SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72747; File No. SR-MIAX-2014-28)

August 4, 2014

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Order Approving Proposed Rule Change to Amend Rule 515 to Terminate the Liquidity Refresh Pause Early in Certain Situations

I. Introduction

On June 5, 2014, Miami International Securities Exchange LLC ("MIAX" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to amend MIAX Rule 515. The proposed rule change was published for comment in the Federal Register on June 23, 2014.[3] The Commission did not receive any comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Liquidity Refresh Pause, set forth in MIAX Rule 515(c)(2), provides an opportunity for additional orders or quotes to be received where an incoming order ("initiating order") exhausts a Market Maker's quote that was all or part of the MIAX best bid or offer ("MBBO") when MIAX was alone at the national best bid or offer ("NBBO") and there are unexecuted contracts remaining from the initiating order. Specifically, the Liquidity Refresh Pause is utilized in instances where (a) either the initiating order is a limit order that crosses the NBBO or the initiating order is a market order, and the limit order or market order could only be partially

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 72408 (June 17, 2014), 79 FR 35625.

executed; (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.[4]

The Exchange proposes to amend MIAX Rule 515(c)(2) in order to address the case where, during the Liquidity Refresh Pause, an Away Best Bid or Offer ("ABBO") on the same side of the market as the initiating order (a "same-side ABBO") crosses the original NBBO price on the opposite side of the market. The proposed rule change would provide that, in such a situation, the Liquidity Refresh Pause will be terminated early and normal trading will resume. The Exchange states that the proposed change is designed to codify existing functionality during the liquidity refresh pause.[5]

The following examples describe how a new revised same-side ABBO that crosses the original NBBO on the opposite side of the market will terminate the Liquidity Refresh Pause early.

<u>Example 1: Same Side ABBO Terminates the Liquidity Refresh Pause Early</u>

	Bid	Ask
ABBO	1.00 (10)	1.14 (10)
MIAX Book:		
PLMM[6]	1.00 (10)	1.10 (10)
LMM 1	1.00 (10)	1.12 (10)
LMM 2	1.00 (10)	1.15 (10)
RMM 1	1.00 (10)	1.16 (10)

4 At the start of the Liquidity Refresh Pause, the system broadcasts a "liquidity refresh message" to subscribers of the Exchange's data feeds, providing a description of the option and the size and side of the order and the exhausted MBBO price. During the pause, the system displays the unexecuted remainder of the initiating order at the original NBBO price (<u>i.e.</u>, the exhausted MBBO price) and MIAX's next bid or offer on the opposite side is displayed as non-firm.

5 <u>See</u> Notice, <u>supra</u> note 3, at 35625.

6 A "PLMM" is a MIAX Primary Lead Market Maker; an "LMM" is a MIAX Lead Market Maker; and an "RMM" is a MIAX Registered Market Maker.

- Order 1 : Buy limit of 1.13 for 20 contacts with a price protection instruction of 3 MPVs.[7]
- NBBO at time of Order 1's arrival = 1.00 (50) x 1.10 (10).
- Order 1 is price protected at 1.13 (which is 1.10 + 3 MPV = 1.13).
  - Order 1 trades 10 contracts with PLMM @ 1.10.
  - Liquidity Refresh Pause is triggered because the MBO of 1.10[8] was alone at NBBO and PLMM's 1.10 offer was exhausted.
  - New MBBO = 1.10 (10) x 1.12 (10). [9]
  - ABB updates to 1.12 for 10 contracts; ABBO = 1.12 (10) x 1.14 (10).
  - Liquidity Refresh Pause is terminated early due to the ABB crossing the original NBO of 1.10.
  - Because no responses to the Liquidity Refresh Pause were received before it terminated early, Order 1 trades 10 contracts with LMM1 @ 1.12, after which Order 1 has been fully executed.
  - New MBBO: 1.00 (40) x 1.15 (10). New NBBO: 1.12(10) x 1.14(10).

III. Discussion and Commission Findings

The Commission has carefully reviewed the proposed rule change and finds that it is consistent with the requirements of the Act and the rules and regulations thereunder applicable to

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7 Executions of non-market maker orders on MIAX are subject to the "price protection" provisions of Exchange Rule 515(c)(1). Price protection prevents an order from being executed beyond the price designated in the order's price protection instructions, which are 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. (The MPV is the minimum price variation, or minimum increment, by which bids and offers may be separated.) Market participants may designate or disable price protection instructions on an order by order basis. The default price protection is one MPV. When triggered, price protection cancels an order or the remaining contracts of an order.

8 "MBO" and "MBB" refer to the two components of the MBBO separately. "NBB" and "NBO" and "ABB" and "ABO" and are the equivalent conventions used for components of the ABBO and MBBO separately.

9 The remaining 10 contracts of Order 1 to buy are posted at 1.10 (the price at which the first 10 contracts were bought), which becomes the new MBB. Note that the new MBO is displayed as non-firm. See supra note 4.

a national securities exchange.[10] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[11] 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. The Commission believes that the proposal is reasonable in its rationale that terminating the Liquidity Refresh Pause, when the ABBO on the same side of the market as the initiating order crosses the original NBBO price on the opposite side of the market, could allow interest in the Liquidity Refresh Pause to execute, because a move of this kind in the ABBO indicates that conditions may be changing so as to render the initiating order and same side orders/quotes no longer marketable. Terminating the Liquidity Refresh Pause early and permitting normal trading to resume may thus provide an opportunity for the broker routing the initiating order or any remainder thereof to further pursue an execution, assuming that subsequent responses to the Liquidity Refresh Pause would be unlikely when the ABBO moves in such a manner, even if the pause were to run its full course.

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10 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).

11 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (SR-MIAX-2014-28), is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[13]

Kevin M. O'Neill
Deputy Secretary

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12 15 U.S.C. 78s(b)(2).

13 17 CFR 200.30-3(a)(12).