the Exchange at a competitive disadvantage versus other exchanges that offer similar price improvement functionality.

### *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>18</sup> and Rule 19b-4(f)(6)<sup>19</sup> thereunder.

At any time within 60 days of the filing of the proposed rule change, the

<sup>18</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>19</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.

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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2014-23 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-MIAX-2014-23. 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 Web site (<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 Web site 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

<sup>15</sup> See Rule 515A, Interpretations and Policies .08; Exhibit 3.

<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2014-23 and should be submitted on or before July 15, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2014-14693 Filed 6-23-14; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72420; File No. SR-CME-2014-23]

### Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Extend a Fee Waiver Program for Certain OTC FX Cleared-Only Products

June 18, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 9, 2014, Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II and III below, which Items have been primarily prepared by CME. CME filed the proposal pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b-4(f)(2)<sup>4</sup> thereunder, so that the proposal was effective upon filing with the Commission. 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

CME is proposing to extend an existing fee waiver program supporting certain CME cleared-only over-the-counter (“OTC”) foreign exchange (“FX”) products through December 31, 2014.

The text of the proposed rule change is below. Italicized text indicates additions; bracketed text indicates deletions.

\* \* \* \* \*

#### CME OTC FX Fee Waiver Program

##### Program Purpose

The purpose of this Program is to incentivize market participants to submit transaction in the OTC FX products listed below to the Clearing House for clearing. The resulting increase in volume benefits all participant segments in the market.

##### Product Scope

The following cleared only OTC FX products (“Products”):

1. CME Cleared OTC FX—Emerging Markets
  - a. USDBRL, USDCLP, USDCNY, USDCOP, USDIDR, USDINR, USDKRW, USDMYR, USDPEN, USDPHP, USDRUB, USDTWD Non-Deliverable Forwards.
  - b. USDCZK, USDHUF, USDHKD, USDILS, USDMXN, USDPLN, USDSGD, USDTHB, USDTRY, USDZAR Cash-Settled Forwards.
2. CME Cleared OTC FX—Majors
  - a. AUDJPY, AUDUSD, CADJPY, EURAUD, EURCHF, EURGBP, EURJPY, EURUSD, GBPUSD, NZDUSD, USDCAD, USDCHEF, USDDKK, USDJPY, USDNOK, USDSEK Cash-Settled Forwards.

##### Eligible Participants

The temporary reduction in fees will be open to all market participants and will automatically be applied to any transaction in the Products submitted to the Clearing House for clearing.

##### Program Term

Start date is February 1, 2012. End date is [June 30, 2014] *December 31, 2014.*

##### Hours

The Program will be applicable regardless of the transaction time.

##### Program Incentives

Fee Waivers. All market participants that submit transactions in the Products to the Clearing House will have their clearing fees waived.

\* \* \* \* \*

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CME included statements concerning the purpose and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. CME 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

CME is registered as a derivatives clearing organization with the Commodity Futures Trading

Commission (“CFTC”) and currently offers clearing services for many different futures and swaps products. With this filing, CME proposes to make proposed changes to CME rules governing certain cleared-only OTC FX products.

The proposed changes would extend an existing fee waiver program that applies to these OTC FX products.<sup>5</sup> The only proposed changes are modifying the current June 30, 2014 termination date for the current fee waiver program to December 31, 2014.

There is no limit to the number of participants that may participate in the proposed fee waiver program; it will be open to all market participants and will be automatically applied to all transaction fees in the enumerated OTC FX products. The changes that are described in this filing are limited to fee changes for OTC FX products. The proposed changes would become effective on filing.

The proposed fee changes are limited to CME’s business as a derivatives clearing organization clearing products under the exclusive jurisdiction of the CFTC and do not materially impact CME’s security-based swap clearing business in any way. CME has also certified the proposed rule changes that are the subject of this filing to the CFTC in CFTC Submission 14-216.

CME believes the proposed rule changes are consistent with the requirements of the Exchange Act including Section 17A of the Exchange Act.<sup>6</sup> More specifically, the proposed rule changes establish or change a member due, fee or other charge imposed by CME under Section 19(b)(3)(A)(ii)<sup>7</sup> of the Securities Exchange Act of 1934 and Rule 19b-4(f)(2)<sup>8</sup> thereunder. CME believes that the proposed fee change is consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder and, in particular, to Section 17A(b)(3)(D),<sup>9</sup> because the proposed fee changes apply equally to all market participants and therefore the proposed changes provide for the equitable allocation of reasonable dues, fees and other charges among participants. CME also notes that it operates in a highly competitive market in which market participants can readily direct business to competing venues. As such, the proposed changes are appropriately filed pursuant to

<sup>5</sup> See Exchange Act Release No. 34-71201 (December 30, 2013), 79 FR 688 (January 06, 2014) (SR-CME-2013-35).

<sup>6</sup> 15 U.S.C. 78q-1.

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>8</sup> 17 CFR 240.19b-4(f)(2).

<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(D).

<sup>20</sup> 17 CFR 200.30-3(a)(12).

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

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

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

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