

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="55"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2017"/> - * <input type="text" value="13"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by Miami International Securities Exchange, LLC.
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Amend Exchange Rule 521 to add new Interpretation and Policy .03

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * <input type="text" value="Deborah"/>	Last Name * <input type="text" value="Carroll"/>
Title * <input type="text" value="SVP and Associate General Counsel"/>	
E-mail * <input type="text" value="dcarroll@miami-holdings.com"/>	
Telephone * <input type="text" value="(609) 897-1447"/>	Fax <input type="text"/>

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date <input type="text" value="03/17/2017"/>	SVP and Associate General Counsel
By <input type="text" value="Joseph Ferraro"/>	<input type="text"/>
(Name *)	

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Miami International Securities Exchange, LLC (“MIAX Options” or “Exchange”), pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² proposes to amend Exchange Rule 521 (the “Current Rule”), Nullification and Adjustment of Options Transactions Including Obvious Errors, by adding new Interpretation and Policy .03 to Rule 521 (the “Proposed Rule”).

Notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1, and the text of the proposed rule change is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Chief Executive Officer of the Exchange pursuant to authority delegated by the MIAX Options Board of Directors on December 8, 2016. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the proposed rule change.

Questions and comments on the proposed rule change may be directed to Deborah L. Carroll, Esq., Senior Vice President, Associate General Counsel & Assistant Corporate Secretary at (609) 897-1447.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The Exchange proposes to amend Exchange Rule 521, Nullification and Adjustment of Options Transactions Including Obvious Errors, to add Interpretation and Policy .03. This filing is based on a proposal recently submitted by Chicago Board Options Exchange, Incorporated (“CBOE”) and approved by the Commission.³

Last year, the Exchange and other options exchanges adopted a new, harmonized rule related to the adjustment and nullification of erroneous options transactions, including a specific provision related to coordination in connection with large-scale events involving erroneous options transactions.⁴ The Exchange believes that the changes the options exchanges implemented with the new, harmonized rule have led to increased transparency and finality with respect to the adjustment and nullification of erroneous options transactions. However, as part of the initial initiative, the Exchange and other options exchanges deferred a few specific matters for further discussion.

Specifically, the options exchanges have been working together to identify ways to improve the process related to the adjustment and nullification of erroneous options transactions as it relates to complex orders and stock-option orders.⁵ The goal of the process that the options exchanges have undertaken is to further harmonize rules related to the adjustment and nullification of erroneous options transactions. As described below, the Exchange believes that

³ See Securities Exchange Act Release No. 80040 (February 14, 2017), 82 FR 11248 (February 21, 2017) (Order Approving SR-CBOE-2016-088).

⁴ See Securities Exchange Act Release No. 74918 (May 8, 2015), 80 FR 27781 (May 14, 2015) (SR-MIAX-2015-35) (the “Initial Filing”).

⁵ See Exchange Rule 518(a)(5) (defining complex orders and stock-option orders).

the changes the options exchanges and the Exchange have agreed to propose will provide transparency and finality with respect to the adjustment and nullification of erroneous complex order and stock-option order transactions. Particularly, the proposed changes seek to achieve consistent results for participants across U.S. options exchanges while maintaining a fair and orderly market, protecting investors and protecting the public interest.

The Proposed Rule is the culmination of this coordinated effort and reflects discussions by the options exchanges whereby the exchanges that offer complex orders and/or stock-option orders will universally adopt new provisions that the options exchanges collectively believe will improve the handling of erroneous options transactions that result from the execution of complex orders and stock-option orders.⁶

The Exchange believes that the Proposed Rule supports an approach consistent with long-standing principles in the options industry under which the general policy is to adjust rather than nullify transactions. The Exchange acknowledges that adjustment of transactions is contrary to the operation of analogous rules applicable to the equities markets, where erroneous transactions are typically nullified rather than adjusted and where there is no distinction between the types of market participants involved in a transaction. For the reasons set forth below, the Exchange believes that the distinctions in market structure between equities and options markets continue to support these distinctions between the rules for handling obvious errors in the equities and options markets.

⁶ An exchange that does not offer complex orders and/or stock-option orders will not adopt these new provisions until such time as the exchange offers complex orders and/or stock-option orders. Exchange Rule 518 currently permits the trading of complex orders and stock-option orders.

Various general structural differences between the options and equities markets point toward the need for a different balancing of risks for options market participants and are reflected in this proposal. Option pricing is formulaic and is tied to the price of the underlying stock, the volatility of the underlying security and other factors. Because options market participants can generally create new open interest in response to trading demand, as new open interest is created, correlated trades in the underlying or related series are generally also executed to hedge a market participant's risk. This pairing of open interest with hedging interest differentiates the options market specifically (and the derivatives markets broadly) from the cash equities markets. In turn, the Exchange believes that the hedging transactions engaged in by market participants necessitate protection of transactions through adjustments rather than nullifications when possible and otherwise appropriate.

The options markets are also quote driven markets dependent on liquidity providers to an even greater extent than equities markets. In contrast to the approximately 7,000 different securities traded in the U.S. equities markets each day, there are more than 500,000 unique, regularly quoted option series. Given this breadth in options series the options markets are more dependent on liquidity providers than equities markets; such liquidity is provided most commonly by registered market makers but also by other professional traders. With the number of instruments in which registered market makers must quote and the risk attendant with quoting so many products simultaneously, the Exchange believes that those liquidity providers should be afforded a greater level of protection. In particular, the Exchange believes that liquidity providers should be allowed protection of their trades given the fact that they typically engage in hedging activity to protect them from significant financial risk to encourage continued liquidity provision and maintenance of the quote-driven options markets.

In addition to the factors described above, there are other fundamental differences between options and equities markets which lend themselves to different treatment of different classes of participants that are reflected in this proposal. For example, there is no trade reporting facility in the options markets. Thus, all transactions must occur on an options exchange. This leads to significantly greater retail customer participation directly on exchanges than in the equities markets, where a significant amount of retail customer participation never reaches the Exchange but is instead executed in off-exchange venues such as alternative trading systems, broker-dealer market making desks and internalizers. In turn, because of such direct retail customer participation, the exchanges have taken steps to afford those retail customers – generally Priority Customers - more favorable treatment in some circumstances.

Complex Orders and Stock-Option Orders

As more fully described below, the Proposed Rule applies much of the Current Rule to complex orders and stock-option orders.⁷ The Proposed Rule deviates from the Current Rule only to account for the unique qualities of complex orders and stock-option orders. The Proposed Rule reflects the fact that complex orders can execute against other complex orders or can execute against individual simple orders in the leg markets. When a complex order executes against the leg markets there may be different counterparties on each leg of the complex order, and not every leg will necessarily be executed at an erroneous price. With regards to stock-option orders, the Proposed Rule reflects the fact that stock-option orders contain a stock component that is executed on a stock trading venue, and the Exchange may not be able to

⁷ In order for a complex order or stock-option order to qualify as an obvious or catastrophic error at least one of the legs must itself qualify as an obvious or catastrophic error under the Current Rule. See Proposed Rule 521 Interpretation and Policy .03(a) - (c).

ensure that the stock trading venue will adjust or nullify the stock execution in the event of an obvious or catastrophic error. In order to apply the Current Rule and account for the unique characteristics of complex orders and stock-option orders, proposed Interpretation and Policy .03 is split into three parts—paragraphs (a), (b), and (c).

First, proposed Interpretation and Policy .03(a) governs the review of complex orders that are executed against individual legs (as opposed to a complex order that executes against another complex order).⁸ Proposed Rule 521 Interpretation and Policy .03(a) provides:

If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

As previously noted, at least one of the legs of the complex order must qualify as an obvious or catastrophic error under the Current Rule in order for the complex order to receive obvious or catastrophic error relief. Thus, when the Exchange is notified (within the timeframes set forth in paragraph (c)(2) or (d)(2)) of a complex order that is a possible obvious error or catastrophic error, the Exchange will first review the individual legs of the complex order to

⁸ The leg market consists of quotes and/or orders in single options series. A complex order may be received by the Exchange electronically, and the legs of the complex order may have different counterparties. For example, Market-Maker 1 may be quoting in ABC calls and Market-Maker 2 may be quoting in ABC puts. A complex order to buy the ABC calls and puts may execute against the quotes of Market-Maker 1 and Market-Maker 2.

determine if one or more legs qualify as an obvious or catastrophic error.⁹ If no leg qualifies as an obvious or catastrophic error, the transaction stands—no adjustment and no nullification.

Reviewing the legs to determine whether one or more legs qualify as an obvious or catastrophic error requires the Exchange to follow the Current Rule. In accordance with paragraphs (c)(1) and (d)(1) of the Current Rule, the Exchange compares the execution price of each individual leg to the Theoretical Price of each leg (as determined by paragraph (b) of the Current Rule). If the execution price of an individual leg is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown in the obvious error table in paragraph (c)(1) of the Current Rule or the catastrophic error table in paragraph (d)(1) of the Current Rule, the individual leg qualifies as an obvious or catastrophic error, and the Exchange will take steps to adjust or nullify the transaction.¹⁰

To illustrate, assume a Customer submits a complex order to the Exchange consisting of Leg 1 and Leg 2—Leg 1 is to buy 100 ABC calls and Leg 2 is to sell 100 ABC puts. Also, assume that Market-Maker 1 is quoting the ABC calls \$1.00-1.20 and Market-Maker 2 is quoting the ABC puts \$2.00-2.20. If the complex order executes against the quotes of Market-Makers 1 and 2, the Customer buys the ABC calls for \$1.20 and sells the ABC puts for \$2.00. As with the

⁹ Because a complex order can execute against the leg market, the Exchange may also be notified of a possible obvious or catastrophic error by a counterparty that received an execution in an individual options series. If upon review of a potential obvious error the Exchange determines an individual options series was executed against the leg of a complex order or stock-option order, Proposed Rule 521 Interpretation and Policy .03 will govern.

¹⁰ Only the execution price on the leg (or legs) that qualifies as an obvious or catastrophic error pursuant to any portion of Proposed Rule 521 Interpretation and Policy .03 will be adjusted. The execution price of a leg (or legs) that does not qualify as an obvious or catastrophic error will not be adjusted.

obvious/catastrophic error reviews for simple orders, the execution price of Leg 1 is compared to the Theoretical Price¹¹ of Leg 1 in order to determine if Leg 1 is an obvious error under paragraph (c)(1) of the Current Rule or a catastrophic error under paragraph (d)(1) of the Current Rule. The same goes for Leg 2. The execution price of Leg 2 is compared to the Theoretical Price of Leg 2. If it is determined that one or both of the legs are an obvious or catastrophic error, then the leg (or legs) that is an obvious or catastrophic error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3) of the Current Rule, regardless of whether one of the parties is a Customer.¹² Although a single-legged execution that is deemed to be an obvious error under the Current Rule is nullified whenever a Customer is involved in the transaction, the Exchange believes adjusting execution prices is generally better for the marketplace than nullifying executions because liquidity providers often execute hedging transactions to offset options positions. When an options transaction is nullified the hedging position can adversely affect the liquidity provider. With regards to complex orders that execute against individual legs, the additional rationale for adjusting erroneous execution prices when possible is the fact that the counterparty on a leg that is not executed at an obvious or catastrophic error price cannot look at the execution price to determine whether the execution may later be nullified (as opposed to the counterparty on single-legged order that is executed at an obvious error or catastrophic error price).

¹¹ See Exchange Rule 521(b) (defining the manner in which Theoretical Price is determined).

¹² See Exchange Rule 521(a)(1) (defining Customer for purposes of Rule 521 to mean a Priority Customer, which is a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Exchange Rule 100.)

Paragraph (c)(4)(A) of the Current Rule mandates that if it is determined that an obvious error has occurred, the execution price of the transaction will be adjusted pursuant to the table set forth in (c)(4)(A). Although for simple orders paragraph (c)(4)(A) is only applicable when no party to the transaction is a Customer, for the purposes of complex orders paragraph (a) of Interpretation and Policy .03 will supersede that limitation; therefore, if it is determined that a leg (or legs) of a complex order is an obvious error, the leg (or legs) will be adjusted pursuant to (c)(4)(A), regardless of whether a party to the transaction is a Customer. The Size Adjustment Modifier defined in subparagraph (a)(4) of the Current Rule will similarly apply (regardless of whether a Customer is on the transaction) by virtue of the application of paragraph (c)(4)(A).¹³ The Exchange notes that adjusting all market participants is not unique or novel. When the Exchange determines that a simple order execution is a Catastrophic Error pursuant to the Current Rule, paragraph (d)(3) already provides for adjusting the execution price for all market participants, including Customers.

Furthermore, as with the Current Rule, Proposed Rule 521 Interpretation and Policy .03(a) provides protection for Customer orders, stating that where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). For example, assume Customer enters a complex order to buy Leg 1 and Leg 2.

¹³ See Exchange Rule 521(c)(4)(A) (stating that any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in subparagraph (a)(4)). The Size Adjustment Modifier may also apply to the option leg of a stock-option order that is adjusted pursuant to Proposed Rule 521 Interpretation and Policy .03(c).

- Assume the NBBO for Leg 1 is \$0.20-1.00 and the NBBO for Leg 2 is \$0.50-1.00 and that these have been the NBBOs since the market opened.
- A split-second prior to the execution of the complex order a Customer enters a simple order to sell the Leg 1 options series at \$1.30, and the simple order enters the Exchange's book so that the BBO is \$.20-\$1.30. The limit price on the simple order is \$1.30.
- The complex order executes Leg 1 against the Exchange's best offer of \$1.30 and Leg 2 at \$1.00 for a net execution price of \$2.30.
- However, Leg 1 executed on a wide quote (the NBBO for Leg 1 was \$0.20-1.00 at the time of execution, which is wider than \$0.75).¹⁴ Leg 2 was not executed on a wide quote (the market for Leg 2 was \$0.50-1.00); thus, Leg 2 execution price stands.
- The Exchange determines that the Theoretical Price for Leg 1 is \$1.00, which was the best offer prior to the execution. Leg 1 qualifies as an obvious error because the difference between the Theoretical Price (\$1.00) and the execution price (\$1.30) is larger than \$0.25.¹⁵
- According to Proposed Rule 521 Interpretation and Policy .03(a), Customers will also be adjusted in accordance with Rule 521(c)(4)(A), which for a buy transaction under \$3.00 calls for the Theoretical Price to be adjusted by adding \$0.15¹⁶ to the Theoretical Price of \$1.00. Thus, adjust execution price for Leg 1 would be \$1.15.

¹⁴ See Exchange Rule 521(b)(3).

¹⁵ See Exchange Rule 521(c)(1).

¹⁶ See Exchange Rule 521(c)(4)(A).

- However, adjusting the execution price of Leg 1 to \$1.15 violates the limit price of the Customer's sell order on the simple order book for Leg 1, which was \$1.30.
- Thus, the entire complex order transaction will be nullified¹⁷ because the limit price of a Customer's sell order would be violated by the adjustment.¹⁸

As the above example demonstrates, incoming complex orders may execute against resting simple orders in the leg market. If a complex order leg is deemed to be an obvious error, adjusting the execution price of the leg may violate the limit price of the resting order, which will result in nullification if the resting order is for a Customer. In contrast, Interpretation and Policy .02 to Rule 521 provides that if an adjustment would result in an execution price that is higher than an erroneous buy transaction or lower than an erroneous sell transaction the execution will not be adjusted or nullified.¹⁹ If the adjustment of a complex order would violate the complex order Customer's limit price, the transaction will be nullified.

As previously noted, paragraph (d)(3) of the Current Rule already mandates that if it is determined that a catastrophic error has occurred, the execution price of the transaction will be adjusted pursuant to the table set forth in paragraph (d)(3). For purposes of complex orders under Proposed Rule 521 Interpretation and Policy .03(a), if one of the legs of a complex order is determined to be a Catastrophic Error under paragraph (d)(3), all market participants will be adjusted in accordance with the table set forth in (d)(3). Again, however, where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment

¹⁷ If any leg of a complex order is nullified, the entire transaction is nullified. See Proposed Rule 521 Interpretation and Policy .03(a).

¹⁸ The simple order in this example is not an erroneous sell transaction because the execution price was not erroneously low. See Exchange Rule 521(a)(2).

¹⁹ See Exchange Rule 521 Interpretation and Policy .02.

would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). Again, if any leg of a complex order is nullified, the entire transaction is nullified. Additionally, as is the case today, a Member that submits an appeal seeking the review of an Official ruling will be assessed a fee of \$500.00 for each Official ruling to be reviewed that is sustained and not overturned or modified by the Chief Regulatory Officer or his/her designee. In addition, in instances where the Exchange, on behalf of a Member, requests a determination by another market center that a transaction is clearly erroneous, the Exchange will pass any resulting charges through to the relevant Member.²⁰

Other than honoring the limit prices established for Customer orders, the Exchange has proposed to treat Customers and non-Customers the same in the context of the complex orders that trade against the leg market. When complex orders trade against the leg market, it is possible that at least some of the legs will execute at prices that would not be deemed obvious or catastrophic errors, which gives the counterparty in such situations no indication that the execution will later be adjusted or nullified. The Exchange believes that treating Customers and non-Customers the same in this context will provide additional certainty to non-Customers (especially Market-Makers) with respect to their potential exposure and hedging activities, including comfort that even if a transaction is later adjusted, such transaction will not be fully nullified. However, as noted above, under the Proposed Rule where at least one party to the transaction is a Customer, the trade will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). The Exchange has retained the protection of

²⁰ See Exchange Rule 521(1)(2).

a Customer's limit price in order to avoid a situation where the adjustment could be to a price that a Customer would not have expected, and market professionals such as non-Customers would be better prepared to recover in such situations. Therefore, adjustment for non-Customers is more appropriate.

Second, proposed Interpretation and Policy .03(b) governs the review of complex orders that are executed against other complex orders. Proposed Rule 521 Interpretation and Policy .03(b) provides:

If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3), or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of this Rule 521, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

As described above in relation to Proposed Rule 521 Interpretation and Policy .03(a), the first step is for the Exchange to review (upon receipt of a timely notification in accordance with paragraphs (c)(2) or (d)(2) of the Current Rule) the individual legs to determine whether a leg or legs qualifies as an obvious or catastrophic error. If no leg qualifies as an obvious or catastrophic error, the transaction stands—no adjustment and no nullification.

Unlike Proposed Rule 521 Interpretation and Policy .03(a), the Exchange is also proposing to compare the net execution price of the entire complex order package to the National

Spread Market (“NSM”) for the complex order strategy.²¹ Complex orders are exempt from the order protection rules of the options exchanges.²² Thus, depending on the manner in which the systems of an options exchange are calibrated, a complex order can execute without regard to the prices offered in the complex order books or the leg markets of other options exchanges. In certain situations, reviewing the execution prices of the legs in a vacuum would make the leg appear to be an obvious or catastrophic error, even though the net execution price on the complex order is not an erroneous price. For example, assume the Exchange receives a complex order to buy ABC calls and sell ABC puts.

- If the BBO for the ABC calls is \$5.50-7.50 and the BBO for ABC puts is \$3.00-4.50, then the Exchange’s spread market is \$1.00-4.50.²³
- If the NBBO for the ABC calls is \$6.00-6.50 and the NBBO for the ABC puts is \$3.50-4.00, then the NSM is \$2.00-3.00.
- If the Customer buys the calls at \$7.50 and sells the puts at \$4.00, the complex order Customer receives a net execution price of \$3.00 (debit), which is the expected net execution price as indicated by the NSM offer of \$3.00.

²¹ NSM is the derived net market for a complex order package. For example, if the NBBO of Leg 1 is \$1.00-2.00 and the NBBO of Leg 2 is \$5.00-7.00, then the NSM for a complex order to buy Leg 1 and buy Leg 2 is \$6.00-9.00.

²² See Exchange Rule 1401(b)(7). All options exchanges have the same order protection rule.

²³ The complex order is to buy ABC calls and sell ABC puts. The Exchange’s best offer for ABC puts is \$7.50 and Exchange’s best bid for is \$3.00. If the Customer were to buy the complex order strategy, the Customer would receive a debit of \$4.50 (buy ABC calls for \$7.50 minus selling ABC puts for \$3.00). If the Customer were to sell the complex order strategy the Customer would receive a credit of \$1.00 (selling the ABC calls for \$5.50 minus buying the ABC puts for \$4.50). Thus, the Exchange’s spread market is \$1.00-4.50.

If the exchange were to solely focus on the \$7.50 execution price of the ABC calls or the \$4.00 execution price of the ABC puts, the execution would qualify as an obvious or catastrophic error because the execution price on the legs was outside the NBBO, even though the net execution price is accurate. Thus, the additional review of the NSM to determine if the complex order was executed at a truly erroneous price is necessary. The same concern is not present when a complex order executes against the leg market under Proposed Rule 521 Interpretation and Policy .03(a) because the execution price of each component is not executed at a price that is outside of the NBBO.²⁴

In order to incorporate NSM, Proposed Rule 521 Interpretation and Policy .03(b) provides that if a complex order executes against another complex order and at least one of the legs qualifies as an obvious or catastrophic error, the leg or legs that is an obvious or catastrophic error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3) of the Current Rule, so long as either: (i) the width of the NSM for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) of the Current Rule or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the NSM for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1) of the Current Rule.

For example, assume an individual leg or legs qualifies as an obvious or catastrophic error and the width of the NSM of the complex order strategy just prior to the erroneous transaction is \$6.00-9.00. The complex order will qualify to be adjusted or busted in accordance with paragraph (c)(4) of the Current Rule because the wide quote table of paragraph (b)(3) of the

²⁴ See Exchange Rule 518(c)(2)(iii).

Current Rule indicates that the minimum amount is \$1.50 for a bid price between \$5.00 to \$10.00. If the NSM were instead \$6.00-7.00 the complex order strategy would not qualify to be adjusted or busted pursuant to Proposed Rule 521 Interpretation and Policy .03(b)(i) because the width of the NSM is \$1.00, which is less than the required \$1.50. However, the execution may still qualify to be adjusted or busted in accordance with paragraph (c)(4) or (d)(3) of the Current Rule pursuant to Proposed Rule 521 Interpretation and Policy .03(b)(ii). Focusing on the NSM in this manner will ensure that the obvious/catastrophic error review process focuses on the net execution price instead of the execution prices of the individual legs, which may have execution prices outside of the NBBO of the leg markets.

Again, assume an individual leg or legs qualifies as an obvious or catastrophic error as described above. If the NSM is \$6.00-7.00 (not a wide quote pursuant to the wide quote table in paragraph (b)(3) of the Current Rule) but the execution price of the entire complex order package (i.e., the net execution price) is higher (lower) than the offer (bid) of the NSM for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount in the table in paragraph (c)(1) of the Current Rule, then the complex order qualifies to be adjusted or busted in accordance with paragraph (c)(4) or (d)(3) of the Current Rule. For example, if the NSM for the complex order strategy just prior to the erroneous transaction is \$6.00-7.00 and the net execution price of the complex order transaction is \$7.75, the complex order qualifies to be adjusted or busted in accordance with paragraph (c)(4) of the Current Rule because the execution price of \$7.75 is more than \$0.50 (i.e., the minimum amount according to the table in paragraph (c)(1) when the price is above \$5.00 but less than \$10.01) from the NSM offer of \$7.00.

Focusing on the NSM in this manner will ensure that the obvious/catastrophic error review

process focuses on the net execution price instead of the execution prices of the individual legs, which may have execution prices outside of the NBBO of the leg markets.

Although the Exchange believes adjusting execution prices is generally better for the marketplace than nullifying executions because liquidity providers often execute hedging transactions to offset options positions, the Exchange recognizes that complex orders executing against other complex orders is similar to simple orders executing against other simple orders because both parties are able to review the execution price to determine whether the transaction may have been executed at an erroneous price. Thus, for purposes of complex orders that meet the requirements of Proposed Rule 521 Interpretation and Policy .03(b), the Exchange proposes to apply the Current Rule and adjust or bust obvious errors in accordance with paragraph (c)(4) (as opposed to applying paragraph (c)(4)(A) as is the case under Proposed Rule 521 Interpretation and Policy .03(a)) and catastrophic errors in accordance with (d)(3).

Therefore, for purposes of complex orders under Proposed Rule 521 Interpretation and Policy .03(b), if one of the legs is determined to be an obvious error under paragraph (c)(1), all Customer transactions will be nullified, unless a Member submits 200 or more Customer transactions for review in accordance with (c)(4)(C).²⁵ For purposes of complex orders under Proposed Rule 521 Interpretation and Policy .03(b), if one of the legs is determined to be a catastrophic error under paragraph (d)(3) and all of the other requirements of Rule 521 Interpretation and Policy .03(b) are met, all market participants will be adjusted in accordance with the table set forth in (d)(3). Again, however, pursuant to paragraph (d)(3) where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment

²⁵ Rule 521(c)(4)(C) also requires the orders resulting in 200 or more Customer transactions to have been submitted during the course of 2 minutes or less.

would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). Also, if any leg of a complex order is nullified, the entire transaction is nullified.

Third, proposed Interpretation and Policy .03(c) governs stock-option orders. Proposed Rule 521 Interpretation and Policy .03(c) provides:

If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

Similar to proposed Interpretation and Policy .03(a), an options leg (or legs) of a stock-option order must qualify as an obvious or catastrophic error under the Current Rule in order for the stock-option order to qualify as an obvious or catastrophic error. Also similar to Proposed Rule 521 Interpretation and Policy .03(a), if an options leg (or legs) does qualify as an obvious or catastrophic error, the option leg (or legs) will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. Again, as with Proposed Rule 521 Interpretation and Policy .03(a), where at least one party to a complex order transaction is a Customer, the Exchange will nullify the option leg and attempt to nullify the stock leg if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s).

The stock leg of a stock-option order is not executed on the Exchange; rather, the stock leg is sent to a stock trading venue for execution. The Exchange is unaware of a mechanism by which the Exchange can guarantee that the stock leg will be nullified by the stock trading venue in the event of an obvious or catastrophic error on the Exchange. Thus, in the event of the nullification of the option leg pursuant to Proposed Rule 521 Interpretation and Policy .03(c), the Exchange will attempt to have the stock leg nullified by the stock trading venue by either contacting the stock trading venue or notifying the parties to the transaction that the option leg is being nullified. The party or parties to the transaction may ultimately need to contact the stock trading venue to have the stock portion nullified.

Finally, the Exchange proposes to provide guidance that whenever the stock trading venue nullifies the stock leg of a stock-option order, the option will be nullified upon request of one of the parties to the transaction or by an Official acting on their own motion in accordance with paragraph (c)(3). There are situations in which buyer and seller agree to trade a stock-option order, but the stock leg cannot be executed. The Exchange proposes to provide guidance that whenever the stock portion of a stock-option order cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or on an Official's own motion.

Implementation Date

In order to ensure that the other options exchanges are able to adopt rules consistent with this proposal and to coordinate effectiveness of such harmonized rules, the Exchange proposes to delay the operative date of this proposal to April 17, 2017.

b. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act²⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act²⁷ 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. As described above, the Exchange and other options exchanges are seeking to adopt harmonized rules related to the adjustment and nullification of erroneous options transactions. The Exchange believes that the Proposed Rule will provide greater transparency and clarity with respect to the adjustment and nullification of erroneous options transactions. Particularly, the proposed changes seek to achieve consistent results for participants across U.S. options exchanges while maintaining a fair and orderly market, protecting investors and protecting the public interest. Based on the foregoing, the Exchange believes that the proposal is consistent with Section 6(b)(5) of the Act²⁸ in that the Proposed Rule will foster cooperation and coordination with persons engaged in regulating and facilitating transactions. The Exchange believes the various provisions allowing or dictating adjustment rather than nullification of a trade are necessary given the benefits of adjusting a trade price rather than nullifying the trade completely. Because options trades are used to hedge, or are hedged by, transactions in other markets, including securities and futures, many Members, and their customers, would rather

²⁶ 15 U.S.C. 78f(b).

²⁷ 15 U.S.C. 78f(b)(5).

²⁸ Id.

adjust prices of executions rather than nullify the transactions and, thus, lose a hedge altogether. As such, the Exchange believes it is in the best interest of investors to allow for price adjustments as well as nullifications.

The Exchange does not believe that the proposal is unfairly discriminatory, even though it differentiates in many places between Customers and non-Customers. As with the Current Rule, Customers are treated differently, often affording them preferential treatment. This treatment is appropriate in light of the fact that Customers are not necessarily immersed in the day-to-day trading of the markets, are less likely to be watching trading activity in a particular option throughout the day, and may have limited funds in their trading accounts. At the same time, the Exchange reiterates that in the U.S. options markets generally there is significant retail customer participation that occurs directly on (and only on) options exchanges such as the Exchange. Accordingly, differentiating among market participants with respect to the adjustment and nullification of erroneous options transactions is not unfairly discriminatory because it is reasonable and fair to provide Customers with additional protections as compared to non-Customers.

The Exchange believes that its proposal to adopt the ability to adjust a Customer's execution price when a complex order is deemed to be an Obvious or Catastrophic Error is consistent with the Act. A complex order that executes against individual leg markets may receive an execution price on an individual leg that is not an Obvious or Catastrophic error but another leg of the transaction is an Obvious or Catastrophic Error. In such situations where the complex order is executing against at least one individual or firm that is not aware of the fact that they have executed against a complex order or that the complex order has been executed at an erroneous price, the Exchange believes it is more appropriate to adjust execution prices if

possible because the derivative transactions are often hedged with other securities. Allowing adjustments instead of nullifying transactions in these limited situations will help to ensure that market participants are not left with a hedge that has no position to hedge against.

The Exchange also believes its proposal related to stock-option orders is consistent with the Act. Stock-option orders consist of an option component and a stock component. Due to the fact that the Exchange has no control over the venues on which the stock is executed the proposal focuses on the option component of the stock-option order by adjusting or nullifying the option in accordance with paragraph (c)(4)(A) or (d)(3). Also, nullifying the option component if the stock component cannot be executed ensures that market participants receive the execution for which they bargained. Stock-option orders are negotiated and agreed to as a package; thus, if for any reason the stock portion of a stock-option order cannot ultimately be executed, the parties should not be saddled with an options position sans stock.

4. Self-Regulatory Organization's Statement on Burden on Competition

MIAX 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. In this regard and as indicated above, the Exchange notes that the proposed rule change is substantially similar to a filing submitted by CBOE that was recently approved by the Commission.²⁹

The Exchange believes the proposal will not impose a burden on intermarket competition but will rather alleviate any burden on competition because it is the result of a collaborative effort by all options exchanges to harmonize and improve the process related to the adjustment and nullification of erroneous options transactions. The Exchange does not believe that the rules applicable to such process is an area where options exchanges should compete, but rather, that all

²⁹ See supra, note 3.

options exchanges should have consistent rules to the extent possible. Particularly where a market participant trades on several different exchanges and an erroneous trade may occur on multiple markets nearly simultaneously, the Exchange believes that a participant should have a consistent experience with respect to the nullification or adjustment of transactions. The Exchange understands that all other options exchanges that trade complex orders and/or stock-option orders intend to file proposals that are substantially similar to this proposal. The Exchange does not believe that the proposed rule change imposes a burden on intramarket competition because the provisions apply to all market participants equally within each participant category (i.e., Customers and non-Customers). With respect to competition between Customer and non-Customer market participants, the Exchange believes that the Proposed Rule acknowledges competing concerns and tries to strike the appropriate balance between such concerns. For instance, the Exchange believes that protection of Customers is important due to their direct participation in the options markets as well as the fact that they are not, by definition, market professionals. At the same time, the Exchange believes due to the quote-driven nature of the options markets, the importance of liquidity provision in such markets and the risk that liquidity providers bear when quoting a large breadth of products that are derivative of underlying securities, that the protection of liquidity providers and the practice of adjusting transactions rather than nullifying them is of critical importance. As described above, the Exchange will apply specific and objective criteria to determine whether an erroneous transaction has occurred and, if so, how to adjust or nullify a transaction.

5. **Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Pursuant to Section 19(b)(3)(A) of the Act³⁰ and Rule 19b-4(f)(6)³¹ thereunder, the Exchange has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange does not believe that the proposed rule change raises any novel or unique substantive issues. It raises no new regulatory issues. The proposed rule change is substantially similar in all material respects to a proposal submitted by CBOE that was recently approved by the Commission.³² The Exchange believes that this proposed rule change, which is essential for competitive purposes and to promote a free and open market for the benefit of investors, does not raise any new, unique or substantive issues from those raised in the CBOE filing. Accordingly, the Exchange believes that the proposed rule change is eligible for immediately effective treatment under the Commission's current procedures for processing rule filings.

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

³⁰ 15 U.S.C. 78s(b)(3)(A).

³¹ 17 CFR 240.19b-4(f)(6).

³² See supra, note 3.

Exchange has provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, prior to the date of filing the proposed rule change as required by Rule 19b-4(f)(6). The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the Exchange may implement the proposed rule change on April 17, 2017 in conjunction with the other exchanges that the Exchange expects will file to adopt identical rules. Waiver of the operative delay is consistent with the protection of investors and the public interest because it will ensure fair competition among the exchanges by allowing the Exchange to harmonize its rules and implementation date of these rules with the other exchanges.

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.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

As discussed above, the Exchange believes that the proposed rule change is substantially similar in all material respects to a proposal submitted by CBOE that was recently approved by the Commission.³³

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

³³

Id.

11. Exhibits

1. Notice of proposed rule for publication in the Federal Register.
5. Text of proposed rule change.

EXHIBIT 1SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-MIAX-2017-13)

March __, 2017

Self-Regulatory Organizations: Notice of Filing and Immediate Effectiveness of a Proposed Rule Change by Miami International Securities Exchange LLC to Amend MIAX Options Rule 521, Nullification and Adjustment of Options Transactions Including Obvious Errors

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 March 17, 2017, Miami International Securities Exchange, LLC (“MIAX Options” 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 521 (the “Current Rule”), Nullification and Adjustment of Options Transactions Including Obvious Errors, by adding new Interpretation and Policy .03 to Rule 521 (the “Proposed Rule”).

The text of the proposed rule change is available on the Exchange’s website at <http://www.miaxoptions.com/rule-filings>, at MIAX’s principal office, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 proposes to amend Exchange Rule 521, Nullification and Adjustment of Options Transactions Including Obvious Errors, to add Interpretation and Policy .03. This filing is based on a proposal recently submitted by Chicago Board Options Exchange, Incorporated (“CBOE”) and approved by the Commission.³

Last year, the Exchange and other options exchanges adopted a new, harmonized rule related to the adjustment and nullification of erroneous options transactions, including a specific provision related to coordination in connection with large-scale events involving erroneous options transactions.⁴ The Exchange believes that the changes the options exchanges implemented with the new, harmonized rule have led to increased transparency and finality with respect to the adjustment and nullification of erroneous options transactions. However, as part of the initial initiative, the Exchange and other options exchanges deferred a few specific matters for further discussion.

³ See Securities Exchange Act Release No. 80040 (February 14, 2017), 82 FR 11248 (February 21, 2017) (Order Approving SR-CBOE-2016-088).

⁴ See Securities Exchange Act Release No. 74918 (May 8, 2015), 80 FR 27781 (May 14, 2015) (SR-MIAX-2015-35) (the “Initial Filing”).

Specifically, the options exchanges have been working together to identify ways to improve the process related to the adjustment and nullification of erroneous options transactions as it relates to complex orders and stock-option orders.⁵ The goal of the process that the options exchanges have undertaken is to further harmonize rules related to the adjustment and nullification of erroneous options transactions. As described below, the Exchange believes that the changes the options exchanges and the Exchange have agreed to propose will provide transparency and finality with respect to the adjustment and nullification of erroneous complex order and stock-option order transactions. Particularly, the proposed changes seek to achieve consistent results for participants across U.S. options exchanges while maintaining a fair and orderly market, protecting investors and protecting the public interest.

The Proposed Rule is the culmination of this coordinated effort and reflects discussions by the options exchanges whereby the exchanges that offer complex orders and/or stock-option orders will universally adopt new provisions that the options exchanges collectively believe will improve the handling of erroneous options transactions that result from the execution of complex orders and stock-option orders.⁶

The Exchange believes that the Proposed Rule supports an approach consistent with long-standing principles in the options industry under which the general policy is to adjust rather than nullify transactions. The Exchange acknowledges that adjustment of transactions is contrary to the operation of analogous rules applicable to the equities markets, where erroneous transactions are typically nullified rather than adjusted and where there is no distinction between the types of

⁵ See Exchange Rule 518(a)(5) (defining complex orders and stock-option orders).

⁶ An exchange that does not offer complex orders and/or stock-option orders will not adopt these new provisions until such time as the exchange offers complex orders and/or stock-option orders. Exchange Rule 518 currently permits the trading of complex orders and stock-option orders.

market participants involved in a transaction. For the reasons set forth below, the Exchange believes that the distinctions in market structure between equities and options markets continue to support these distinctions between the rules for handling obvious errors in the equities and options markets.

Various general structural differences between the options and equities markets point toward the need for a different balancing of risks for options market participants and are reflected in this proposal. Option pricing is formulaic and is tied to the price of the underlying stock, the volatility of the underlying security and other factors. Because options market participants can generally create new open interest in response to trading demand, as new open interest is created, correlated trades in the underlying or related series are generally also executed to hedge a market participant's risk. This pairing of open interest with hedging interest differentiates the options market specifically (and the derivatives markets broadly) from the cash equities markets. In turn, the Exchange believes that the hedging transactions engaged in by market participants necessitate protection of transactions through adjustments rather than nullifications when possible and otherwise appropriate.

The options markets are also quote driven markets dependent on liquidity providers to an even greater extent than equities markets. In contrast to the approximately 7,000 different securities traded in the U.S. equities markets each day, there are more than 500,000 unique, regularly quoted option series. Given this breadth in options series the options markets are more dependent on liquidity providers than equities markets; such liquidity is provided most commonly by registered market makers but also by other professional traders. With the number of instruments in which registered market makers must quote and the risk attendant with quoting so many products simultaneously, the Exchange believes that those liquidity providers should be afforded a greater level of protection. In particular, the Exchange believes that liquidity

providers should be allowed protection of their trades given the fact that they typically engage in hedging activity to protect them from significant financial risk to encourage continued liquidity provision and maintenance of the quote-driven options markets.

In addition to the factors described above, there are other fundamental differences between options and equities markets which lend themselves to different treatment of different classes of participants that are reflected in this proposal. For example, there is no trade reporting facility in the options markets. Thus, all transactions must occur on an options exchange. This leads to significantly greater retail customer participation directly on exchanges than in the equities markets, where a significant amount of retail customer participation never reaches the Exchange but is instead executed in off-exchange venues such as alternative trading systems, broker-dealer market making desks and internalizers. In turn, because of such direct retail customer participation, the exchanges have taken steps to afford those retail customers – generally Priority Customers - more favorable treatment in some circumstances.

Complex Orders and Stock-Option Orders

As more fully described below, the Proposed Rule applies much of the Current Rule to complex orders and stock-option orders.⁷ The Proposed Rule deviates from the Current Rule only to account for the unique qualities of complex orders and stock-option orders. The Proposed Rule reflects the fact that complex orders can execute against other complex orders or can execute against individual simple orders in the leg markets. When a complex order executes against the leg markets there may be different counterparties on each leg of the complex order, and not every leg will necessarily be executed at an erroneous price. With regards to stock-

⁷ In order for a complex order or stock-option order to qualify as an obvious or catastrophic error at least one of the legs must itself qualify as an obvious or catastrophic error under the Current Rule. See Proposed Rule 521 Interpretation and Policy .03(a) - (c).

option orders, the Proposed Rule reflects the fact that stock-option orders contain a stock component that is executed on a stock trading venue, and the Exchange may not be able to ensure that the stock trading venue will adjust or nullify the stock execution in the event of an obvious or catastrophic error. In order to apply the Current Rule and account for the unique characteristics of complex orders and stock-option orders, proposed Interpretation and Policy .03 is split into three parts—paragraphs (a), (b), and (c).

First, proposed Interpretation and Policy .03(a) governs the review of complex orders that are executed against individual legs (as opposed to a complex order that executes against another complex order).⁸ Proposed Rule 521 Interpretation and Policy .03(a) provides:

If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

As previously noted, at least one of the legs of the complex order must qualify as an obvious or catastrophic error under the Current Rule in order for the complex order to receive obvious or catastrophic error relief. Thus, when the Exchange is notified (within the timeframes set forth in paragraph (c)(2) or (d)(2)) of a complex order that is a possible obvious error or catastrophic error, the Exchange will first review the individual legs of the complex order to

⁸ The leg market consists of quotes and/or orders in single options series. A complex order may be received by the Exchange electronically, and the legs of the complex order may have different counterparties. For example, Market-Maker 1 may be quoting in ABC calls and Market-Maker 2 may be quoting in ABC puts. A complex order to buy the ABC calls and puts may execute against the quotes of Market-Maker 1 and Market-Maker 2.

determine if one or more legs qualify as an obvious or catastrophic error.⁹ If no leg qualifies as an obvious or catastrophic error, the transaction stands—no adjustment and no nullification.

Reviewing the legs to determine whether one or more legs qualify as an obvious or catastrophic error requires the Exchange to follow the Current Rule. In accordance with paragraphs (c)(1) and (d)(1) of the Current Rule, the Exchange compares the execution price of each individual leg to the Theoretical Price of each leg (as determined by paragraph (b) of the Current Rule). If the execution price of an individual leg is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown in the obvious error table in paragraph (c)(1) of the Current Rule or the catastrophic error table in paragraph (d)(1) of the Current Rule, the individual leg qualifies as an obvious or catastrophic error, and the Exchange will take steps to adjust or nullify the transaction.¹⁰

To illustrate, assume a Customer submits a complex order to the Exchange consisting of Leg 1 and Leg 2—Leg 1 is to buy 100 ABC calls and Leg 2 is to sell 100 ABC puts. Also, assume that Market-Maker 1 is quoting the ABC calls \$1.00-1.20 and Market-Maker 2 is quoting the ABC puts \$2.00-2.20. If the complex order executes against the quotes of Market-Makers 1 and 2, the Customer buys the ABC calls for \$1.20 and sells the ABC puts for \$2.00. As with the obvious/catastrophic error reviews for simple orders, the execution price of Leg 1 is compared to

⁹ Because a complex order can execute against the leg market, the Exchange may also be notified of a possible obvious or catastrophic error by a counterparty that received an execution in an individual options series. If upon review of a potential obvious error the Exchange determines an individual options series was executed against the leg of a complex order or stock-option order, Proposed Rule 521 Interpretation and Policy .03 will govern.

¹⁰ Only the execution price on the leg (or legs) that qualifies as an obvious or catastrophic error pursuant to any portion of Proposed Rule 521 Interpretation and Policy .03 will be adjusted. The execution price of a leg (or legs) that does not qualify as an obvious or catastrophic error will not be adjusted.

the Theoretical Price¹¹ of Leg 1 in order to determine if Leg 1 is an obvious error under paragraph (c)(1) of the Current Rule or a catastrophic error under paragraph (d)(1) of the Current Rule. The same goes for Leg 2. The execution price of Leg 2 is compared to the Theoretical Price of Leg 2. If it is determined that one or both of the legs are an obvious or catastrophic error, then the leg (or legs) that is an obvious or catastrophic error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3) of the Current Rule, regardless of whether one of the parties is a Customer.¹² Although a single-legged execution that is deemed to be an obvious error under the Current Rule is nullified whenever a Customer is involved in the transaction, the Exchange believes adjusting execution prices is generally better for the marketplace than nullifying executions because liquidity providers often execute hedging transactions to offset options positions. When an options transaction is nullified the hedging position can adversely affect the liquidity provider. With regards to complex orders that execute against individual legs, the additional rationale for adjusting erroneous execution prices when possible is the fact that the counterparty on a leg that is not executed at an obvious or catastrophic error price cannot look at the execution price to determine whether the execution may later be nullified (as opposed to the counterparty on single-legged order that is executed at an obvious error or catastrophic error price).

Paragraph (c)(4)(A) of the Current Rule mandates that if it is determined that an obvious error has occurred, the execution price of the transaction will be adjusted pursuant to the table set

¹¹ See Exchange Rule 521(b) (defining the manner in which Theoretical Price is determined).

¹² See Exchange Rule 521(a)(1) (defining Customer for purposes of Rule 521 to mean a Priority Customer, which is a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Exchange Rule 100.)

forth in (c)(4)(A). Although for simple orders paragraph (c)(4)(A) is only applicable when no party to the transaction is a Customer, for the purposes of complex orders paragraph (a) of Interpretation and Policy .03 will supersede that limitation; therefore, if it is determined that a leg (or legs) of a complex order is an obvious error, the leg (or legs) will be adjusted pursuant to (c)(4)(A), regardless of whether a party to the transaction is a Customer. The Size Adjustment Modifier defined in subparagraph (a)(4) of the Current Rule will similarly apply (regardless of whether a Customer is on the transaction) by virtue of the application of paragraph (c)(4)(A).¹³ The Exchange notes that adjusting all market participants is not unique or novel. When the Exchange determines that a simple order execution is a Catastrophic Error pursuant to the Current Rule, paragraph (d)(3) already provides for adjusting the execution price for all market participants, including Customers.

Furthermore, as with the Current Rule, Proposed Rule 521 Interpretation and Policy .03(a) provides protection for Customer orders, stating that where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). For example, assume Customer enters a complex order to buy Leg 1 and Leg 2.

- Assume the NBBO for Leg 1 is \$0.20-1.00 and the NBBO for Leg 2 is \$0.50-1.00 and that these have been the NBBOs since the market opened.
- A split-second prior to the execution of the complex order a Customer enters a simple order to sell the Leg 1 options series at \$1.30, and the simple order enters the

¹³ See Exchange Rule 521(c)(4)(A) (stating that any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in subparagraph (a)(4)). The Size Adjustment Modifier may also apply to the option leg of a stock-option order that is adjusted pursuant to Proposed Rule 521 Interpretation and Policy .03(c).

Exchange's book so that the BBO is \$.20-\$1.30. The limit price on the simple order is \$1.30.

- The complex order executes Leg 1 against the Exchange's best offer of \$1.30 and Leg 2 at \$1.00 for a net execution price of \$2.30.
- However, Leg 1 executed on a wide quote (the NBBO for Leg 1 was \$0.20-1.00 at the time of execution, which is wider than \$0.75).¹⁴ Leg 2 was not executed on a wide quote (the market for Leg 2 was \$0.50-1.00); thus, Leg 2 execution price stands.
- The Exchange determines that the Theoretical Price for Leg 1 is \$1.00, which was the best offer prior to the execution. Leg 1 qualifies as an obvious error because the difference between the Theoretical Price (\$1.00) and the execution price (\$1.30) is larger than \$0.25.¹⁵
- According to Proposed Rule 521 Interpretation and Policy .03(a), Customers will also be adjusted in accordance with Rule 521(c)(4)(A), which for a buy transaction under \$3.00 calls for the Theoretical Price to be adjusted by adding \$0.15¹⁶ to the Theoretical Price of \$1.00. Thus, adjusted execution price for Leg 1 would be \$1.15.
- However, adjusting the execution price of Leg 1 to \$1.15 violates the limit price of the Customer's sell order on the simple order book for Leg 1, which was \$1.30.
- Thus, the entire complex order transaction will be nullified¹⁷ because the limit price of a Customer's sell order would be violated by the adjustment.¹⁸

¹⁴ See Exchange Rule 521(b)(3).

¹⁵ See Exchange Rule 521(c)(1).

¹⁶ See Exchange Rule 521(c)(4)(A).

¹⁷ If any leg of a complex order is nullified, the entire transaction is nullified. See Proposed Rule 521 Interpretation and Policy .03(a).

¹⁸ The simple order in this example is not an erroneous sell transaction because the

As the above example demonstrates, incoming complex orders may execute against resting simple orders in the leg market. If a complex order leg is deemed to be an obvious error, adjusting the execution price of the leg may violate the limit price of the resting order, which will result in nullification if the resting order is for a Customer. In contrast, Interpretation and Policy .02 to Rule 521 provides that if an adjustment would result in an execution price that is higher than an erroneous buy transaction or lower than an erroneous sell transaction the execution will not be adjusted or nullified.¹⁹ If the adjustment of a complex order would violate the complex order Customer's limit price, the transaction will be nullified.

As previously noted, paragraph (d)(3) of the Current Rule already mandates that if it is determined that a catastrophic error has occurred, the execution price of the transaction will be adjusted pursuant to the table set forth in paragraph (d)(3). For purposes of complex orders under Proposed Rule 521 Interpretation and Policy .03(a), if one of the legs of a complex order is determined to be a Catastrophic Error under paragraph (d)(3), all market participants will be adjusted in accordance with the table set forth in (d)(3). Again, however, where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). Again, if any leg of a complex order is nullified, the entire transaction is nullified. Additionally, as is the case today, a Member that submits an appeal seeking the review of an Official ruling will be assessed a fee of \$500.00 for each Official ruling to be reviewed that is sustained and not overturned or modified by the Chief Regulatory Officer or his/her designee. In addition, in instances where the Exchange, on behalf of a Member, requests a determination by another market center that a

execution price was not erroneously low. See Exchange Rule 521(a)(2).

¹⁹ See Exchange Rule 521 Interpretation and Policy .02.

transaction is clearly erroneous, the Exchange will pass any resulting charges through to the relevant Member.²⁰

Other than honoring the limit prices established for Customer orders, the Exchange has proposed to treat Customers and non-Customers the same in the context of the complex orders that trade against the leg market. When complex orders trade against the leg market, it is possible that at least some of the legs will execute at prices that would not be deemed obvious or catastrophic errors, which gives the counterparty in such situations no indication that the execution will later be adjusted or nullified. The Exchange believes that treating Customers and non-Customers the same in this context will provide additional certainty to non-Customers (especially Market-Makers) with respect to their potential exposure and hedging activities, including comfort that even if a transaction is later adjusted, such transaction will not be fully nullified. However, as noted above, under the Proposed Rule where at least one party to the transaction is a Customer, the trade will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). The Exchange has retained the protection of a Customer's limit price in order to avoid a situation where the adjustment could be to a price that a Customer would not have expected, and market professionals such as non-Customers would be better prepared to recover in such situations. Therefore, adjustment for non-Customers is more appropriate.

Second, proposed Interpretation and Policy .03(b) governs the review of complex orders that are executed against other complex orders. Proposed Rule 521 Interpretation and Policy .03(b) provides:

²⁰ See Exchange Rule 521(1)(2).

If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3), or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of this Rule 521, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

As described above in relation to Proposed Rule 521 Interpretation and Policy .03(a), the first step is for the Exchange to review (upon receipt of a timely notification in accordance with paragraphs (c)(2) or (d)(2) of the Current Rule) the individual legs to determine whether a leg or legs qualifies as an obvious or catastrophic error. If no leg qualifies as an obvious or catastrophic error, the transaction stands—no adjustment and no nullification.

Unlike Proposed Rule 521 Interpretation and Policy .03(a), the Exchange is also proposing to compare the net execution price of the entire complex order package to the National Spread Market (“NSM”) for the complex order strategy.²¹ Complex orders are exempt from the order protection rules of the options exchanges.²² Thus, depending on the manner in which the systems of an options exchange are calibrated, a complex order can execute without regard to the prices offered in the complex order books or the leg markets of other options exchanges. In certain situations, reviewing the execution prices of the legs in a vacuum would make the leg

²¹ NSM is the derived net market for a complex order package. For example, if the NBBO of Leg 1 is \$1.00-2.00 and the NBBO of Leg 2 is \$5.00-7.00, then the NSM for a complex order to buy Leg 1 and buy Leg 2 is \$6.00-9.00.

²² See Exchange Rule 1401(b)(7). All options exchanges have the same order protection rule.

appear to be an obvious or catastrophic error, even though the net execution price on the complex order is not an erroneous price. For example, assume the Exchange receives a complex order to buy ABC calls and sell ABC puts.

- If the BBO for the ABC calls is \$5.50-7.50 and the BBO for ABC puts is \$3.00-4.50, then the Exchange's spread market is \$1.00-4.50.²³
- If the NBBO for the ABC calls is \$6.00-6.50 and the NBBO for the ABC puts is \$3.50-4.00, then the NSM is \$2.00-3.00.
- If the Customer buys the calls at \$7.50 and sells the puts at \$4.00, the complex order Customer receives a net execution price of \$3.00 (debit), which is the expected net execution price as indicated by the NSM offer of \$3.00.

If the exchange were to solely focus on the \$7.50 execution price of the ABC calls or the \$4.00 execution price of the ABC puts, the execution would qualify as an obvious or catastrophic error because the execution price on the legs was outside the NBBO, even though the net execution price is accurate. Thus, the additional review of the NSM to determine if the complex order was executed at a truly erroneous price is necessary. The same concern is not present when a complex order executes against the leg market under Proposed Rule 521 Interpretation and Policy .03(a) because the execution price of each component is not executed at a price that is outside of the NBBO.²⁴

²³ The complex order is to buy ABC calls and sell ABC puts. The Exchange's best offer for ABC puts is \$7.50 and Exchange's best bid for is \$3.00. If the Customer were to buy the complex order strategy, the Customer would receive a debit of \$4.50 (buy ABC calls for \$7.50 minus selling ABC puts for \$3.00). If the Customer were to sell the complex order strategy the Customer would receive a credit of \$1.00 (selling the ABC calls for \$5.50 minus buying the ABC puts for \$4.50). Thus, the Exchange's spread market is \$1.00-4.50.

²⁴ See Exchange Rule 518(c)(2)(iii).

In order to incorporate NSM, Proposed Rule 521 Interpretation and Policy .03(b) provides that if a complex order executes against another complex order and at least one of the legs qualifies as an obvious or catastrophic error, the leg or legs that is an obvious or catastrophic error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3) of the Current Rule, so long as either: (i) the width of the NSM for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) of the Current Rule or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the NSM for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1) of the Current Rule.

For example, assume an individual leg or legs qualifies as an obvious or catastrophic error and the width of the NSM of the complex order strategy just prior to the erroneous transaction is \$6.00-9.00. The complex order will qualify to be adjusted or busted in accordance with paragraph (c)(4) of the Current Rule because the wide quote table of paragraph (b)(3) of the Current Rule indicates that the minimum amount is \$1.50 for a bid price between \$5.00 to \$10.00. If the NSM were instead \$6.00-7.00 the complex order strategy would not qualify to be adjusted or busted pursuant to Proposed Rule 521 Interpretation and Policy .03(b)(i) because the width of the NSM is \$1.00, which is less than the required \$1.50. However, the execution may still qualify to be adjusted or busted in accordance with paragraph (c)(4) or (d)(3) of the Current Rule pursuant to Proposed Rule 521 Interpretation and Policy .03(b)(ii). Focusing on the NSM in this manner will ensure that the obvious/catastrophic error review process focuses on the net execution price instead of the execution prices of the individual legs, which may have execution prices outside of the NBBO of the leg markets.

Again, assume an individual leg or legs qualifies as an obvious or catastrophic error as described above. If the NSM is \$6.00-7.00 (not a wide quote pursuant to the wide quote table in paragraph (b)(3) of the Current Rule) but the execution price of the entire complex order package (i.e., the net execution price) is higher (lower) than the offer (bid) of the NSM for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount in the table in paragraph (c)(1) of the Current Rule, then the complex order qualifies to be adjusted or busted in accordance with paragraph (c)(4) or (d)(3) of the Current Rule. For example, if the NSM for the complex order strategy just prior to the erroneous transaction is \$6.00-7.00 and the net execution price of the complex order transaction is \$7.75, the complex order qualifies to be adjusted or busted in accordance with paragraph (c)(4) of the Current Rule because the execution price of \$7.75 is more than \$0.50 (i.e., the minimum amount according to the table in paragraph (c)(1) when the price is above \$5.00 but less than \$10.01) from the NSM offer of \$7.00.

Focusing on the NSM in this manner will ensure that the obvious/catastrophic error review process focuses on the net execution price instead of the execution prices of the individual legs, which may have execution prices outside of the NBBO of the leg markets.

Although the Exchange believes adjusting execution prices is generally better for the marketplace than nullifying executions because liquidity providers often execute hedging transactions to offset options positions, the Exchange recognizes that complex orders executing against other complex orders is similar to simple orders executing against other simple orders because both parties are able to review the execution price to determine whether the transaction may have been executed at an erroneous price. Thus, for purposes of complex orders that meet the requirements of Proposed Rule 521 Interpretation and Policy .03(b), the Exchange proposes to apply the Current Rule and adjust or bust obvious errors in accordance with paragraph (c)(4)

(as opposed to applying paragraph (c)(4)(A) as is the case under Proposed Rule 521 Interpretation and Policy .03(a)) and catastrophic errors in accordance with (d)(3).

Therefore, for purposes of complex orders under Proposed Rule 521 Interpretation and Policy .03(b), if one of the legs is determined to be an obvious error under paragraph (c)(1), all Customer transactions will be nullified, unless a Member submits 200 or more Customer transactions for review in accordance with (c)(4)(C).²⁵ For purposes of complex orders under Proposed Rule 521 Interpretation and Policy .03(b), if one of the legs is determined to be a catastrophic error under paragraph (d)(3) and all of the other requirements of Rule 521 Interpretation and Policy .03(b) are met, all market participants will be adjusted in accordance with the table set forth in (d)(3). Again, however, pursuant to paragraph (d)(3) where at least one party to a complex order transaction is a Customer, the transaction will be nullified if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). Also, if any leg of a complex order is nullified, the entire transaction is nullified.

Third, proposed Interpretation and Policy .03(c) governs stock-option orders. Proposed Rule 521 Interpretation and Policy .03(c) provides:

If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

²⁵ Rule 521(c)(4)(C) also requires the orders resulting in 200 or more Customer transactions to have been submitted during the course of 2 minutes or less.

Similar to proposed Interpretation and Policy .03(a), an options leg (or legs) of a stock-option order must qualify as an obvious or catastrophic error under the Current Rule in order for the stock-option order to qualify as an obvious or catastrophic error. Also similar to Proposed Rule 521 Interpretation and Policy .03(a), if an options leg (or legs) does qualify as an obvious or catastrophic error, the option leg (or legs) will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. Again, as with Proposed Rule 521 Interpretation and Policy .03(a), where at least one party to a complex order transaction is a Customer, the Exchange will nullify the option leg and attempt to nullify the stock leg if adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s).

The stock leg of a stock-option order is not executed on the Exchange; rather, the stock leg is sent to a stock trading venue for execution. The Exchange is unaware of a mechanism by which the Exchange can guarantee that the stock leg will be nullified by the stock trading venue in the event of an obvious or catastrophic error on the Exchange. Thus, in the event of the nullification of the option leg pursuant to Proposed Rule 521 Interpretation and Policy .03(c), the Exchange will attempt to have the stock leg nullified by the stock trading venue by either contacting the stock trading venue or notifying the parties to the transaction that the option leg is being nullified. The party or parties to the transaction may ultimately need to contact the stock trading venue to have the stock portion nullified.

Finally, the Exchange proposes to provide guidance that whenever the stock trading venue nullifies the stock leg of a stock-option order, the option will be nullified upon request of one of the parties to the transaction or by an Official acting on their own motion in accordance with paragraph (c)(3). There are situations in which buyer and seller agree to trade a stock-

option order, but the stock leg cannot be executed. The Exchange proposes to provide guidance that whenever the stock portion of a stock-option order cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or on an Official's own motion.

Implementation Date

In order to ensure that the other options exchanges are able to adopt rules consistent with this proposal and to coordinate effectiveness of such harmonized rules, the Exchange proposes to delay the operative date of this proposal to April 17, 2017.

2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act²⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act²⁷ 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. . As described above, the Exchange and other options exchanges are seeking to adopt harmonized rules related to the adjustment and nullification of erroneous options transactions. The Exchange believes that the Proposed Rule will provide greater transparency and clarity with respect to the adjustment and nullification of erroneous options transactions. Particularly, the proposed changes seek to achieve consistent results for participants across U.S. options exchanges while maintaining a fair and orderly market, protecting investors and protecting the public interest. Based on the foregoing, the Exchange believes that the proposal is consistent

²⁶ 15 U.S.C. 78f(b).

²⁷ 15 U.S.C. 78f(b)(5).

with Section 6(b)(5) of the Act²⁸ in that the Proposed Rule will foster cooperation and coordination with persons engaged in regulating and facilitating transactions. The Exchange believes the various provisions allowing or dictating adjustment rather than nullification of a trade are necessary given the benefits of adjusting a trade price rather than nullifying the trade completely. Because options trades are used to hedge, or are hedged by, transactions in other markets, including securities and futures, many Members, and their customers, would rather adjust prices of executions rather than nullify the transactions and, thus, lose a hedge altogether. As such, the Exchange believes it is in the best interest of investors to allow for price adjustments as well as nullifications.

The Exchange does not believe that the proposal is unfairly discriminatory, even though it differentiates in many places between Customers and non-Customers. As with the Current Rule, Customers are treated differently, often affording them preferential treatment. This treatment is appropriate in light of the fact that Customers are not necessarily immersed in the day-to-day trading of the markets, are less likely to be watching trading activity in a particular option throughout the day, and may have limited funds in their trading accounts. At the same time, the Exchange reiterates that in the U.S. options markets generally there is significant retail customer participation that occurs directly on (and only on) options exchanges such as the Exchange. Accordingly, differentiating among market participants with respect to the adjustment and nullification of erroneous options transactions is not unfairly discriminatory because it is reasonable and fair to provide Customers with additional protections as compared to non-Customers.

The Exchange believes that its proposal to adopt the ability to adjust a Customer's execution price when a complex order is deemed to be an Obvious or Catastrophic Error is

²⁸

Id.

consistent with the Act. A complex order that executes against individual leg markets may receive an execution price on an individual leg that is not an Obvious or Catastrophic error but another leg of the transaction is an Obvious or Catastrophic Error. In such situations where the complex order is executing against at least one individual or firm that is not aware of the fact that they have executed against a complex order or that the complex order has been executed at an erroneous price, the Exchange believes it is more appropriate to adjust execution prices if possible because the derivative transactions are often hedged with other securities. Allowing adjustments instead of nullifying transactions in these limited situations will help to ensure that market participants are not left with a hedge that has no position to hedge against.

The Exchange also believes its proposal related to stock-option orders is consistent with the Act. Stock-option orders consist of an option component and a stock component. Due to the fact that the Exchange has no control over the venues on which the stock is executed the proposal focuses on the option component of the stock-option order by adjusting or nullifying the option in accordance with paragraph (c)(4)(A) or (d)(3). Also, nullifying the option component if the stock component cannot be executed ensures that market participants receive the execution for which they bargained. Stock-option orders are negotiated and agreed to as a package; thus, if for any reason the stock portion of a stock-option order cannot ultimately be executed, the parties should not be saddled with an options position sans stock.

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. In this

regard and as indicated above, the Exchange notes that the proposed rule change is substantially similar to a filing submitted by CBOE that was recently approved by the Commission.²⁹

The Exchange believes the proposal will not impose a burden on intermarket competition but will rather alleviate any burden on competition because it is the result of a collaborative effort by all options exchanges to harmonize and improve the process related to the adjustment and nullification of erroneous options transactions. The Exchange does not believe that the rules applicable to such process is an area where options exchanges should compete, but rather, that all options exchanges should have consistent rules to the extent possible. Particularly where a market participant trades on several different exchanges and an erroneous trade may occur on multiple markets nearly simultaneously, the Exchange believes that a participant should have a consistent experience with respect to the nullification or adjustment of transactions. The Exchange understands that all other options exchanges that trade complex orders and/or stock-option orders intend to file proposals that are substantially similar to this proposal. The Exchange does not believe that the proposed rule change imposes a burden on intramarket competition because the provisions apply to all market participants equally within each participant category (i.e., Customers and non-Customers). With respect to competition between Customer and non-Customer market participants, the Exchange believes that the Proposed Rule acknowledges competing concerns and tries to strike the appropriate balance between such concerns. For instance, the Exchange believes that protection of Customers is important due to their direct participation in the options markets as well as the fact that they are not, by definition, market professionals. At the same time, the Exchange believes due to the quote-driven nature of the options markets, the importance of liquidity provision in such markets and the risk that liquidity providers bear when quoting a large breadth of products that are derivative of

²⁹ See supra, note 3.

underlying securities, that the protection of liquidity providers and the practice of adjusting transactions rather than nullifying them is of critical importance. As described above, the Exchange will apply specific and objective criteria to determine whether an erroneous transaction has occurred and, if so, how to adjust or nullify a transaction.

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 Act³⁰ and Rule 19b-4(f)(6)³¹ 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.

³⁰ 15 U.S.C. 78s(b)(3)(A).

³¹ 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.

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](mailto:to-rule-comments@sec.gov). Please include File Number SR-MIAX-2017-13 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-MIAX-2017-13. 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 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 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-2017-13 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.³²

Brent J. Fields
Secretary

³² 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined;
Deleted text is in [brackets]

MIAMI INTERNATIONAL SECURITIES EXCHANGE, LLC Rules

Rule 521. Nullification and Adjustment of Options Transactions Including Obvious Errors

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange prior to 8:30 a.m. Eastern Time on the first trading day following the execution. It is considered conduct inconsistent with just and equitable principles of trade for any Member to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(a) – (l) No changes.

Interpretations and Policies:

.01 - .02 No change.

.03 Complex Orders.

(a) If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

(b) If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3), or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National

Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of this Rule 521, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

(c) If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock-option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

* * * * *