

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78547; File No. SR-MIAX-2016-24)

August 11, 2016

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 517

Pursuant to 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 August 4, 2016, 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 517, Quote Types Defined, to adopt new Interpretations and Policies .01 and to make a non-substantive technical correction to the Rule. 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 proposes to amend Exchange Rule 517, Quote Types Defined, to adopt new Interpretations and Policies .01 to clarify that to be considered a priority quote (as described below), a quote for a long-term option contract³ must meet the priority quote requirements established in Rule 517(b). The Exchange also proposes to make a non-substantive technical correction to section 517(b)(1)(ii) to correct a typographical error in the Rule.

For trade allocation purposes, quotes will be considered either priority quotes and trade allocation will be in accordance with Rule 514(e)(1),⁴ or non-priority quotes and trade allocation will be in accordance with Rule 514(e)(2),⁵ based upon a Market Maker's quote width at certain times.⁶

MIAX Rule 517(b), Quote Priority, describes the requirements for quotes on the Exchange to be considered priority quotes for allocation purposes. Specifically, MIAX Rule

³ The Exchange may list long-term option contracts that expire from twelve (12) to thirty-nine (39) months from the time they are listed. See Exchange Rule 406.

⁴ After all Priority Customer Orders (if any) at the NBBO have been filled, executions at that price will be first allocated to other remaining Market Maker priority quotes, which have not received a participation entitlement, and have precedence over Professional Interest. See Exchange Rule 514(e)(1).

⁵ If after all Market Maker priority quotes have been filled in accordance with Rule 514(e)(1) and there remains interest at the NBBO, executions will be allocated to all Professional Interest at that price. Professional Interest is defined in Rule 100 and includes among other interest, Market Maker non-priority quotes (as described in Rule 517(b)(1)(iii)) and Market Maker orders in both assigned and non-assigned classes. See Exchange Rule 514(e)(2).

⁶ See Exchange Rule 517(b)(1).

517(b)(1)(i) establishes the standards which must be met to establish a quote as a priority quote at the time of execution. First, the bid/ask differential of a Market Maker's two-sided quote pair must be valid width (no wider than the bid/ask differentials outlined in Rule 603(b)(4)).⁷ Second, the initial size of both the Market Maker's bid and the offer must be in compliance with the requirements of Rule 604(b)(2).⁸ Third, the bid/ask differential of a Market Maker's two-sided quote pair must meet the priority quote width requirements as defined by rule⁹ for each option. Fourth, at the time a locking or crossing quote or order enters the System,¹⁰ the Market Maker's two-sided quote pair must be valid width for that option and must have been resting on the Book or,¹¹ immediately prior to the time the Market Maker enters a new quote that locks or crosses the MBBO,¹² the Market Maker must have had a valid width quote already existing (i.e., exclusive of the Market Maker's new marketable quote or update) among his two-sided quotes for that option.¹³

⁷ A Market Maker is expected to price option contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer ("bid/ask differentials") following the opening rotation in an equity option contract. See Exchange Rule 603(b)(4).

⁸ The initial size of a Market Maker incoming Standard Quote, Day eQuote and all other types of eQuotes must be for the minimum number of contracts, which minimum number shall be at least one (1) contract. The minimum number of contracts will be determined by the Exchange on a class-by-class basis and announced to the Members through a Regulatory Circular. See Exchange Rule 604(b)(2).

⁹ The priority quote width standard established by the Exchange can have bid/ask differentials as narrow as one MPV, as wide but never wider than the bid/ask differentials outlined in Rule 603(b)(4), or somewhere in between. See Exchange Rule 517(b)(1)(ii).

¹⁰ The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

¹¹ See Exchange Rule 517(b)(1)(i)(D)(1).

¹² The term "MBBO" means the bid or offer on the Exchange. See Exchange Rule 100.

¹³ See Exchange Rule 517(b)(1)(i)(D)(2).

The Exchange notes that strike price interval, bid/ask differential and continuous quoting requirements do not apply to long-term options series until the time to expiration is less than nine (9) months.¹⁴ Notwithstanding these exceptions, any quote (including a quote in a long term option) must comply with Rule 517(b) to be considered a priority quote. Accordingly, the Exchange proposes to adopt Interpretations and Policies .01 to Rule 517 which will expressly state that a quote on a long-term option contract must satisfy the requirements outlined in Rule 517(b) to be considered a priority quote on the Exchange. The Exchange believes that adding proposed Interpretations and Policies .01 will clarify the requirements for establishing priority quotes for long-term option contracts on the Exchange. Further, the Exchange believes that providing additional information on how priority quotes are established for options with a time to expiration greater than nine (9) months will provide additional clarity of Exchange rules regarding priority quotes and allocations.

The Exchange is also proposing to make a technical amendment to current Exchange Rule 517(b)(ii) by deleting the repetitive words “than the” from the Rule, which are stated twice consecutively.

2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act¹⁵ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁶ 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

¹⁴ See Exchange Rule 406.

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

open market and a national market system and, in general, to protect investors and the public interest.

The proposed rule change is designed to promote just and equitable principles of trade by clarifying the operation of Exchange rules to ensure that Market Makers have complete information as to how priority quotes are established on the Exchange. Further, the proposed rule change is designed 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, by providing enhanced guidance to Market Makers on establishing priority quotes on options with a time to expiration greater than nine (9) months. The Exchange believes that the priority quote status afforded to Market Makers quoting in long-term options should result in more liquidity and tighter spreads in these options. Clarity in the Exchange's rules regarding the establishment of priority quote status in long-term options benefits and protects the public interest by explicitly stating that Market Makers submitting quotes in long-term options can establish priority quote status by submitting such quotes with the required bid/ask differential. This should encourage more Market Makers to submit quotes on long-term options to the Exchange, and should thus result in better prices and increased liquidity in long-term options.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the Exchange believes the proposed changes will not impose any burden on intra-market competition because it applies to all MIAX participants equally. In addition, the Exchange does not believe the proposal will impose any burden on inter-market competition as the proposal is intended to clarify the operation of existing Exchange rules.

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 Act¹⁷ and Rule 19b-4(f)(6)¹⁸ 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

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 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.

- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-MIAX-2016-24 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-2016-24. 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-2016-24 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.¹⁹

Robert W. Errett
Deputy Secretary

¹⁹ 17 CFR 200.30-3(a)(12).