

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80570; File No. SR-MIAX-2017-16)

May 1, 2017

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing of a Proposed Rule Change to Amend MIAX Options Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism

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 April 25, 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 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism.

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.

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

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism, to amend the duration of a PRIME Auction. PRIME is a process by which a Member³ may electronically submit for execution (“Auction”) an order⁴ it represents as agent (“Agency Order”) against principal interest, and/or an Agency Order against solicited interest (“Solicitation Auction”). When the Exchange receives a properly designated Agency Order for auction processing, a Request for Responses (“RFR”) detailing the option, side, size, and initiating price is sent to all subscribers of the Exchange’s data feeds. Currently, the Auction and Solicitation Auction period lasts for 500 milliseconds, unless it is concluded early.⁵ The Exchange proposes to amend Rule 515A(a)(2)(i)(C) so that the duration

³ The term “Member” means an individual or organization approved to exercise the trading rights associated with a Trading Permit. Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

⁴ The term “order” means a firm commitment to buy or sell option contracts. See Exchange Rule 100.

⁵ A PRIME and PRIME Solicitation Auction will conclude at the sooner of (1) Upon receipt by the System of an unrelated order (in the same option as the Agency Order) on the opposite side of the market from the RFR responses, that is marketable against either the NBBO, the initiating price, or the RFR responses; (2) Upon receipt by the System of an unrelated order (in the same option as the Agency Order) on the same side of the market as the RFR responses, that is marketable against the NBBO; (3) Upon receipt by the System of an unrelated limit order (in the same option as the Agency Order) on the opposite of the market from the Agency Order that improves any RFR response; (4) Any time an RFR response matches the NBBO on the opposite side of the market from the RFR responses; (5) Any time there is a quote lock in the subject option on the Exchange pursuant to Rule 1402; or (6) Any time there is a trading halt in the option on the Exchange. See Exchange Rule 515A.

of the Auction and Solicitation Auction shall be a time period designated by the Exchange, which shall be no less than 100 milliseconds and no more than 1 second, consistent with the rule of other exchanges, such as the International Securities Exchange (“ISE”), NASDAQ BX (“BX”), NASDAQ PHLX (“PHLX”), and Chicago Board Options Exchange (“CBOE”).⁶ When approving the change to exposure periods in these mechanisms, the Securities and Exchange Commission (“SEC”) concluded that reducing the time periods was consistent with the Securities Exchange Act of 1934 (the “Act”).⁷

The Exchange believes that moving to a range structure provides the Exchange with greater flexibility in establishing the optimal duration for Auctions and Solicitation Auctions. The Exchange believes that permitting a shorter duration of as low as 100 milliseconds will reduce market risk for all Members executing trades on the Exchange via the PRIME and PRIME Solicitation Mechanism. Initiating participants are required to guarantee an execution at the NBBO⁸ or at a better price, and are subject to market risk as their PRIME order is exposed to other Members of the Exchange. While other participants are also subject to market risk, those providing responses may cancel their responses. The Exchange believes that the initiating participant plays a critical role in the Auction and Solicitation Auction processes. Their willingness to guarantee the orders entered into the PRIME and PRIME Solicitation Mechanism

⁶ See Securities Exchange Act Release Nos. 79733 (January 4, 2017), 82 FR 3055 (January 10, 2017) (SR-ISE-2016-26); 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032); 77557 (April 7, 2016), 81 FR 21935 (April 13, 2016) (SR-PHLX-2016-40); and 80421 (April 10, 2017), 82 FR 18048 (April 14, 2017) (SR-CBOE-2017-029). The Commission notes that CBOE’s proposed rule change to amend its auction response period was published in the Federal Register on April 14, 2017 and is subject to a public comment period expiring on May 5, 2017.

⁷ Id.

⁸ The term “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

an execution at the NBBO or, in some cases, a better price, is the catalyst for an order gaining the opportunity for price improvement. The Exchange believes that allowing an Auction period of no less than 100 milliseconds and no more than 1 second will benefit Members utilizing the PRIME and PRIME Solicitation Mechanism. The Exchange believes it is in these Members' best interests to minimize the Auction and Solicitation Auction duration while continuing to allow Members adequate time to respond. The Exchange notes the Commission previously approved other exchanges' rules that provide for an auction response time as low as 100 milliseconds⁹ and that the Exchange is not proposing to go lower than the lowest previously approved timer range.

Accordingly, the Exchange proposes to amend Rule 515A(b)(2)(i)(C) to remove the reference to the duration of the current timer setting. Currently the rule states that, "[m]embers may submit responses to the RFR (specifying prices and sizes) during the response period (which shall be 500 milliseconds)." The Exchange proposes to replace this sentence with the proposed language used in 515A(a)(2)(i)(C) which provides that "[t]he RFR will last for a period of time, as determined by the Exchange and announced through a Regulatory Circular. The RFR will be no less than 100 milliseconds and no more than 1 second."

The Exchange does not believe that requiring the Auction and Solicitation Auction to run for 500 milliseconds is necessary in today's market where, generally, Members' systems have the capability to respond within 100 milliseconds or less. As such, reducing the response time in the PRIME and PRIME Solicitation Mechanism is appropriate as Members no longer need up to 500 milliseconds to respond to an Auction or Solicitation Auction. Reducing the response time

⁹ See supra note 6.

will allow Members the opportunity to seek out liquidity in an expedient manner that is consistent with today's system capabilities.

The Exchange's Members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. The Exchange anticipates that its Members will continue to compete within the proposed response times designated by the Exchange. In particular, the Exchange believes that the proposed response times – which will be no less than 100 milliseconds and no more than 1 second – will continue to provide Members with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Reducing the duration of Auctions and Solicitation Auctions from 500 milliseconds to as low as 100 milliseconds will benefit Members trading in the PRIME and PRIME Solicitation Mechanism. The Exchange believes that it is in these Members' best interest to minimize the response time while continuing to allow Members adequate time to electronically respond. Both the order being exposed and the Members' responses are subject to market risk during the Auction or Solicitation Auction. While a limited number of Members wait to respond until later in the Auction or Solicitation Auction, presumably to minimize their market risk, the majority of Members respond within the first 100 milliseconds. The Exchange believes that a response time as low as 100 milliseconds will continue to provide market participants with sufficient time to respond, compete, and provide price improvement for orders and will provide investors and other market participants with more timely executions, thereby reducing their market risk.

To substantiate that Members can receive, process, and communicate a response to an auction broadcast within 100 milliseconds, the Exchange surveyed all Members that responded

to an auction broadcast in the period beginning November 2016 and ending January 2017 (the “review period”). The Exchange received responses from all of the Members surveyed, and each Member confirmed that they can receive, process, and communicate a response back to the Exchange within 100 milliseconds.

Also, in consideration with this proposed rule change, the Exchange reviewed all responses received in PRIME and PRIME Solicitation Auctions from its Members for the review period. During the review period, on average, approximately 60% of responses were submitted within the first 50 milliseconds, and approximately 90% of responses were submitted within 100 milliseconds.¹⁰

Accordingly, the Exchange believes that a response time as low as 100 milliseconds will continue to provide Members with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk. The Exchange also believes it is likely that the number of PRIME transactions will increase, thereby providing customers a greater opportunity to benefit from price improvement.

The Exchange believes that the information outlined above regarding price improving transactions in the PRIME and PRIME Solicitation Mechanism provides substantial support for its assertion that reducing the response time from 500 milliseconds to as low as 100 milliseconds will continue to provide Members with sufficient time to ensure competition for orders entered into the PRIME and PRIME Solicitation Mechanism, and could provide customer orders with additional opportunities for price improvement.

¹⁰ The Exchange notes that the average percentages for responses within 50 milliseconds and 100 milliseconds were 61.03% and 88.19% respectively.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional traffic associated with the additional transactions that may occur with the implementation of the proposed reduction in the response time duration to no less than 100 milliseconds. Additionally, the Exchange represents that its System will be able to sufficiently maintain an audit trail for order and trade information with the reduction in the response timer.

2. Statutory Basis

MIAX Options believes that its proposed rule change is consistent with Section 6(b) of the Act¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹² 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.

In particular, the proposed rule change will provide investors with more timely execution of their option orders, while ensuring that there is an adequate exposure of orders in the mechanisms. Additionally, the proposed change will allow more investors the opportunity to receive price improvement through the PRIME and PRIME Solicitation Mechanism and will reduce market risk for Members using these mechanisms. Finally, as mentioned above, other exchanges such as ISE, BX, PHLX, and CBOE [sic],¹³ have already amended their rules to

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

¹³ The Commission notes that CBOE's proposed rule change to amend its auction response period was published in the Federal Register on April 14, 2017 and is subject to a public comment period expiring on May 5, 2017.

permit response times consistent with the instant proposal – i.e., no less than 100 milliseconds and no more than 1 second.¹⁴ As such, the Exchange believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors and the public’s interest.

The Exchange believes the proposed rule change is not unfairly discriminatory because the response time duration would be the same for all Members. All Members in the PRIME and PRIME Solicitation Mechanism have today, and will continue to have, an equal opportunity to receive the broadcast and respond with their best prices during the auction. Additionally, the Exchange believes the reduction of the response time for an auction reduces the market risk for all Members. The reduction of the time period reduces the market risk for the initiating member as well as any Members providing orders in response to an RFR.

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.

The proposed rule change to provide the Exchange flexibility in determining potentially shorter durations for Auctions and Solicitation Auctions does not impose an undue burden on intra-market competition as the Exchange believes that allowing for an auction period of no less than 100 milliseconds and no more than 1 second will benefit Members utilizing the PRIME and PRIME Solicitation Mechanism. The Exchange believes it is in these Members’ best interest to minimize the Auction and Solicitation Auction duration while continuing to allow Members adequate time to respond electronically.

¹⁴ See supra note 6.

The proposed rule allows Members to respond quickly at the most favorable price while reducing the risk that the market will move against the response. The Exchange believes that its Members will be able to compete within a timer range of no less than 100 milliseconds and no more than 1 second, and that any specific duration within this range is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants more timely executions, and reduce their market risk.

The Exchange does not believe its proposed rule change will impose an undue burden on inter-market competition as the Exchange notes other exchanges offer similar functionality with similar auction duration lengths.¹⁵

For all the reasons stated, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed

¹⁵ See NASDAQ BX Rules, Chapter VI, Section 9(ii)(A)(3), CBOE Rule 6.74A and 6.74B, ISE Rule 723(c)(1), and NASDAQ PHLX Rule 1080(n)(ii)(A)(4). The Commission notes that CBOE's proposed rule change to amend its auction response period was published in the Federal Register on April 14, 2017 and is subject to a public comment period expiring on May 5, 2017.

rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MIAX-2017-16 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-MIAX-2017-16. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F

Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2017-16 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.¹⁶

Eduardo A. Aleman
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).