SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85155; File No. SR-MIAX-2018-36)

February 15, 2019

Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Amend MIAX Rule 518, Complex Orders

I.   Introduction

On November 9, 2018, Miami International Securities Exchange, LLC ("Exchange" or

"MIAX") filed with the Securities and Exchange Commission ("Commission"), pursuant to

Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a

proposed rule change to make several changes to MIAX Rule 518, "Complex Orders." The

proposed rule change was published for comment in the Federal Register on November 23,

2018.[3] On December 21, 2018, pursuant to Section 19(b)(2) of the Act,[4] the Commission

designated a longer period within which to approve the proposed rule change, disapprove the

proposed rule change, or institute proceedings to determine whether to approve or disapprove the

proposed rule change.[5] On February 13, 2019, the Exchange filed Amendment No. 1 to the

proposed rule change.[6] The Commission has received no comments regarding the proposal. The

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

[2]   17 CFR 240.19b-4.

[3]   See Securities Exchange Act Release No. 84613 (Nov. 16, 2018), 83 FR 59435 ("Notice").

[4]   15 U.S.C. 78s(b)(2).

[5]   See Securities Exchange Act Release No. 84950, 83 FR 67758 (December 31, 2018). The Commission designated February 21, 2019, as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to approve or disapprove, the proposed rule change.

[6]   Amendment No. 1 revises the proposal to (1) clarify the rule describing the operation of the proposed Complex Liquidity Exposure Period ("cLEP") Auction and provide an additional example demonstrating the operation of the proposed cLEP Auction; (2)

Commission is publishing this notice to solicit comment on Amendment No. 1 to the proposed

rule change from interested persons and is approving the proposed rule change, as modified by

Amendment No. 1, on an accelerated basis.

II.   Description of the Proposed Rule Change, as Modified by Amendment No. 1

As described more fully in the Notice,[7] the proposal amends MIAX Rule 518 to (1)

establish a new Complex Liquidity Exposure Process ("cLEP Auction") for Complex Orders and

make corresponding changes to the Complex MIAX Price Collar ("MPC") price protection

feature; (2) eliminate the Defined Time Period and revise the Response Time Interval for the

Complex Auction; (3) provide that the Calendar Spread Variance ("CSV") Price Protection

applies only to American-style option classes; and (4) add the Liquidity Exposure Process as a

Simple Market Auction or Timer ("SMAT") Event.[8]

cLEP Auction

Under the proposal, MIAX's System[9] will initiate a cLEP Auction whenever a complex

order or eQuote would execute or post at a price that would violate its MPC Price.[10] The System

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[footnotes]

provide additional rationale for eliminating the Defined Time Period for the Complex Auction and make representations regarding system capability and surveillance with respect to the Complex Auction, as modified by the proposal; (3) indicate that the Auction Timer for MIAX's cPRIME Auction will remain at 100 milliseconds; and (4) clarify the discussion of the proposed change to the Calendar Spread Variance Price Protection. Amendment No. 1 is available at https://www.sec.gov/comments/sr-miax-2018-36/srmiax201836-4932160-178431.pdf.

[7]   See note 3, supra.

[8]   The Liquidity Exposure Process was approved in a separate proposal. See Securities Exchange Release No. 85147 (February 15, 2019) (order approving File No. SR-MIAX-2018-35) ("LEP Filing").

[9]   The System is the automated trading system used by the Exchange for the trading of securities. See MIAX Rule 100.

[10]   See Amendment No. 1. The MPC price protection feature is an Exchange-wide price protection mechanism under which a complex order or eQuote to sell will not be displayed or executed at a price that is lower than the opposite side cNBBO bid at the

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will post the complex order or eQuote to the Strategy Book at its MPC Price and begin the cLEP

Auction by broadcasting a liquidity exposure message to all subscribers of the Exchange's data

feeds.[11] The liquidity exposure message will include the symbol, side of the market, auction start

price (the MPC Price of the complex order or eQuote), and the imbalance quantity.[12] Members

may respond to the liquidity exposure message during the Response Time Interval.[13] Responses,

which may be in $0.01 increments, must be a cAOC order or a cAOC eQuote, and may be

submitted on either side of the market.[14] Responses represent non-firm interest that can be

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time the MPC is assigned by the System (i.e., upon receipt or upon opening) by more than a specific dollar amount expressed in $0.01 increments (the "MPC Setting"), and under which a complex order or eQuote to buy will not be displayed or executed at a price that is higher than the opposite side cNBBO offer at the time the MPC is assigned by the System by more than the MPC Setting (each the "MPC Price"). See MIAX Rule 518, Interpretation and Policy .05(f). See Notice, 83 FR at 59437, and Amendment No. 1 for examples of the operation of the proposed cLEP Auction.

[11] See proposed MIAX Rule 518(e).

[12] See id.

[13] The duration of the Response Time Interval will be no less than 100 milliseconds and no more than 5,000 milliseconds, as determined by the Exchange and announced through a Regulatory Circular. See id.

[14] See id. A Complex Auction-or-Cancel or "cAOC" order is a complex limit order used to provide liquidity during a specific Complex Auction with a time in force that corresponds with that event. cAOC orders are not displayed to any market participant, and are not eligible for trading outside of the event. A cAOC order with a size greater than the aggregate auctioned size (as defined in MIAX Rule 518(d)(4)) will be capped for allocation purposes at the aggregate auctioned size. See MIAX Rule 518(b)(3). A "Complex Auction or Cancel eQuote" or "cAOC eQuote," is an eQuote submitted by a Market Maker that is used to provide liquidity during a specific Complex Auction with a time in force that corresponds with the duration of the Complex Auction. A cAOC eQuote with a size greater than the aggregate auctioned size (as defined in MIAX Rule 518(d)(4)) will be capped for allocation purposes at the aggregate auctioned size. cAOC eQuotes will not: (i) be executed against individual orders and quotes resting on the Simple Order Book; (ii) be eligible to initiate a Complex Auction, but may join a Complex Auction in progress; (iii) rest on the Strategy Book; or (iv) be displayed. See MIAX Rule 518, Interpretation and Policy .02(c)(1).

withdrawn at any time prior to the end of the Response Time Interval.[15] At the end of the

Response Time Interval, responses are firm (i.e., guaranteed at the response price and size).[16]

Any responses not executed in full will expire at the end of the cLEP Auction.[17]

At the conclusion of the cLEP Auction the resulting trade price will be determined, and

interest will execute, as described in MIAX Rule 518(d)(6).[18] The resulting trade price will

never be more aggressive than the MPC Price.[19] Liquidity remaining at the conclusion of the

cLEP Auction with an original limit price that is (i) less aggressive (lower for a buy order or

eQuote, or higher for a sell order or eQuote) than or equal to the MPC Price will be handled in

accordance with MIAX Rule 518(c)(2)(ii) – (v), or (ii) more aggressive than the MPC Price will

be subject to the reevaluation process.[20] Orders and eQuotes executed in a cLEP Auction will be

allocated first in price priority based upon their original limit price, and thereafter in accordance

with the Complex Auction allocation procedures described in MIAX Rule (d)(7)(i) – (vi).[21]

At the start of the Reevaluation process, the System will calculate the next potential MPC

Price for remaining auction liquidity with an original limit price more aggressive than the

existing MPC Price.[22] The next MPC Price will be calculated as the MPC Price plus (minus) the

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[15]   See id.

[16]   See id.

[17]   See id. A response on the opposite side of the initiating order with a size greater than the aggregate size of interest at the same price on the same side of the market as the initiating order (the "aggregate auctioned size") will be capped for allocation purposes at the aggregate auctioned size. See id. and Amendment No. 1.

[18]   See proposed MIAX Rule 518(e) and Amendment No. 1.

[19]   See proposed MIAX Rule 518(e) and Amendment No. 1.

[20]   See id.

[21]   See proposed MIAX Rule 518(e).

[22]   See proposed MIAX Rule 518(e) and Amendment No. 1.

next MPC increment for buy (sell) orders (the "New MPC Price").[23] The System will initiate a

cLEP Auction for liquidity that would execute or post at a price that would violate its New MPC

Price.[24] Liquidity with an original limit price less aggressive (lower for a buy order or eQuote,

or higher for a sell order or eQuote) than or equal to the New MPC Price will be posted to the

Strategy Book at its original limit price or handled in accordance with MIAX Rule (c)(2)(ii) –

(v).[25] The cLEP process will continue until no liquidity remains with an original limit price that

is more aggressive than its MPC Price.[26] At the conclusion of the cLEP process, any liquidity

that has not been executed will be posted to the Strategy Book at its original limit price.[27]

MIAX notes that the proposed cLEP Auction process provides an additional price

discovery opportunity for orders and eQuotes that would trade through their MPC Price.[28]

MIAX believes that it is in the best interest of a Member to seek liquidity for the unexecuted

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[23] See id.

[24] See id.

[25] See id.

[26] See id. The proposal makes technical corrections to the MPC Price protection provisions in MIAX Rule 518, Interpretation and Policy .05(f) to incorporate changes associated with the proposed cLEP Auction process. Because the MPC Price of certain complex orders and eQuotes may change as a result of the cLEP Reevaluation process, the proposal deletes Interpretation and Policy .05(f)(4), which states that the MPC Price of a complex order or eQuote will not change during the life of the complex order or eQuote. The proposal renumbers the remaining subparagraphs in paragraph (f) to reflect the elimination of subparagraph (4). The proposal also revises Interpretation and Policy .05(f)(6)(A) to provide that any unexecuted portion of a market order or a complex order or eQuote priced more aggressively than its MPC Price will be subject to the cLEP Auction process, rather than cancelled if it would otherwise be displayed or executed at a price outside its MPC Price. See Notice, 83 FR at 59437-8.

[27] See id. MIAX notes that a Member who believes that an execution has occurred at an erroneous price may avail itself of the protections provided in MIAX Rule 521, "Nullification and Adjustment of Options Transactions Including Obvious Errors." See id. at n. 29.

[28] See id. at 59438.

portion of an order that exceeds its MPC Price rather than cancelling any unexecuted portion of the order back to the Member.[29]

Complex Auction

Currently, MIAX provides a single-sided Complex Auction functionality, as described in MIAX Rule 518, and a cPRIME Auction for paired complex orders, as described in MIAX Rule 515A, Interpretation and Policy .12.[30] The proposal makes related changes to the Defined Time Period and the Response Time Interval of the Complex Auction. MIAX Rule 518(d)(2) states that the System will not commence a Complex Auction within a defined time period prior to the end of the trading session (the "Defined Time Period") established by the Exchange.[31] MIAX Rule 518(d)(3) defines the Response Time Interval as the period of time during which Complex Auction responses (i.e., responses to the Request for Responses message) may be entered.[32] The proposal removes references to the Defined Time Period from MIAX Rules 518(b)(2)(i) and (d)(2).[33] The proposal amends MIAX Rule 518(d)(3) to state that the end of the trading session will also serve as the end of the Response Time Interval for a Complex Auction still in progress. The proposal makes no changes to the cPRIME Auction, and the cPRIME Timer will remain at 100 milliseconds.[34]

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[29]   See id.

[30]   See id. at 59436 and Amendment No. 1.

[31]   MIAX notes that the Defined Time Period currently is 2,000 milliseconds, while the duration of a Complex Auction is 200 milliseconds. See Notice, 83 FR at 59436.

[32]   MIAX notes that the Response Time Interval currently is set to 200 milliseconds. See id. at n. 10. See also MIAX Regulatory Circular 2016-46.

[33]   MIAX Rule 518(b)(2)(i) states, in part, that a Complex Auction-on-Arrival ("cAOA") Order received during the Defined Time Period will not initiate a new Complex Auction.

[34]   See Amendment No. 1.

MIAX notes that under its current rules there is no opportunity for price improvement via a Complex Auction when there is less than two seconds left in the trading session.[35] MIAX believes that removing the Defined Time Period and allowing the end of the trading session to serve as the end of the Response Time Interval when a Complex Auction is initiated with less than 200 milliseconds left in the trading session will allow for more opportunities for price improvement via the auction process.[36] In this regard, MIAX notes that Members responding to Complex Auctions are able to do so in less than 10 milliseconds.[37] In addition, MIAX states that if a Member initiates a Complex Auction and no Members respond, the initiating Member is no worse off under the proposed rule than the Member would have been under MIAX's current rule, which prevents the Member from even attempting to initiate a Complex Auction with less than two seconds left in the trading session.[38] MIAX notes that a Member who initiates a Complex Auction will not forego the opportunity to trade with unrelated interest received during the Complex Auction because unrelated interest is included in the Complex Auction.[39]

MIAX represents that is has the System capacity and capability to conduct auctions and execute transactions in a timely fashion at any time during the trading session, including the last two seconds of the trading session.[40] MIAX further represents that it has surveillances in place

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[35]   See Notice, 83 FR at 59436.

[36]   See id.

[37]   See Amendment No. 1.

[38]   See Notice, 83 FR at 59438, and Amendment No. 1.

[39]   See Amendment No. 1 and MIAX Rule 518(d)(8).

[40]   See id.

to surveil for conduct that violates the Exchange's rules, specifically as they pertain to Complex Auctions as described in the proposal.[41]

CSV Price Protection

The proposal amends MIAX Rule 518, Interpretation and Policy .05(b) to indicate that the CSV Price Protection applies only to strategies in American-style option classes.[42] MIAX notes that the CSV establishes a minimum trading price limit for Calendar Spreads of zero minus the preset value of $.10, thereby ensuring that a Calendar Spread does not trade more than $.10 away from its intrinsic value.[43] MIAX states that an American-style option must be worth at least as much as its intrinsic value because the holder of the option can realize the intrinsic value by immediately exercising the option.[44] In a Calendar Spread strategy comprised of American-style options, other things being equal, the far month should be worth more than the near month due to its having a longer time to expiration and therefore a greater time value.[45] MIAX states that because European-style options may be exercised only on their expiration date, the relationship between the stock price, option price, and option strike price that exists for American-style options does not exist for European-style options.[46] Accordingly, MIAX states

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[41]   See id. MIAX notes that MIAX Rule 518, Interpretation and Policy .04, "Dissemination of Information," remains in effect for any Complex Auction-eligible order submitted to MIAX at any time. See Amendment No. 1. MIAX Rule 518, Interpretation and Policy .04 provides that dissemination of information related to Complex Auction-eligible orders by the submitting Member to third parties will be deemed conduct inconsistent with just and equitable principles of trade as described in Rule 301.

[42]   See proposed MIAX Rule 518, Interpretation and Policy .05(b)(3).

[43]   See Notice, 83 FR at 59438.

[44]   See id.

[45]   See Amendment No. 1.

[46]   See Notice, 83 FR at 59438.

that the CSV Price Protection would be ineffective for strategies comprised of European-style options.[47]

SMAT Event

As described more fully in the Notice, MIAX Rule 518(a)(16) currently defines a SMAT Event as any one of the following: a MIAX Price Improvement Mechanism ("PRIME") Auction (pursuant to Exchange Rule 515A), a Route Timer (pursuant to Exchange Rule 529), or a liquidity refresh pause (pursuant to Exchange Rule 515(c)(2)).[48] If a SMAT Event exists during free trading for an option component of a complex strategy, trading in the complex strategy will be suspended.[49] MIAX notes that the temporary suspension of trading in complex orders during a SMAT Event is intended to enhance continuity, trade-through protection, and orderliness in the simple market and to protect complex order components from being executed at prices that could improve following a SMAT Event.[50] The proposal amends MIAX Rule 518(a)(16) to add the Liquidity Exposure Process, as described in MIAX Rule 515(c)(2), as a SMAT Event.[51] The Liquidity Exposure Process will apply to an order in a Proprietary Product that would be posted, managed, or would trade at a price more aggressive than the order's protected price.[52]

III.   Discussion and Commission Findings

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[47]   See id.

[48]   See id.

[49]   See MIAX Rule 518, Interpretations and Policies .05(e)(2)(i) and Notice, 83 FR at 59436.

[50]   See id.

[51]   See id. at 59435-6. In addition to adding the Liquidity Exposure Process to MIAX Rule 518(a)(16), MIAX proposes to correct an internal cross reference in MIAX Rule 518(a)(16)(iii) to reflect changes included in the LEP Filing. See Notice, 83 FR at 59436.

[52]   The term "Proprietary Product" means a class of options that is listed exclusively on the Exchange. See Notice, 83 FR at 59436. See also LEP Filing, supra note8.

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with Section 6(b) of the Act.[53] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[54] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission believes that the cLEP Auction is designed to potentially benefit market participants by providing price improvement opportunities for complex orders and eQuotes that are priced more aggressively than their MPC Price. In addition, the Commission believes that Members' ability to submit cLEP Auction responses on either side of the market potentially could enhance liquidity in the cLEP Auction and provide execution opportunities for trading interest on both sides of the market.

The Commission believes that eliminating the Defined Time Period and allowing Members to initiate a single-sided Complex Auction at any time prior to the close could potentially provide price improvement opportunities for complex orders submitted within two seconds of the close. As noted above, MIAX represents that it has the system capacity and capability to conduct Complex Auctions and execute transactions that occur within two seconds

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[53] 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

[54] 15 U.S.C. 78f(b)(5).

of the close, and that it has surveillance in place to monitor conduct that violates MIAX's rules, including MIAX Rule 518, Interpretation and Policy .04, which prohibits a submitting Member from disseminating information with respect to Complex Auction-eligible orders to third parties.[55] MIAX states that a Member who initiates a Complex Auction will not forego the opportunity to trade with unrelated interest received during the Complex Auction because this interest is included in the Complex Auction.[56] The Commission notes that proposal does not modify the Auction Timer for MIAX's paired order cPRIME Auction, which will remain at 100 milliseconds.[57]

As noted above, MIAX states that the CSV Price Protection would be ineffective for Calendar Spreads comprised of European-style options because the relationship between the stock price, the option price, and the option strike price that exists for American-style options does not exist for European-style options.[58] Accordingly, the proposal limits the CSV Price Protection to strategies in American-style option classes. The Commission believes that applying the CSV Price Protection solely to Calendar Spreads comprised of American-style options is reasonable in that this price protection will be applied to orders for which it is meaningful to do so.

IV.   Solicitation of Comments on Amendment No. 1 to the Proposed Rule Change

Interested persons are invited to submit written data, views, and arguments concerning whether Amendment No. 1 is consistent with the Act. Comments may be submitted by any of the following methods:

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[55]   See notes 40-41, supra, and accompanying text.

[56]   See note 39, supra, and accompanying text.

[57]   See note 34, supra, and accompanying text.

[58]   See notes 46-47, supra, and accompanying text.

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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-2018-36 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-2018-36. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2018-36, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 1 in the Federal Register. As noted above, Amendment No. 1 revises the proposal to (1) clarify the rule describing the operation of the proposed cLEP Auction and provide an additional example demonstrating the operation of the proposed cLEP Auction; (2) provide additional rationale for eliminating the Defined Time Period for the Complex Auction and make representations regarding system capability and surveillance with respect to the Complex Auction, as modified by the proposal; (3) indicate that the Auction Timer for MIAX's cPRIME Auction will remain at 100 milliseconds; and (4) clarify the discussion of the proposed change to the Calendar Spread Variance Price Protection. The Commission believes that Amendment No. 1 does not raise any novel regulatory issues. The Commission also believes that Amendment No. 1 provides additional clarity to the rule text and additional analysis and representations concerning several aspects of the proposal, thereby facilitating the Commission's ability to make the findings set forth above to approve the proposal. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,[59] to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

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[59]   15 U.S.C. 78s(b)(2).

VI.   Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[60] that the

proposed rule change (SR-MIAX-2018-36), as modified by Amendment No. 1, is approved on

an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated

authority.[61]

Eduardo A. Aleman
Deputy Secretary

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[60]   15 U.S.C. 78s(b)(2).

[61]   17 CFR 200.30-3(a)(12).