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**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-79072; File No. SR-MIAX-2016-26]**

**Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Order  
Approving a Proposed Rule Change to Adopt New Rules to Govern the Trading of  
Complex Orders**

October 7, 2016

I. Introduction

On August 8, 2016, Miami International Securities Exchange, LLC (“MIAX” or “Exchange”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to adopt rules to govern the trading of complex orders on the Exchange. The proposed rule change was published for comment in the Federal Register on August 25, 2016.<sup>3</sup> The Commission received no comment letters regarding the proposed rule change. This order approves the proposed rule change.

II. Description

A. Definitions

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 78620 (August 18, 2016), 81 FR 58770 (“Notice”).

MIAX proposes to add Rule 518(a) to define a complex order as any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security (the “legs” or “components” of the complex order),<sup>4</sup> for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy.<sup>5</sup>

A stock-option order is proposed to be defined as an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share (“ETF”)) or a security convertible into the underlying stock (“convertible security”) coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (i) the same number of units of the underlying security or convertible security, or (ii) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying security or convertible security in the option leg to the total number of units of the underlying security or convertible security in the stock leg.<sup>6</sup>

The Exchange has also proposed to define a complex strategy as a particular combination of components and their ratios to one another. As proposed, the Exchange may limit the number of new complex strategies that may be in the System at a particular time and will communicate this limitation to Members via Regulatory Circular.<sup>7</sup>

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<sup>4</sup> The different options in the same underlying security that comprise a particular complex order are referred to as the “legs” or “components” of the complex order.

<sup>5</sup> This definition is consistent with other options exchanges. See, e.g., CBOE Rule 6.53C(a)(1); PHLX Rule 1098(a)(i); NYSE MKT Rule 900.3NY(e); and BOX Rule 7240(a)(5).

<sup>6</sup> This is substantially similar to the definition of a stock-option order on other exchanges. See, e.g., CBOE Rule 6.53C(a)(2) and PHLX Rule 1098(a)(i).

<sup>7</sup> See MIAX Rule 518(a)(6).

## B. Types of Complex Orders

MIAX is proposing to add Rule 518(b) to allow complex orders to be entered as limit orders, market orders, Good 'til Cancelled ("GTC") orders, or day limit orders (all as defined in MIAX Rule 516). In addition, MIAX is proposing new complex order types: Complex Auction-on-Arrival ("cAOA") orders, Complex Auction-or-Cancel ("cAOC") orders, or Complex Immediate-or-Cancel ("cIOC") orders, as described below. Proposed Rule 518(b)(1) states that the Exchange will issue a Regulatory Circular listing which complex order types, among the complex order types set forth in the proposed Rule, are available for use on the Exchange. Additional Regulatory Circulars will be issued as additional complex order types, among those complex order types set forth in the proposed Rule, become available for use on the Exchange. Regulatory Circulars will also be issued when a complex order type that had been in usage on the Exchange will no longer be available for use.

## C. Trading of Complex Orders and Quotes

Proposed Rule 518(c) describes the manner in which complex orders will be handled and traded on the Exchange. The proposed rule provides that the Exchange will determine and communicate to Members via Regulatory Circular which complex order origin types (i.e., non-broker-dealer customers, broker-dealers that are not Market Makers on an options exchange, and/or Market Makers on an options exchange) are eligible for entry onto the Strategy Book.<sup>8</sup> The proposed rule also states that complex orders will be subject to all other Exchange Rules that pertain to orders generally, unless otherwise provided in proposed Rule 518.

### 1. Minimum Increments and Trade Prices

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<sup>8</sup> See MIAX Rule 518(c). The Strategy Book is defined as the Exchange's electronic book of complex orders and complex quotes. See MIAX Rule 518(a)(17).

Proposed Rule 518(c)(1) provides that bids and offers on complex orders and quotes may be expressed in \$0.01 increments, and the component(s) of a complex order may be executed in \$0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order,<sup>9</sup> and that if any component of a complex strategy would be executed at a price that is equal to a Priority Customer bid or offer on the Simple Order Book,<sup>10</sup> at least one other component of the complex strategy must trade at a price that is better than the corresponding MBBO.<sup>11</sup>

Proposed Rule 518(c)(1)(iii) states generally that a complex order will not be executed at a net price that would cause any component of the complex strategy to be executed: (A) at a price of zero; or (B) ahead of a Priority Customer order on the Simple Order Book without improving the MBBO of at least one component of the complex strategy.

## 2. Execution of Complex Orders and Quotes

### a. Opening and Reopening

MIAX proposes to add Rule 518(c)(2)(i), which states that complex orders and quotes do not participate in the opening process for the individual option legs conducted pursuant to Rule 503. At the beginning of each trading session, and upon reopening after a halt, once all components of a complex strategy are open, an initial evaluation will be conducted in order to determine whether a complex order is a Complex Auction-eligible order, using the process and criteria described in Interpretations and Policies .03(a) of proposed Rule 518 regarding the Initial

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<sup>9</sup> See MIAX Rule 518(c)(1). See also ISE Rule 722(b)(1).

<sup>10</sup> The Simple Order Book is defined as the Exchange's regular electronic book of orders and quotes. See MIAX Rule 518(a)(15).

<sup>11</sup> See MIAX Rule 518(c)(1)(ii). See also ISE Rule 722(b)(2) and PHLX Rule 1098(c)(iii). "MBBO" is defined as the best bid or offer on the Simple Order Book on the Exchange. See MIAX Rule 518(a)(13).

Improvement Percentage (“IIP”). Specifically, the Exchange would set a defined percentage (such percentage, the “IIP”) of the dcMBBO<sup>12</sup> bid/ask differential at or within which the System will determine to initiate a Complex Auction when the Strategy Book opens for trading.<sup>13</sup> If a Complex Auction-eligible order is priced equal to, or improves, the IIP value and is also priced equal to, or improves, other complex orders and/or quotes resting at the top of the Strategy Book, the complex order will be eligible to initiate a Complex Auction.<sup>14</sup>

MIAX also proposes that the Strategy Book will open for trading, or reopen for trading after a halt, with a Complex Auction if it is determined that one of the following conditions is present: (A) a complex order with no matching interest on the Strategy Book equals or improves the IIP, (B) matching interest exists at a price that is equal to or through the IIP, or (C) a size imbalance exists where the price at which the maximum quantity that can trade is equal to or through the IIP. If the Strategy Book contains matched interest or a size imbalance exists where the price at which the maximum quantity can trade is not equal to or through the IIP, the Strategy Book will open for trading with a trade and a Complex Auction will not be initiated. The remaining portion of any complex order for which there is a size imbalance will be placed on the

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<sup>12</sup> The Displayed Complex MIAX Best Bid or Offer (“dcMBBO”) is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. For stock-option orders, the dcMBBO for a complex strategy will be calculated using the Exchange’s best displayed bid or offer in the individual option component(s) and the NBBO in the stock component. See MIAX Rule 518(a)(8).

<sup>13</sup> Similarly, as discussed more fully below, the System will also calculate an Upon Receipt Improvement Percentage (“URIP”) value to determine whether a complex order is priced equal to, or improves, the URIP value upon receipt when the complex strategy is open for trading, and a Re-evaluation Improvement Percentage (“RIP”) value, to determine whether a complex order resting at the top of the Strategy Book is priced equal to, or improves, the RIP value. If so, in either case, the complex order will be Complex Auction-eligible. See MIAX Rule 518, Interpretations and Policies .03(b) and (c). See Notice, 81 FR at 58782, for an example of a URIP calculation.

<sup>14</sup> See MIAX Rule 518(c)(2)(i).

Strategy Book. If the Strategy Book contains no matching interest or interest equal to or through the IIP, the complex strategy will open without a trade and a Complex Auction will not be initiated.

b. Pricing

Proposed Rule 518(c)(2)(ii) describes the manner in which the System determines the price of execution of complex orders and quotes. Incoming complex orders and quotes will be executed by the System in accordance with the provisions below, and will not be executed at prices inferior to the icMBBO<sup>15</sup> or at a price that is equal to the icMBBO when there is a Priority Customer Order (as defined in Rule 100)<sup>16</sup> at the best icMBBO price.<sup>17</sup> Complex orders will never be executed at a price that is outside of the individual component prices on the Simple Order Book.<sup>18</sup> Furthermore, the net price of a complex order executed against another complex order on the Strategy Book will never be inferior to the price that would be available if the complex order legged into the Simple Order Book.<sup>19</sup>

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<sup>15</sup> The Implied Complex Best Bid or Offer (“icMBBO”) is calculated using the best price from the Simple Order Book for each component of a complex strategy including displayed and non-displayed trading interest. For stock-option orders, the icMBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book in the individual option component(s), and the national best bid or offer (“NBBO”) in the stock component. See MIAX Rule 518(a)(11). “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from the appropriate Securities Information Processor (“SIP”). See MIAX Rule 518(a)(14).

<sup>16</sup> The term “Priority Customer” means 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 accounts(s). The term “Priority Customer Order” means an order for the account of a Priority Customer. See MIAX Rule 100.

<sup>17</sup> See MIAX Rule 518(c)(2)(ii).

<sup>18</sup> See id.

<sup>19</sup> See id.

The proposed rule also provides that incoming complex orders that cannot be executed because the executions would be priced (A) outside of the icMBBO, or (B) equal to or through the icMBBO due to a Priority Customer Order at the best icMBBO price, will be cancelled if such complex orders are not eligible to be placed on the Strategy Book.<sup>20</sup> Complex orders and quotes will be executed without consideration of any prices for the complex strategy that might be available on other exchanges trading the same options contracts provided, however, that such complex order price may be subject to the Implied Exchange Away Best Bid or Offer (“ixABBO”) Protection set forth in Interpretations and Policies .05(d) proposed Rule 518.<sup>21</sup>

### 3. Priority

Proposed Rule 518(c)(3) describes how the system will establish priority for complex orders.<sup>22</sup> A complex order may be executed at a net credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such net credit or debit; provided, however, that if any of the bids or

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<sup>20</sup> See MIAX Rule 518(c)(2)(ii).

<sup>21</sup> The ixABBO price protection feature is a price protection mechanism under which, when in operation as requested by the submitting Member, a buy order will not be executed at a price that is higher than each other single exchange’s best offer, and under which a sell order will not be executed at a price that is lower than each other single exchange’s best bid for the complex strategy. See Interpretations and Policies .05(d) to MIAX Rule 518. The ixABBO is calculated using the best net bid and offer for a complex strategy using each other exchange’s displayed best bid or offer on their version of the Simple Order Book. For stock-option orders, the ixABBO for a complex strategy will be calculated using the BBO for each component on each individual away options market and the NBBO for the stock component. The ixABBO price protection feature must be engaged on an order-by-order basis by the submitting Member and is not available for complex Standard quotes, complex eQuotes, or cAOC orders. ABBO is defined as the best bid(s) or offer(s) disseminated by other Eligible Exchanges (defined in MIAX Rule 1400(f)) and calculated by the Exchange based on market information received by the Exchange from the Options Price Reporting Authority (“OPRA”). See MIAX Rule 518(a)(1).

<sup>22</sup> The proposed complex order priority structure is based generally on the same approach and structure currently effective on MIAX respecting priority of orders and quotes in the simple market as established in MIAX Rule 514. See Notice, 81 FR at 58788.

offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a \$0.01 increment.<sup>23</sup> Under the circumstances described above, if a stock-option order has one option leg, such option leg has priority over bids and offers established in the marketplace by Professional Interest (as defined in Rule 100)<sup>24</sup> and Market Makers with priority quotes<sup>25</sup> that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders. If a stock-option order has more than one option leg, such option legs may be executed in accordance with proposed Rule 518(c)(3)(i).

Regarding execution and allocation of complex orders, proposed Rule 518(c)(3)(ii) establishes that complex orders will be automatically executed against bids and offers on the Strategy Book in price priority. Bids and offers at the same price on the Strategy Book will be executed pursuant to the following priority rules: (A) Priority Customer complex orders resting on the Strategy Book will have first priority to trade against a complex order. Priority Customer complex orders resting on the Strategy Book will be allocated in price time priority; (B) Market Maker Priority Interest for Complex (described below) will collectively have second priority. Market Maker Priority Interest for Complex will be allocated on a pro-rata basis as defined in Rule 514(c)(2); (C) Market Maker non-Priority Interest for Complex will collectively have third priority. Market Maker non-Priority Interest for Complex will be allocated on a pro-rata basis as defined in Rule 514(c)(2); (D) Non-Market Maker Professional Interest orders resting on the

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<sup>23</sup> See MIAX Rule 518(c)(3).

<sup>24</sup> The term “Professional Interest” means (i) an order that is for the account of a person or entity that is not a Priority Customer or (ii) an order or non-priority quote for the account of a Market Maker. See MIAX Rule 100.

<sup>25</sup> See MIAX Rule 517(b)(1).

Strategy Book will collectively have fourth priority. Non-Market Maker Professional Interest orders will be allocated on a pro-rata basis as defined in Rule 514(c)(2).<sup>26</sup>

#### 4. Managed Interest Process

Proposed Rule 518(c)(4), sets forth the price(s) at which complex orders will be placed on the Strategy Book. The managed interest process is initiated when a complex order that is eligible to be placed on the Strategy Book cannot be executed against either the Strategy Book or the Simple Order Book (with the individual legs) at the complex order's net price, and is intended to ensure that a complex order to be managed does not result in a locked or crossed market on the Exchange. Once initiated, the managed interest process for complex orders will be based upon the icMBBO.<sup>27</sup>

Under the managed interest process, a complex order that is resting on the Strategy Book and is either a complex market order as described in proposed Rule 518(c)(6) and discussed below, or has a limit price that locks or crosses the current opposite side icMBBO when the icMBBO is the best price, may be subject to the managed interest process for complex orders as discussed herein. Complex Standard quotes are not eligible for inclusion in the managed interest process. An unexecuted complex Standard quote with a limit price that would otherwise be managed to the icMBBO will be cancelled. If the order is not a Complex Auction-eligible order as defined in proposed Rule 518(d)(1) and described below, the System will first determine if the inbound complex order can be matched against other complex orders and/or quotes resting on the Strategy Book at a price that is at or inside the icMBBO (provided there are no Priority Customer orders on the Simple Order Book at that price). Second, the System will determine if the

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<sup>26</sup> See MIAX Rule 518(c)(3)(ii).

<sup>27</sup> A complex order for which the ixABBO protection is engaged will be managed to the ixABBO as described below and in MIAX Rule 518, Interpretations and Policies .05(d).

inbound complex order can be executed by Legging against individual orders and quotes resting on the Simple Order Book at the icMBBO. A complex order subject to the managed interest process will never be executed at a price that is through the individual component prices on the Simple Order Book. Furthermore, the net price of a complex order subject to the managed interest process that is executed against another complex order on the Strategy Book will never be inferior to the price that would be available if the complex order legged into the Simple Order Book. When the opposite side icMBBO includes a Priority Customer Order, the System will book and display such booked complex order on the Strategy Book at a price (the “book and display price”) that is \$0.01 away from the current opposite side icMBBO.<sup>28</sup>

When the opposite side icMBBO does not include a Priority Customer Order and is not available for execution in the ratio of such complex order, or cannot be executed through Legging with the Simple Order Book, the System will place such complex order on the Strategy Book and display such booked complex order at a book and display price that will lock the current opposite side icMBBO because it is a price at which another complex order or quote can trade.<sup>29</sup>

Should the icMBBO change, the complex order’s book and display price will continuously re-price to the new icMBBO until (A) the complex order has been executed in its entirety; (B) if not executed, the complex order has been placed on the Strategy Book at prices up to and including its limit price or, in the case of a complex market order, at the new icMBBO; (C) the complex order has been partially executed and remaining unexecuted contracts have been placed on the Strategy Book at prices up to and including their limit price or, in the case of a

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<sup>28</sup> For an example of the managed interest process when Priority Customer Interest is present at the icMBBO, see Notice, 81 FR at 58778-79.

complex market order, at the new icMBBO; or (D) the complex order or any remaining portion of the complex order is cancelled. If the Exchange receives a new complex order or quote for the complex strategy on the opposite side of the market from the managed complex order that can be executed, the System will immediately execute the remaining contracts from the managed complex order to the extent possible at the complex order's current book and display price, provided that the execution price is not outside of the current icMBBO. If unexecuted contracts remain from the complex order on the Strategy Book, the complex order's size will be revised and disseminated to reflect the complex order's remaining contracts at its current managed book and display price.

#### 5. Evaluation Process

Proposed Rules 518(c)(2)(v) and (c)(5) describe how and when the System determines to execute or otherwise handle complex orders in the System, a process known as "evaluation." The System will evaluate complex orders and quotes and the Strategy Book on a regular and event-driven basis. For example, the System would evaluate whether an incoming complex order is Complex Auction-eligible;<sup>30</sup> whether it could be executed against the Simple Order Book;<sup>31</sup> whether there is a halt or wide market condition in any component of the complex order;<sup>32</sup> or whether a derived order should be generated or cancelled.<sup>33</sup> The System will evaluate complex orders and quotes initially once all components of the complex strategy are open as set forth in proposed Rule 518(c)(2)(i), upon receipt as set forth in proposed Rule 518(c)(5)(i), and

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<sup>29</sup> For an example of the managed interest process when no Priority Customer Interest is present at the icMBBO, see Notice, 81 FR at 58779.

<sup>30</sup> See Part II.F.1, infra.

<sup>31</sup> See Part II.E, infra.

<sup>32</sup> See Part II.I, infra.

<sup>33</sup> See Part II.D, infra.

continually as set forth in proposed Rule(c)(5)(ii). In addition, proposed Rule 518(c)(5)(iii) states that if the System determines that a complex order is a Complex Auction-eligible order (described below), such complex order will be submitted into the Complex Auction process as described in proposed Rule 518(d) and discussed below.

D. Derived Orders

1. Generation and Removal of Derived Orders; Ranking and Display

MIAX proposes to adopt Rule 518(a)(9) relating to derived orders. A “derived order” is an Exchange-generated limit order on the Simple Order Book that represents either the bid or offer of one component of a complex order resting on the Strategy Book that is comprised of orders to buy or sell an equal quantity (with a one-to-one ratio) of two option components.<sup>34</sup> Derived orders are firm orders that are included in the MBBO.<sup>35</sup> Derived orders will not be routed outside of the Exchange regardless of the price(s) disseminated by away markets. The Exchange will determine on a class-by-class basis to make available derived orders and communicate such determination to Members via a Regulatory Circular. A derived order may be automatically generated for one or more legs of a complex order at a price that matches or improves upon the best displayed bid or offer in the affected series on the Simple Order Book and at a price at which the net price of the complex order on the Strategy Book can be achieved when the other component(s) of the complex order is (are) executed against the best displayed bid or offer on the Simple Order Book.<sup>36</sup> A derived order will not be displayed at a price that locks or crosses the best bid or offer of another exchange.<sup>37</sup> In such a circumstance, the System

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<sup>34</sup> See MIAX Rule 518(a)(9).

<sup>35</sup> See MIAX Rule 518(a)(9).

<sup>36</sup> See MIAX Rule 518(a)(9)(i).

<sup>37</sup> See MIAX Rule 518(a)(9)(ii).

will display the derived order on the Simple Order Book at a price that is one Minimum Price Variation (“MPV”) away from the current opposite side best bid or offer of such other exchange, and rank the derived order on the Simple Order Book according to its actual price.<sup>38</sup> A derived order will not be created at a price increment less than the minimum established by MIAX Rule 510.<sup>39</sup>

MIAX proposes that a derived order is automatically removed from the Simple Order Book if (i) the displayed price of the derived order is no longer at the displayed best bid or offer on the Simple Order Book, (ii) execution of the derived order would no longer achieve the net price of the complex order on the Strategy Book when the other component of the complex order is executed against the best bid or offer on the Simple Order Book, (iii) the complex order is executed in full,<sup>40</sup> (iv) the complex order is cancelled, or (v) any component of the complex order resting on the Strategy Book that is used to generate the derived order is subject to a

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<sup>38</sup> See Notice, 81 FR at 58771-72, for an example of adjustment of the price of a derived order.

<sup>39</sup> See MIAX Rule 518(a)(9)(iii).

<sup>40</sup> See Notice, 81 FR at 58772-73, for an example of the creation and cancellation of a derived order.

Simple Market Auction or Timer (“SMAT”) Event,<sup>41</sup> a wide market condition,<sup>42</sup> or a halt<sup>43</sup> (each as described below).<sup>44</sup>

## 2. Execution

MIAX proposes that a derived order will be handled in the same manner as other orders on the Simple Order Book except as otherwise provided in proposed Rule 518, and will be executed only after all other executable orders (including orders subject to the managed interest process as described below) and quotes at the same price are executed in full.<sup>45</sup> When a derived order is executed, the other component of the complex order on the Strategy Book will be automatically executed against the best bid or offer on the Exchange. If a derived order is locked (i.e., if the opposite side MBBO locks the derived order), the Exchange proposes that it will be executed if the execution price is at the NBBO.<sup>46</sup>

### E. Legging

Proposed Rule 518(c)(2)(iii) describes the Legging process through which complex orders, under certain circumstances, are executed against the individual components of a complex strategy on the Simple Order Book. Complex orders up to a maximum number of legs

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<sup>41</sup> A SMAT Event is defined as any of the following: a 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)). See proposed Rule 518(a)(16). See Notice, 81 FR at 58772-73, for an example of cancellation of a derived order when a component of a complex order is subject to a SMAT Event.

<sup>42</sup> A “wide-market condition” is defined as any individual component of a complex strategy having, at the time of evaluation, an MBBO quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4). See MIAX Rule 518, Interpretations and Policies .05(e).

<sup>43</sup> See MIAX Rule 504.

<sup>44</sup> See MIAX Rule 518(a)(9).

<sup>45</sup> See Notice, 81 FR at 58772, for an example of the priority of a derived order on the Simple Order Book.

(determined by the Exchange on a class-by-class basis as either two or three legs and communicated to Members via Regulatory Circular) may be automatically executed against bids and offers on the Simple Order Book for the individual legs of the complex order (“Legging”), provided the complex order can be executed in full or in a permissible ratio by such bids and offers, and provided that the execution price of each component is not executed at a price that is outside of the NBBO.<sup>47</sup> Legging is not available for cAOC orders, complex Standard quotes, complex eQuotes, or stock-option orders. Notwithstanding the foregoing, the Exchange is proposing to establish, in proposed Rule 518(c)(2)(iii), that complex orders that could otherwise be eligible for Legging will only be permitted to trade against other complex orders in the Strategy Book in certain situations. Specifically, proposed Rule 518(c)(2)(iii) would provide that complex orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other complex orders on the Strategy Book and will not be permitted to leg into the Simple Order Book. Similarly, proposed Rule 518(c)(2)(iii) would impose a similar restriction by stating that complex orders with three option legs where all legs are buying or all legs are selling may only trade against other complex orders on the Strategy Book (regardless of whether the option leg is a call or a put). The System will not generate derived orders for these complex orders.

F. Complex Auction Process

Proposed Rule 518(d), Complex Auction Process, describes the process for determining if a complex order is eligible to begin a Complex Auction, and to participate in a Complex Auction that is in progress. Certain option classes, as determined by the Exchange and communicated to Members via Regulatory Circular, will be eligible to participate in a Complex

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<sup>46</sup> See MIAX Rule 518(a)(9)(vii).

Auction (an “eligible class”). Upon evaluation as described above, the Exchange may determine to automatically submit a Complex Auction-eligible order (defined below) into a Complex Auction (as described below). Upon entry into the System or upon evaluation of a complex order resting at the top of the Strategy Book, Complex Auction-eligible orders may be subject to an automated request for responses (“RFR”), as described below.

#### 1. Eligibility and Initiation

Proposed Rule 518(d)(1) defines and describes the handling of a Complex Auction-eligible order. A “Complex Auction-eligible order” means a complex order that, as determined by the Exchange, is eligible to initiate or join a Complex Auction based upon the order’s marketability (i.e., if the price of such order is equal to or within a specific range of the current dcMBBO) as established by the Exchange, number of components, and complex order origin types (i.e., non-broker-dealer customers, broker-dealers that are not market makers on an options exchange, and/or market makers on an options exchange as established by the Exchange and communicated to Members via Regulatory Circular).<sup>48</sup>

In order to initiate a Complex Auction upon receipt, a Complex Auction-eligible order must be designated as cAOA<sup>49</sup> and must meet the criteria described in proposed Rule 518, Interpretations and Policies .03(b) regarding the URIP. A complex order not designated as cAOA (i.e., a complex order considered by default to be “do not auction on arrival” by the System) may (i) join a Complex Auction in progress at the time of receipt; (ii) become a

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<sup>47</sup> See MIAX Rule 518(c)(2)(iii).

<sup>48</sup> See also NYSE MKT Rule 980NY(e)(1), which allows the exchange to determine which complex order origin types are eligible to initiate a complex order auction.

<sup>49</sup> Complex orders that are designated as cIOC or cAOC are not eligible for cAOA designation, and their evaluation will not result in the initiation of a Complex Auction either upon arrival or if eligible when resting on the Strategy Book. See MIAX Rule 518 (b)(2)(ii). Market orders may be designated as cAOA. See MIAX Rule 518(c).

Complex Auction-eligible order after resting on the Strategy Book and may then automatically join a Complex Auction then in effect for the complex strategy; or (iii) initiate a Complex Auction if it meets the criteria described in proposed Rule 518, Interpretations and Policies .03(a) regarding the IIP or .03(c) regarding the RIP.

A complex order not designated as cAOA will still have execution opportunities. A complex order not designated as cAOA is deemed to be “do not auction on arrival” by the System by default. Such a complex order will still have the opportunity to execute upon entry into the System without initiating a Complex Auction. For example, such an order may execute automatically upon entry into the System by matching with complex orders and/or quotes resting on the Strategy Book at a price that is at or inside the icMBBO, or via Legging against the Simple Order Book. Additionally, such an order on the opposite side of, and marketable against, a Complex Auction-eligible order may trade against the Complex Auction-eligible order if the System receives the order while a Complex Auction ongoing.<sup>50</sup> Complex orders processed through a Complex Auction may be executed without consideration to prices of the same complex interest that might be available on other exchanges.

Proposed Rule 518(d)(2) describes the circumstances under which a Complex Auction is begun. Upon receipt of a Complex Auction-eligible order or upon an evaluation by the System indicating that there is a Complex Auction-eligible order resting on the Strategy Book, the Exchange may begin the Complex Auction process by sending an RFR message. The RFR

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<sup>50</sup> A MIAX complex order not designated as cAOA will not be considered a Complex Auction-eligible order by default. The Exchange believes that this gives market participants extra flexibility to control the handling and execution of their complex orders by the System by giving them the ability to determine affirmatively to have their complex order initiate a Complex Auction by way of the cAOA designation. In contrast, CBOE Rule 6.53C (d)(ii)(B) expressly states that Trading Permit Holders may request on an order by order basis that an incoming COA eligible order with two legs not COA (a “do not COA” request).

message will be sent to all subscribers to the Exchange's data feeds that deliver RFR messages. The RFR message will identify the complex strategy, the price, quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side of the market of the Complex Auction-eligible order. The inclusion of the quantity of matched complex quotes and/or orders at the price included in the RFR message is intended to inform participants considering submitting an RFR Response of the number of contracts for which there is matched interest, and the purpose of including the imbalance quantity in the RFR message is to inform such participants of the number of contracts that do not have matched interest. The sum of the matched interest quantity and the imbalance quantity is equal to the size of the initiating Complex Auction-eligible order that is being auctioned. The price included in the RFR message will be the limit order price, unless that price is through the opposite side dcMBBO or the Complex Auction is initiated by a complex market order, in which case such price will be the dcMBBO.

The Exchange may determine to limit the frequency of Complex Auctions for a complex strategy (i.e., establish a minimum time period between Complex Auctions initiated for complex orders in that strategy resting on the Strategy Book). The duration of such limitation will be established on an Exchange-wide basis and communicated to Members via Regulatory Circular. The Exchange will not change the duration of the minimum time period on an intra-day basis during any trading session. The purpose of this limitation is to safeguard the integrity of the System and to ensure an orderly market on the Exchange. Despite this limitation respecting orders resting on the Strategy Book, however, a new complex order received by the System during such limitation that ordinarily triggers a Complex Auction will still trigger a Complex Auction upon receipt.

## 2. Response Time Interval

Proposed Rule 518(d)(3) defines the amount of time within which participants may respond to an RFR message. The term “Response Time Interval” means the period of time during which responses to the RFR may be entered. The Exchange will determine the duration of the Response Time Interval, which shall not exceed 500 milliseconds, and will communicate it to Members via Regulatory Circular.

Proposed Rule 518(d)(4) states that Members may submit a response to the RFR message (an “RFR Response”) during the Response Time Interval. RFR Responses may be submitted in \$0.01 increments. RFR Responses must be cAOC orders<sup>51</sup> or cAOC eQuotes (discussed below), and may be submitted on either side of the market. RFR Responses represent non-firm interest that can be modified or withdrawn at any time prior to the end of the Response Time Interval. At the end of the Response Time Interval, RFR Responses are firm (i.e., guaranteed at the RFR price and size). All RFR Responses and other complex orders and quotes on the opposite side of the Complex Auction-eligible order are also firm with respect to other incoming Complex Auction-eligible orders that are received during the Response Time Interval. Any RFR Responses not executed in full will expire at the end of the Complex Auction.

Proposed Rule 518(d)(5) describes how Complex Auction-eligible orders are handled following the Response Time Interval. At the end of the Response Time Interval, Complex Auction-eligible orders (and other complex orders and quotes) may be executed in whole or in

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<sup>51</sup> A 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. See MIAX Rule 518(b)(3). The Exchange also proposes a minor change to Exchange Rule 605, Market Maker Orders, to codify in Rule 605(a) that, in addition to the other order types specified in the rule, Market Makers may place cAOC complex orders in option classes to which they are appointed.

part. Complex Auction-eligible orders will be executed against the best priced contra side interest, and any unexecuted portion of a Complex Auction-eligible order remaining at the end of the Response Time Interval will either be evaluated to determine if it may initiate another Complex Auction, or placed on the Strategy Book and ranked pursuant to proposed Rule 518(c)(3) as discussed above.

The Complex Auction will terminate at the end of the Response Time Interval without trading when any individual component of a complex strategy in the Complex Auction process is subject to a wide market condition as described in proposed Rule 518, Interpretations and Policies .05(e)(1), or to a SMAT Event as described in proposed Rule 518(a)(16) and proposed Interpretations and Policies .05(e)(2), or immediately without trading if any individual component or underlying security of a complex strategy in the Complex Auction process is subject to a halt as described in proposed Rule 518, Interpretations and Policies .05(e)(3).<sup>52</sup> Upon the conclusion of these condition(s) or process(es), an affected complex order will be evaluated and may initiate a new Complex Auction if such complex order is determined to be a Complex Auction-eligible order.

### 3. Pricing

Proposed Rule 518(d)(6) describes the manner in which the System prices and executes complex orders and quotes at the conclusion of the Response Time Interval. A complex strategy will not be executed at a net price that would cause any component of the complex strategy to be executed: (A) at a price of zero; or (B) ahead of a Priority Customer order on the Simple Order Book without improving the MBBO on at least one component of the complex strategy by at least \$.01.

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<sup>52</sup> For an example of termination of an auction without trading due to a SMAT event, see Notice, 81 FR at 58782-83.

At the conclusion of the Response Time Interval, using \$0.01 inside the current icMBBO as the boundary (the “boundary”), the System will calculate the price where the maximum quantity of contracts can trade and also determine whether there is an imbalance.<sup>53</sup> If there is no imbalance, and a single price satisfies the maximum quantity criteria, that single price is used as the Complex Auction price.<sup>54</sup> If two or more prices satisfy the maximum quantity criteria, the System will calculate the midpoint of the lowest and highest price points that satisfy the maximum quantity criteria, such midpoint price is used as the Complex Auction price.<sup>55</sup> For orders with ixABBO Price Protection, (“price protection”), the midpoint pricing will use the price protection range selected by the Member at the end of the Complex Auction. If the midpoint price is not in a \$0.01 increment, the System will round toward the midpoint of the dcMBBO to the nearest \$0.01.<sup>56</sup> If the midpoint of the highest and lowest prices is also the midpoint of the dcMBBO and is not in a \$0.01 increment, the System will round the price up to the next \$0.01 increment.<sup>57</sup>

If there is a size imbalance, and if a single price satisfies the maximum quantity criteria, that single price is used as the Complex Auction price. If two or more prices satisfy the maximum quantity criteria, the System will price the execution at the price on the opposite side of the size imbalance that meets the maximum quantity criteria, while also respecting limit prices and the pricing boundaries which include the price protection boundary of \$0.01 inside of the

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<sup>53</sup> For an example, see Notice, 81 FR at 58783.

<sup>54</sup> For an example, see Notice, 81 FR at 58783-84.

<sup>55</sup> For an example, see Notice, 81 FR at 58784.

<sup>56</sup> For an example, see Notice, 81 FR at 58784.

<sup>57</sup> For an example, see Notice, 81 FR at 58784-85.

icMBBO and the price protection range (if any) selected by the Members whose interest makes up the order imbalance.<sup>58</sup>

If, after trading the maximum quantity at the execution price, Complex Auction interest remains with a managed price that locks or crosses the opposite side icMBBO, the System will execute the individual legs of eligible remaining Complex Auction-eligible orders and quotes against orders and quotes resting on the Simple Order Book that were present prior to the beginning of the Complex Auction at the icMBBO if available in the proper ratio and at or within the NBBO of each component of the complex order.<sup>59</sup>

After executing the imbalance side interest to the extent possible at the icMBBO, and if Priority Customer interest at the icMBBO that is not in the proper ratio remains, the System will place such remaining imbalance side interest on the Strategy Book and manage such interest pursuant to proposed Rule 518(c)(4). If no Priority Customer interest at the icMBBO remains, the System will execute Complex Auction interest with any available complex orders, complex Standard quotes or complex eQuotes priced at the icMBBO, and then with any orders or quotes on the Simple Order Book at the icMBBO that were received or modified after the beginning of the Response Time Interval.

If after trading the maximum quantity at the initial icMBBO all interest at the initial icMBBO has been executed, including through Legging with the Simple Order Book (as described in proposed Rule 518(c)(2)(iii) above), and Complex Auction interest remains with a managed price that crosses the exhausted icMBBO or dcMBBO (if the next opposite side icMBBO is also the dcMBBO), or locks or crosses the next opposite side icMBBO or dcMBBO (if the next opposite side icMBBO is also the dcMBBO), the System will repeat the process for a

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<sup>58</sup> For an example, see Notice, 81 FR at 58785.

size imbalance described in proposed Rule 518(d)(6)(i)(B)(1)-(3).<sup>60</sup> At each icMBBO price level the System will repeat this process at the end of the Response Time Interval until reaching the dcMBBO price. If the Complex Auction price is equal to or crosses the dcMBBO and the dcMBBO is exhausted, the System will place any remaining Complex Auction interest on the Strategy Book and manage the interest that is eligible to rest on the Strategy Book pursuant to subparagraph (c)(4) to the exhausted dcMBBO price, cancel Complex Auction interest, including remaining complex order cAOC interest, that is not eligible to rest on the Strategy Book, and cancel any complex Standard quotes that are locking or crossing the exhausted dcMBBO price. The System will then immediately initiate a re-evaluation of the remaining interest from the Complex Auction and may initiate a new Complex Auction without regard to the RIP.

If all interest at the dcMBBO has been exhausted and Auction orders with a managed or limit price that locks or crosses the exhausted dcMBBO price remain, the System will place any remaining Complex Auction interest on the Strategy Book and manage the interest that is eligible to rest on the Strategy Book pursuant to proposed Rule 518(c)(4) to the exhausted dcMBBO price, cancel Complex Auction interest (including remaining complex order cAOC interest) that is not eligible to rest on the Strategy Book, and cancel any complex Standard quotes that are locking or crossing the exhausted dcMBBO price. The System will then immediately initiate a reevaluation of the remaining interest from the Complex Auction and may initiate a new Complex Auction without regard to the RIP.

The System will place any eligible remaining non-marketable Complex Auction orders and quotes on the Strategy Book, cancel any remaining Complex Auction interest that is not eligible to rest on the Strategy Book, and cancel complex Standard quotes that would otherwise

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<sup>59</sup> For an example, see Notice, 81 FR at 58786.

require management because of their price as described in proposed Rule 518(c)(4) above if placed on the Strategy Book.

#### 4. Allocation

Proposed Rule 518(d)(7) describes the allocation of complex orders and quotes that are executed in a Complex Auction.<sup>61</sup> Once the Complex Auction is complete (at the end of the Response Time Interval), such orders and quotes will be allocated first in price priority based on their original limit price, and thereafter as stated herein.

Individual orders and quotes in the leg markets resting on the Simple Order Book prior to the initiation of a Complex Auction and that have remained unchanged during the Auction have first priority, provided the complex order can be executed in full (or in a permissible ratio) against orders and quotes on the Simple Order Book, provided that the prices of the components on the Simple Order Book are at or within the NBBO for each component. Orders and/or quotes resting on the Simple Order Book that execute against a complex order will be allocated pursuant to Rule 514(c).

Priority Customer complex orders resting on the Strategy Book before, or that are received during, the Response Time Interval, and Priority Customer RFR Responses, collectively have second priority and will be allocated in price-time priority.

Market Maker non-Priority Interest for Complex and RFR Responses from Market Makers with non-Priority Interest for Complex collectively have fourth priority and will be allocated on a pro-rata basis as defined in Rule 514(c)(2).

Non-Market Maker Professional Interest complex orders resting on the Strategy Book, non-Market Maker Professional Interest complex orders placed on the Strategy Book during the

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<sup>60</sup> For examples, see Notice, 81 FR at 58786-87.

Response Time Interval, and non-Market Maker Professional Interest RFR Responses will collectively have fifth priority and will be allocated on a pro-rata basis as defined in Rule 514(c)(2).

Finally, individual orders and quotes in the leg markets that are received or changed during the Complex Auction will collectively have sixth priority and will be allocated pursuant to Rule 514(c)(2).

Proposed Rule 518(d)(8) describes the manner in which the System handles incoming unrelated complex orders and quotes that are eligible to join a Complex Auction and are received during the Response Time Interval for a Complex Auction-eligible order. Such incoming unrelated complex orders and quotes will simply join the Complex Auction, will be ranked by price, and will be allocated as described above.<sup>62</sup>

#### G. Stock-Option Orders

MIAX is proposing Interpretations and Policies .01 to provide additional detail regarding the trading and regulation of stock-option orders on the Exchange. The Exchange will determine when stock-option orders will be made available for trading in the System and communicate such determination to Members via Regulatory Circular.<sup>63</sup>

As set forth in proposed Rule 518, Interpretations and Policies .01(a), stock-option orders may be executed against other stock-option orders through the Strategy Book and Complex

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<sup>61</sup> For examples of allocation, see Notice, 81 FR at 58788-89.

<sup>62</sup> The Exchange proposes to include eligible unrelated incoming complex orders and quotes in the Complex Auction Process. This is similar to another exchange. Specifically, PHLX incoming Complex Orders that were received during the COLA Timer (equivalent to the MIAX Response Time Interval) for the same Complex Order Strategy as the COLA-eligible order that are on the same side of the market will join the COLA. See PHLX Rule 1098(e)(viii)(B).

<sup>63</sup> See MIAX Rule 518, Interpretations and Policies .01(a).

Auction. Stock-option orders will not be legged against the individual component legs, and the System will not generate a derived order based upon a stock-option order.<sup>64</sup> A stock-option order shall not be executed on the System unless the underlying security component is executable at the price(s) necessary to achieve the desired net price.<sup>65</sup>

MIAX Rule 518, Interpretations and Policies .01(a), permits Members to submit stock-option orders only if such orders comply with the Qualified Contingent Trade (“QCT”) Exemption from Rule 611(a) of Regulation NMS<sup>66</sup> under the Act, and provides further, that Members submitting stock-option orders represent that such orders comply with the QCT Exemption.<sup>67</sup>

To participate in stock-option order processing, a Member must give up a Clearing Member previously identified to, and processed by the Exchange as a Designated Give Up for that Member in accordance with Rule 507 and which has entered into a brokerage agreement with one or more Exchange-designated broker-dealers that are not affiliated with the Exchange to electronically execute the underlying security component of the stock-option order at a stock trading venue selected by the Exchange-designated broker-dealer on behalf of the Member.<sup>68</sup>

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<sup>64</sup> See id.

<sup>65</sup> See id.

<sup>66</sup> 17 CFR 242.611(a).

<sup>67</sup> See MIAX Rule 518, Interpretations and Policies .01(a). See also Securities Exchange Act Release No. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (order modifying the QCT Exemption) and Securities Exchange Act Release No. 53489 (August 31, 2006), 71 FR 52829 (September 7, 2006) (order establishing the QCT Exemption).

<sup>68</sup> See MIAX Rule 518, Interpretations and Policies .01(a).

Proposed Rule 518, Interpretations and Policies .01(b) sets forth the process by which stock-option orders, including inbound and those resting on the Strategy Book, will be handled.<sup>69</sup> When a stock-option order is received by the Exchange, the System will validate that the stock-option order has been properly marked as required by Rule 200 of Regulation SHO under the Act (“Rule 200”).<sup>70</sup> Rule 200 requires all broker-dealers to mark sell orders of equity securities as “long,” “short,” or “short exempt.” Accordingly, Members submitting stock-option orders must mark the underlying security component (including ETF) “long,” “short,” or “short exempt” in compliance with Rule 200.<sup>71</sup> If the stock-option order is not so marked, the order will be rejected by the System.<sup>72</sup> Likewise, any underlying security component of a stock-option order sent by the Exchange to the Exchange-designated broker-dealer shall be marked “long,” “short,” or “short exempt” in the same manner in which it was received by the Exchange from the submitting Member.<sup>73</sup>

If the stock-option order is properly marked, the System will determine whether the stock-option order is Complex Auction-eligible.<sup>74</sup> If the stock-option order is Complex Auction-

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<sup>69</sup> Stock-option orders and quotes on the Strategy Book that are marketable against each other will automatically execute, provided they meet the conditions of MIA X Rule 518, Interpretations and Policies .01(b). See MIA X Rule 518, Interpretations and Policies .01(d).

<sup>70</sup> 17 CFR 242.200.

<sup>71</sup> See MIA X Rule 518, Interpretations and Policies .01(b).

<sup>72</sup> See id.

<sup>73</sup> See id.

<sup>74</sup> See id. MIA X Rule 518, Interpretations and Policies .01(e) provides that stock-option orders executed via Complex Auction shall trade in the sequence set forth in proposed Rule 518(d) except that the provision regarding individual orders and quotes in the leg markets resting on the Simple Order Book prior to the initiation of a Complex Auction will not be applicable and such execution will be subject to the conditions set forth in MIA X Rule 518, Interpretations and Policies .01 regarding the price of the option leg(s), together with all applicable securities laws.

eligible, the System will initiate the Complex Auction Process.<sup>75</sup> The rule requires that any stock-option order executed utilizing the Complex Auction Process will comply with the requirements of Rule 201 of Regulation SHO under the Act (“Rule 201”).<sup>76</sup>

When the short sale price test in Rule 201 is triggered for a covered security,<sup>77</sup> a “trading center,”<sup>78</sup> such as the Exchange, an Exchange-designated broker-dealer, or a stock trading venue, as applicable, must comply with Rule 201.<sup>79</sup> A trading center such as the Exchange, an Exchange-designated broker-dealer and a stock trading venue, as applicable, on which the underlying security component is executed, must also comply with Rule 201(b)(1)(iii)(B),<sup>80</sup> which provides that a trading center must establish, maintain, and enforce written policies and procedures reasonably designed to permit the execution or display of a short sale order of a covered security marked “short exempt”<sup>81</sup> without regard to whether the order is at a price that is less than or equal to the current national best bid.<sup>82</sup>

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<sup>75</sup> See id.

<sup>76</sup> 17 CFR 242.201. See MIAX Rule 518, Interpretations and Policies .01(b).

<sup>77</sup> The term “covered security” is defined in Rule 201(a)(1) as any NMS stock as defined in Rule 600(b)(47) of Regulation NMS. See also 17 CFR 242.600(b)(47).

<sup>78</sup> Rule 201(a)(9) states that the term “trading center” shall have the same meaning as in Rule 600(b)(78). Rule 600(b)(78) of Regulation NMS defines a “trading center” as “a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.” See 17 CFR 242.600(b)(78). The definition encompasses all entities that may execute short sale orders. Thus, Rule 201 will apply to any entity that executes short sale orders.

<sup>79</sup> See MIAX Rule 518, Interpretations and Policies .01(b). See also Notice, 81 FR at 58791.

<sup>80</sup> 17 CFR 242.201(b)(1)(iii)(B).

<sup>81</sup> 17 CFR 242.200(g)(2).

<sup>82</sup> Since the underlying security component of a stock-option order is not displayed by the Exchange, the exception in Rule 201(b)(1)(iii)(A) is not available. 17 CFR 242.201(b)(1)(iii)(A).

If the stock-option order is not Complex Auction-eligible, the System will determine if it is eligible to be executed against another inbound stock-option order or another stock-option order resting on the Strategy Book.<sup>83</sup> If eligible, the System will route both sides of the matched underlying security component of the stock-option order as a QCT to an Exchange-designated broker-dealer for execution on a stock trading venue.<sup>84</sup> The stock trading venue will then either successfully execute the QCT or cancel it back to the Exchange-designated broker-dealer, which in turn will either report the execution of the QCT or cancel it back to the Exchange.<sup>85</sup> While the Exchange is a trading center pursuant to Rule 201, the Exchange will neither execute nor display the underlying security component of a stock-option order.<sup>86</sup> Instead, the execution or display of the underlying security component of a stock-option order will occur on a trading center other than the Exchange, such as an Exchange-designated broker-dealer or other stock trading venue.<sup>87</sup>

If the Exchange-designated broker-dealer or other stock trading venue, as applicable, cannot execute the underlying security component of a stock-option order in accordance with Rule 201, the Exchange will not execute the option component(s) of the stock-option order and will either place the unexecuted stock-option order on the Strategy Book or cancel it back to the submitting Member in accordance with the submitting Member's instructions (except that cAOC and cIOC stock-option orders and eQuotes will be cancelled).<sup>88</sup> Once placed back onto the

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<sup>83</sup> See MIAX Rule 518, Interpretations and Policies .01(b).

<sup>84</sup> See id.

<sup>85</sup> See id.

<sup>86</sup> See id.

<sup>87</sup> See id.

<sup>88</sup> See MIAX Rule 518, Interpretations and Policies .01(b).

Strategy Book, the stock-option order will be handled in accordance with MIAX Rule 518, Interpretations and Policies .01(b).<sup>89</sup>

MIAX also proposes that the execution price of the underlying security component must be also within the high-low range for the day in the underlying security at the time the stock-option order is processed and within a certain price from the current market, which the Exchange will establish and communicate to Members via Regulatory Circular.<sup>90</sup> Pursuant to the proposed rules, if the underlying security component price is not within these parameters, the stock-option order is not executable.<sup>91</sup>

Proposed Rule 518, Interpretations and Policies .01(c) states that the option leg(s) of a stock-option order shall not be executed (i) at a price that is inferior to the Exchange's best bid (offer) in the option or (ii) at the Exchange's best bid (offer) in that option if one or more Priority Customer Orders are resting at the best bid (offer) price on the Simple Order Book in each of the option components and the stock-option order could otherwise be executed in full (or in a permissible ratio). If one or more Priority Customer Orders are resting at the best bid (offer) price on the Simple Order Book, at least one option component must trade at a price that is better than the corresponding bid or offer in the marketplace by at least \$0.01.<sup>92</sup> The option leg(s) of a stock-option order may be executed in a \$0.01 increment, regardless of the minimum quoting increment applicable to that series.<sup>93</sup>

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<sup>89</sup> See id. If the stock-option order is not Complex Auction-eligible and cannot be executed or placed on the Strategy Book, it will be cancelled by the System. See id.

<sup>90</sup> See id.

<sup>91</sup> See id.

<sup>92</sup> See MIAX Rule 518, Interpretations and Policies .01(c).

<sup>93</sup> See id.

Finally, proposed Rule 518, Interpretations and Policies .01(f) provides that the underlying security of a stock-option order is in a limit up-limit down state as defined in Rule 530, such order will only execute if the calculated stock price is within the permissible Price Bands as determined by SIPs under the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time (the “LULD Plan”).

#### H. Market-Maker Complex Quotes

Proposed Rule 518, Interpretations and Policies .02 describes the manner in which the Exchange will allow Market Maker quotes in complex strategies.<sup>94</sup> Market Maker complex quotes may be entered as either complex Standard quotes or complex eQuotes, as defined in proposed Rule 518, Interpretations and Policies .02(a).<sup>95</sup>

The Exchange will determine, on a class-by-class basis, the complex strategies in which Market Makers may submit complex Standard quotes, and will notify Members of such determination via Regulatory Circular. Market Makers may submit complex eQuotes in their appointed options classes.

A “Complex Auction or Cancel eQuote” or “cAOC eQuote”<sup>96</sup> 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. cAOC eQuotes will not: (i)

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<sup>94</sup> ISE permits market maker complex quotes. See ISE Rule 722, Supplementary Material .03.

<sup>95</sup> A complex Standard quote is a complex quote submitted by a Market Maker that cancels and replaces the Market Maker’s previous complex Standard quote for that side of the strategy, if any. A complex eQuote is a complex quote submitted by a Market Maker with a specific time in force that does not automatically cancel and replace the Market Maker’s previous complex Standard quote or complex eQuote.

<sup>96</sup> See MIAX Rule 518, Interpretations and Policies .02(c)(1).

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.

A “Complex Immediate or Cancel eQuote” or “cIOC eQuote”<sup>97</sup> is a complex eQuote with a time-in-force of IOC that may be matched with another complex quote or complex order for an execution to occur in whole or in part upon receipt into the System.<sup>98</sup> cIOC 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 or join a Complex Auction in progress; (iii) rest on the Strategy Book; or (iv) be displayed. Any portion of a cIOC eQuote that is not executed will be immediately cancelled.

Market Maker complex quotes are executed in the same manner as complex orders but will not be executed against bids and offers on the Simple Order Book via Legging as described in proposed Rule 518(c)(2)(iii). Market Maker complex Standard quotes may rest on the Strategy Book and are not subject to the managed interest process described in proposed Rule 518(c)(4). An unexecuted complex Standard quote with a limit price that would otherwise be managed to the icMBBO will be cancelled.

Certain Market Maker complex Standard quotes and complex eQuotes (as defined below) will qualify as “Market Maker Priority Interest for Complex” on the Strategy Book (as defined below) if the certain criteria have been met. If complex Standard quoting is engaged for a complex strategy, a Market Maker complex Standard quote or complex eQuote will qualify as Market Maker Priority Interest for Complex if the Market Maker has a complex Standard quote

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<sup>97</sup> See MIAX Rule 518, Interpretations and Policies .02(c)(2).

<sup>98</sup> This is based on the Exchange’s current IOC eQuote in the simple market. See MIAX Rule 517(a)(2)(iv).

in the complex strategy that equals or improves the dcMBBO on the opposite side from the incoming complex order or quote at the time of evaluation (a “Complex priority quote”). For purposes of the proposed Rule, Market Maker Priority Interest for Complex is established at the beginning of a Complex Auction (as described in proposed Rule 518(d) below), or at the time of execution in free trading.

Market Makers are not required to enter complex quotes on the Strategy Book.<sup>99</sup> Quotes for complex strategies are not subject to any quoting requirements that are applicable to Market Maker quotes in the simple market for individual options series or classes. Volume executed in complex strategies is not taken into consideration when determining whether Market Makers are meeting quotation obligations applicable to Market Maker quotes in the simple market for individual options.<sup>100</sup>

#### I. Price Protection and Other Features

MIAX is also proposing to adopt price protection features. First, the proposal establishes a price protection program for Vertical Spreads and Calendar Spreads by establishing a Vertical

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<sup>99</sup> See MIAX Rule 518, Interpretations and Policies .02(e).

<sup>100</sup> See MIAX Rule 518, Interpretations and Policies .02(e). This is substantially similar to complex quoting functionality currently operative on another exchange. See ISE Rule 722, Supplementary Material .03.

Spread Variance (“VSV”)<sup>101</sup> and Calendar Spread Variance (“CSV”).<sup>102</sup> VSV will apply only to Vertical Spreads, and CSV will apply only to Calendar Spreads.<sup>103</sup>

If the execution price of a complex order would be outside of the limits established in the VSV or the CSV, such complex order will be placed on the Strategy Book and will be managed to the appropriate trading price limit as described in proposed Rule 518(c)(4) above. Orders to buy below the minimum trading price limit and orders to sell above the maximum trading price limit (in the case of Vertical Spreads) will be rejected by the System.

Proposed Rule 518, Interpretations and Policies .05(e)(1)(i), describes how the System functions when there is a wide market condition<sup>104</sup> during free trading (i.e., when there is not a Complex Auction in progress).<sup>105</sup> Specifically, if a wide market condition exists for a component of a complex strategy, trading in the complex strategy will be suspended. The Strategy Book will remain available for Members to enter and manage complex orders and quotes. New Complex Auctions will not be initiated and incoming Complex Auction-eligible

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<sup>101</sup> A “Vertical Spread” is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have the same expiration but different strike prices. See MIAX Rule 518, Interpretations and Policies .05(a).

<sup>102</sup> A “Calendar Spread” is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price. See MIAX Rule 518, Interpretations and Policies .05(b).

<sup>103</sup> The proposed MIAX VSV and CSV price protections are similar to the price protections that are currently operative on other exchanges. See ISE Rule 722, Supplementary Material .07(c), PHLX Rule 1098(g).

<sup>104</sup> A “wide market condition” is defined as any individual component of a complex strategy having, at the time of evaluation, an MBBO quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4).

<sup>105</sup> “Free trading” is defined in MIAX Rule 518(a)(10) as trading that occurs during a trading session other than: (i) at the opening or re-opening for trading following a halt, or (ii) during the Complex Auction Process.

orders that could have otherwise caused an auction to begin will be placed on the Strategy Book. Incoming complex orders with a time in force of IOC will be cancelled.

The System will continue to evaluate the Strategy Book. If a wide market condition exists for a component of a complex strategy at the time of evaluation, complex orders or quotes that could have otherwise been executed will not be executed until the wide market condition no longer exists. When the wide market condition no longer exists, the System will again evaluate the Strategy Book and will use the process and criteria respecting the RIP as described in proposed Interpretations and Policies .03(c) to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Proposed Rule 518, Interpretations and Policies .05(e)(1)(ii), describes how the System functions when there is a wide market condition during a Complex Auction. If, at the expiration of the Response Time Interval, a wide market condition exists for a component of a complex strategy in the Complex Auction, trading in the complex strategy will be suspended, and any RFR Responses will be cancelled. Remaining Complex Auction-eligible orders will then be placed on the Strategy Book. When the wide market condition no longer exists, the System will evaluate the Strategy Book pursuant to proposed Rule 518(c)(5)(ii), and will use the process and criteria respecting the RIP as described in proposed Interpretations and Policies .03(c) to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Proposed Rule 518, Interpretations and Policies .05(e)(2) sets forth the functionality of the System if a Simple Market Auction or Timer (“SMAT”) Event (defined above as a PRIME

Auction, a Route Timer, or a liquidity refresh pause)<sup>106</sup> exists for a component of a complex strategy, both during free trading and during an auction. Once a SMAT Event is concluded or resolved, the System will evaluate the Strategy Book as described above to provide the previously suspended complex orders with more opportunities to be executed.

Proposed Rule 518, Interpretations and Policies .05(e)(3) describes the System's functionality when there is a halt in trading for the underlying security or a component of a complex order. If a trading halt exists for the underlying security or a component of a complex strategy, trading in the complex strategy will be suspended.

The Strategy Book will remain available for members to enter and manage complex orders and quotes. Incoming complex orders and quotes that could otherwise be executed or initiate a Complex Auction in the absence of a halt will be placed on the Strategy Book. Incoming complex orders and quotes with a time in force of IOC will be cancelled.

When trading in the halted component(s) and/or underlying security of the complex order resumes, the System will evaluate the Strategy Book as described in proposed Rule 518(c)(2)(i), and will use the process and criteria respecting the IIP as described in proposed Rule 518, Interpretations and Policies .03(a) to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Proposed Interpretations and Policies .05(e)(3)(ii) describes what happens when there is a halt during a Complex Auction. Unlike during a wide market condition or a SMAT Event, where a Complex Auction will end without trading at the end of the Response Time Interval, if during a Complex Auction any component or the underlying security of a Complex Auction-

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<sup>106</sup> See MIAX Rule 518(a)(16).

eligible order is halted, the Complex Auction will end early without trading<sup>107</sup> and all RFR Responses will be cancelled. Remaining complex orders will be placed on the Strategy Book if eligible, or cancelled. When trading in the halted component(s) and/or underlying security of the complex order resumes, the System will evaluate the Strategy Book pursuant to proposed Rule 518(c)(2)(i) above, and will use the process and criteria respecting the IIP as described in Interpretations and Policies .03(a) of this Rule to determine whether marketable complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Another investor protection proposed by the Exchange is described in Interpretations and Policies .06 of proposed Rule 518, the MIAX Order Monitor for Complex Orders (“cMOM”).<sup>108</sup> cMOM defines a price range outside of which a complex limit order will not be accepted by the System. cMOM is a number defined by the Exchange and communicated to Members via Regulatory Circular. The default price range for cMOM will be greater than or equal to a price through the cNBBO<sup>109</sup> for the complex strategy to be determined by the Exchange and communicated to Members via Regulatory Circular. Such price will not be greater than \$2.50. A complex limit order to sell will not be accepted at a price that is lower than the cNBBO bid, and a complex limit order to buy will not be accepted at a price that is higher than the cNBBO

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<sup>107</sup> This is the only circumstance under which a Complex Auction on MIAX would end early. In all other circumstances described in proposed Rule 518 that would disrupt trading during a Complex Auction, the Complex Auction will end after the Response Time Interval without trading.

<sup>108</sup> cMOM is substantially similar to the Exchange’s MIAX Order Monitor (“MOM”) protection for the Simple Order Book. See Exchange Rule 519.

<sup>109</sup> The Complex National Best Bid or Offer (“cNBBO”) is defined as the best net bid and offer price the best net bid and offer for a complex strategy calculated using the NBBO for each component of a complex strategy. For stock-option orders, the cNBBO for a complex strategy is calculated using the NBBO in the individual option component(s) and the NBBO in the stock component. See MIAX Rule 518(a)(2).

offer, by more than cMOM. A complex limit order that is priced through this range will be rejected. cMOM includes complex order size protections, open complex order protection, and open complex contract protection. The cMOM protections will be available for complex orders as determined by the Exchange and communicated to Members via Regulatory Circular.

The Exchange is also proposing to amend Exchange Rule 519A to state that complex orders will participate in the Risk Protection Monitor. The Risk Protection Monitor maintains a counting program for each participating Member that will count the number of orders entered and the number of contracts traded via an order entered by a Member on the Exchange within a specified time period that has been established by the Member, and will reject orders that exceed a Member-designated “Allowable Order Rate” and an “Allowable Contract Execution Rate.”<sup>110</sup>

#### J. Obvious Errors

The Exchange proposes to adopt Rule 521(c)(5) to address the manner in which obvious errors in complex order transactions will be handled in situations where one or more components of a complex order is eligible to be adjusted or nullified pursuant to Exchange Rule 521(c)(4).<sup>111</sup>

Specifically, if a complex order executes against another complex order on the Strategy Book and one or more components of the transaction is deemed eligible to be adjusted or nullified, the entire trade (all components) will be nullified, unless both parties agree to adjust the transaction to a different price within thirty (30) minutes of being notified by the Exchange of the decision to nullify the transaction. Additionally, if a complex order executes against orders

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<sup>110</sup> For a complete description of the Risk Protection Monitor, see Securities Exchange Act Release No. 74496 (March 13, 2015), 80 FR 14421 (March 19, 2015) (SR-MIAX-2015-03).

<sup>111</sup> Exchange Rule 521(c)(4) describes the actions to be taken by the Exchange when a transaction resulting from an obvious error (as defined elsewhere in Rule 521) has occurred, depending upon who the parties to the transaction are.

or quotes on the Simple Order Book, each component of the complex order will be reviewed and handled independently in accordance with Exchange Rule 521.

### III. Discussion and Commission Findings

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.<sup>112</sup> In particular, for the reasons discussed below, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>113</sup> 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 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.

#### A. Definitions and Types of Complex Orders

The proposal adopts several defined terms related to the trading of complex orders. The Commission notes that MIAX's new definition of complex order<sup>114</sup> is consistent with the definition of complex order adopted by other options exchanges.<sup>115</sup> The Commission believes that adding Rule 518(b) to allow complex orders to be entered as limit orders, market orders, GTC orders, day limit orders, cAOA orders, cAOC orders, or cIOC orders could provide market participants with greater flexibility and control over the trading of complex orders. The Commission notes, in addition, that MIAX currently permits each of these orders types (other

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<sup>112</sup> 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).

<sup>113</sup> 15 U.S.C. 78f(b)(5).

<sup>114</sup> See MIAX Rule 518(a)(5).

<sup>115</sup> See, e.g., ISE Rule 722(a)(1) and CBOE Rule 6.53C(a)(1).

than cAOA, cAOC, and cIOC orders) for orders on single option series.<sup>116</sup>

B. Trading of Complex Orders and Quotes

The Commission notes that MIAX states that it has designed its execution rules to allow complex orders to interact with interest in the Simple Order Book and vice versa.<sup>117</sup> The Commission notes that MIAX Rule 518(c)(3), is designed to protect interest established in the leg market by providing that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a \$0.01 increment. In addition, the Commission notes that other options exchanges have similar provisions requiring one leg to trade at a better price in such a circumstance.<sup>118</sup>

MIAX proposes that complex orders will never be executed at a price that is outside of the individual component prices on the Simple Order Book.<sup>119</sup> Furthermore, the net price of a complex order executed against another complex order on the Strategy Book will never be inferior to the price that would be available if the complex order legged into the Simple Order Book.<sup>120</sup> According to MIAX, these provisions should help prevent a component of a complex order from being executed at a price that compromises the priority already established by a Priority Customer on the Simple Order Book.<sup>121</sup>

C. Derived Orders

As described more fully above, MIAX proposes to provide for the generation of derived

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<sup>116</sup> See MIAX Rule 516.

<sup>117</sup> See MIAX Rule 514. See also Notice, 81 FR at 58788.

<sup>118</sup> See ISE Rule 722(b)(2) and Phlx Rule 1098(c)(iii).

<sup>119</sup> See Notice, 81 FR at 58780.

<sup>120</sup> See id.

orders on behalf of certain complex orders. The Commission believes that derived orders could facilitate the execution of complex orders on MIAX by increasing the opportunities for complex orders to execute against interest in the leg market, thereby benefitting investors seeking to execute complex orders. In addition, the Commission believes that derived orders could benefit participants in the leg market by providing additional liquidity, and potentially more favorable executions, for leg market interest. The Commission notes that it previously approved proposals by other options exchange to implement similar functionality.<sup>122</sup>

D. Legging

As described more fully above, MIAX proposes to provide for Legging of complex orders into the Simple Order Book. The Commission believes that Legging could benefit investors by providing additional execution opportunities for both complex orders and interest on the MIAX Book. In addition, the Commission believes that Legging could facilitate interaction between the Strategy Book and the Simple Order Book, potentially resulting in a more competitive and efficient market, and better executions for investors.

In addition, and as discussed above, MIAX is proposing to prohibit Legging for: (i) complex orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts; and (ii) complex orders with three option legs where all legs are buying or all legs are selling regardless of whether the option leg is a call or a put.<sup>123</sup> The Commission notes that this prohibition is consistent with the rules of another options market,

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<sup>121</sup> See Notice, 81 FR at 58775-76.

<sup>122</sup> See Securities Exchange Act Release Nos. 66234 (January 25, 2012), 77 FR 4852 (January 31, 2012) (order approving File No. SR-ISE-2011-82) and 69419 (April 19, 2013), 78 FR 24449 (April 25, 2013) (order approving File No. SR-BOX-2013-01).

<sup>123</sup> See MIAX Rule 518(c)(2)(iii).

which the Commission has approved.<sup>124</sup> The Commission notes that directional complex orders may continue to trade against other complex orders on the Exchange's Strategy Book, and that market participants may submit the individual legs of a directional complex order separately to the regular market for execution should they so choose.

E. Complex Auction Process

MIAX has proposed Rule 518(d) to describe the Complex Auction Process. MIAX states that the auction process is designed to ensure that complex orders are given every opportunity to be executed at the best prices against an increased level of contra-side liquidity.<sup>125</sup> In addition, MIAX states that the Complex Auction process is intended to protect the integrity of the MIAX System<sup>126</sup> and is designed to work effectively with the Strategy Book by maintaining priority of all resting quotes and orders and any RFR Responses received before the end of the Response Time Interval.<sup>127</sup> The Commission notes that the ability for unrelated marketable orders to join and be executed in a Complex Auction may enhance the liquidity in the Complex Auction and thus increase opportunities for execution of complex orders and quotes on both sides of the market.

F. Stock-Option Orders

The Commission believes that the proposal to add Rule 518, Interpretations and Policies .01(a) to provide that stock-option orders will execute against other stock-option orders through the Strategy Book and Complex Auction is consistent with the Act because it could facilitate the execution of stock-option orders. The Commission notes that another options exchange similarly

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<sup>124</sup> See Securities Exchange Act Release No. 73023 (September 9, 2014) 79 FR 55033 (September 15, 2014) (order approving SR-ISE-2014-10).

<sup>125</sup> See Notice, 81 FR at 58799.

<sup>126</sup> See id.

permits stock-option orders traded on its electronic trading platform to execute only against other stock-option orders.<sup>128</sup>

As described more fully above, MIAX proposes to allow the Exchange to electronically communicate the stock leg of a stock-option order to a designated broker-dealer(s) for execution on behalf of a Member.<sup>129</sup> To participate in stock-option order automated processing, a Member must give up a Clearing Member previously identified to, and processed by the Exchange as a Designated Give Up for that Member in accordance with Rule 507 and which has entered into a brokerage agreement with one or more Exchange-designated broker-dealers that are not affiliated with the Exchange.<sup>130</sup> A Member may submit a stock-option order only if the order complies with the QCT Exemption from Rule 611(a) of Regulation NMS, and a Member submitting a stock-option order represents that the order complies with the QCT Exemption.<sup>131</sup>

MIAX's proposal to electronically communicate the stock leg of a stock-option order to a designated broker-dealer for execution is similar to rules adopted by other options exchanges.<sup>132</sup> Accordingly, the Commission finds that the proposal to allow MIAX to electronically communicate the stock leg of a stock-option order to a designated broker-dealer that is not affiliated with MIAX for execution on behalf of a Permit Holder is consistent with the Act.

As described above, proposed Rule 518, Interpretations and Policies .01(c) states that the option leg(s) of a stock-option order shall not be executed (i) at a price that is inferior to the

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<sup>127</sup> See Notice, 81 FR at 58789.

<sup>128</sup> See C2 Rule 6.13, Interpretation and Policy .06.

<sup>129</sup> See MIAX Rule 518, Interpretations and Policies .01(a).

<sup>130</sup> See id.

<sup>131</sup> See id.

<sup>132</sup> See ISE Rule 722, Supplementary Material .02. See also C2 Rule 6.13, Interpretation and Policy .06(a).

Exchange's best bid (offer) in the option or (ii) at the Exchange's best bid (offer) in that option if one or more Priority Customer Orders are resting at the best bid (offer) price on the Simple Order Book in each of the option components and the stock-option order could otherwise be executed in full (or in a permissible ratio). These provisions are consistent with the rules of other options exchanges.<sup>133</sup> Accordingly, the Commission believes that the price priority requirements for stock-option orders in MIAX Rule 518, Interpretations and Policies .01(c) are consistent with the Act.

Under the proposal, stock-option orders executed against other stock-option orders through a Complex Auction will trade in the sequence set forth in MIAX Rule 518(d), except that the provision regarding individual orders and quotes in the leg markets resting on the Simple Order Book prior to the initiation of a Complex Auction will not be applicable and such execution will be subject to the conditions set forth in MIAX Rule 518, Interpretations and Policies .01 regarding the price of the option leg(s), together with all applicable securities laws.<sup>134</sup> The Commission believes that it is consistent with the Act to apply the same allocation sequence as other complex orders, as modified to reflect that stock-option orders will not execute against individual orders and quotes in the Strategy Book.

G. Market-Maker Complex Quotes

MIAX is proposing to allow Market Maker quotes to qualify as Market Maker Priority Interest for Complex. Under the proposal, and as described in more detail above, if complex Standard quoting is engaged for a complex strategy, a Market Maker complex Standard quote or complex eQuote will qualify as Market Maker Priority Interest for Complex if the Market Maker has a complex Standard quote in the complex strategy that equals or improves the dcMBBO on

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<sup>133</sup> See ISE Rule 722(b)(2) and C2 Rule 6.13, Interpretation and Policy .06(b).

the opposite side from the incoming complex order or quote at the time of evaluation. According to MIAX, the Exchange's proposal to adopt Market Maker Priority Interest for Complex in the Strategy Book is substantially based upon principles and rules currently operative on the Exchange in the Simple Order Book.<sup>135</sup> In addition, MIAX notes that affording priority in the Strategy Book to Market Makers with a Complex priority quote should provide incentive for MIAX participants to submit complex quotes at the best prices and rewards Market Makers who are quoting in the Strategy Book at the best prices.<sup>136</sup>

#### H. Price Protection and Other Features

MIAX's proposed price and order protection features are intended to provide market participants with price and order size protection in order to allow them to better manage their risk exposure.<sup>137</sup> The VSV and CSV price protections are similar to functionalities already available on other options exchanges.<sup>138</sup> In addition, according to MIAX, the cMOM functionality may help ensure a fair and orderly market by rejecting inbound complex orders whose prices may be erroneous or disruptive.<sup>139</sup> The cMOM functionality is similar to an existing functionality on MIAX's simple market.<sup>140</sup> MIAX's provisions regarding wide market conditions, SMAT events, and halts could help protect investors by pausing trading during potentially disruptive

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<sup>134</sup> See MIAX Rule 518, Interpretations and Policies .01(e).

<sup>135</sup> The Exchange currently follows the established hierarchy that generally affords priority to Priority Customer Orders, then to Market Makers with priority quotes, followed by Professional Interest at the same price. See Notice, 81 FR at 58773, n. 24 and MIAX Rule 514.

<sup>136</sup> See Notice, 81 FR at 58798.

<sup>137</sup> See Notice, 81 FR at 58800.

<sup>138</sup> See ISE Rule 722, Supplementary Material .07(c) and PHLX Rule 1098(g).

<sup>139</sup> See Notice, 81 FR at 58800.

<sup>140</sup> See MIAX Rule 519.

conditions.<sup>141</sup> Finally, according to MIAX, adding complex orders to the Risk Protection Monitor should allow MIAX members to better manage their risk and encourage them to submit additional liquidity to the Exchange.<sup>142</sup> The Commission believes the proposed new price protection features are reasonably designed to promote just and equitable principles of trade to the extent they are able to mitigate potential risks associated with market participants entering orders or executing trades at what MIAX believes are erroneous or disruptive prices.<sup>143</sup> In addition, the Commission has noted that the Risk Protection Monitor may help members, and member groups, mitigate potential risk associated with the execution an unacceptable level of order that result from, e.g., technology issues.<sup>144</sup>

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<sup>141</sup> See Notice, 81 FR at 58800.

<sup>142</sup> See id.

<sup>143</sup> See id.

<sup>144</sup> See Securities Exchange Act Release No. 74496 (March 13, 2015), 80 FR 14421 (March 19, 2015) (SR-MIAX-2015-03), at 14423. The Commission reminds members electing to use the Risk Protection Monitor to be mindful of their obligations to, among other things, seek best execution of orders they handle on an agency basis. See id.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>145</sup> that the proposed rule change (SR-MIAX-2016-26) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>146</sup>

Robert W. Errett  
Deputy Secretary

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<sup>145</sup> 15 U.S.C. 78s(b)(2).

<sup>146</sup> 17 CFR 200.30-3(a)(12).