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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-83726; File No. SR-MIAX-2018-16]

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 518, Complex Orders

July 27, 2018.

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on July 16, 2018, Miami International Securities Exchange, LLC ("MIAX Options" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is filing a proposal to amend Exchange Rule 518, Complex Orders, to update its rule text regarding stock-option orders, in connection with the upcoming launch of such orders on the Exchange.

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on

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

2 17 CFR 240.19b-4.

the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Exchange Rule 518, Complex Orders, to update its rule text regarding stock-option orders, in connection with the upcoming launch of such orders on the Exchange. In particular, the Exchange is proposing to (i) adopt new rule text to introduce a new price protection feature for certain stock-option strategies, (ii) delete certain existing rule text to eliminate an unnecessary execution price restriction for the stock component of a stock-option strategy, and (iii) make certain minor clarifying edits to existing rule text.

Complex orders began trading on the Exchange on October 24, 2016.[3] In its rule filing to establish the trading of complex orders, the Exchange adopted rules for handling stock-option orders.[4] The Exchange also indicated that it would determine when stock-option orders would be made available for trading in the System[5] and would communicate such determination to Members[6] via Regulatory Circular.[7] The Exchange is now proposing to make certain changes to its rule text, in connection with the upcoming launch of such orders on the Exchange, which is

3 See MIAX Regulatory Circular 2016-43, October 20, 2016.

4 See Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26).

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

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

7 See supra note 4.

scheduled for the third quarter of 2018.

Currently, the Exchange provides price protection for certain complex option trading strategies such as Vertical Spreads[8] and Calendar Spreads[9] to prevent executions at potentially erroneous prices. Specifically, the Exchange provides a Vertical Spread Variance ("VSV") price protection and a Calendar Spread Variance ("CSV") price protection. The VSV establishes minimum and maximum trading price limits for Vertical Spreads.[10] The CSV establishes a minimum trading price limit for Calendar Spreads.[11] If the execution price of a complex order would be outside of the limits established for Vertical Spreads and Calendar Spreads, such complex order will be placed on the Strategy Book and will be managed to the appropriate trading price limit as described in Rule 518(c)(4), Managed Interest Process for Complex Orders. 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.[12]

The Exchange now proposes to adopt new subsection (g) in Rule 518, Interpretations and Policies .01, to provide a price protection feature for certain stock-option strategies that have a single option component tied to a stock component with a standard deliverable.[13] The proposed price protection feature, named "Parity Price Protection," will provide price protection for

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8 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 Exchange Rule 518.05(a).

9 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 Exchange Rule 518.05(b).

10 See Exchange Rule 518.05(a).

11 See Exchange Rule 518.05(b).

12 See Exchange Rule 518.05(c).

13 The standard stock deliverable is 100 shares.

strategies that consist of a sale of one call[14] and the purchase of one hundred shares of the underlying stock ("Buy-Write") and the contra side of the strategy, or that consist of the purchase of one put[15] and the purchase of one hundred shares of the underlying stock ("Married-Put") and the contra side of the strategy. The Exchange will establish a Parity Spread Variance ("PSV") value between $0.00 and $0.50. The PSV value will be uniform for all option classes traded on the Exchange as determined by the Exchange and communicated to Members via Regulatory Circular prior to accepting such orders on the Exchange. The PSV will be used to calculate a minimum option trading price limit that the System will prevent the option leg from trading below by applying the PSV value to the strike price of the option to establish a parity protected price for the strategy. For call option legs, the PSV value is added to the strike price of the option; for put option legs, the PSV value is subtracted from the strike price of the option. The System will then prevent the strategy from trading below its parity protected price limit to ensure that the strategy does not execute at a potentially erroneous price.

The examples below provide an illustration of how the protection is calculated for Buy-Write and Married-Put strategies. For the purposes of the following examples the PSV used in the calculations is $.10.

Following is an example of the operation of the price protection feature for a Married-Put Strategy:

Example 1 (Married-Put)

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[14] The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the number of units of the underlying security covered by the option contract. See Exchange Rule 100.

[15] The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the number of units of the underlying security covered by the option contract. See Exchange Rule 100.

In its simplest terms the parity price of a put option can be expressed as (Strike Price – Stock Price = Put Option Parity Price). If, for example, the stock is trading at $45.00 and the Strike Price of the put option is $50.00, the parity price of the put option would then be $5.00 ($50.00 – $45.00 = $5.00). The Exchange is able to leverage the parity relationship between the components to establish a minimum option trading price limit for Married-Put Strategies by simply subtracting the PSV from the strike price of the option. The effect on the option price can be seen in the following calculation (($50.00 - $0.10) - $45.00 = $49.90 - $45.00 = $4.90). The Exchange will calculate the parity protected price for a Married-Put Strategy by leveraging the put option parity formula by simply subtracting the PSV from the strike price of the option. This would result in a parity protected price for the strategy of $49.90 using the figures above.

This allows for the stock component and the option component prices to fluctuate to achieve the strategy's net price, but ensures that the strategy will not trade below its parity protected price. Married Put Strategy interest received to sell a price protected Married-Put Strategy below $49.90 will be placed on the Strategy Book[16] at $49.90. Married Put Strategy interest received to buy a price protected Married-Put Strategy below $49.90 will be rejected.

<u>Example 2 (Buy-Write)</u>

In its simplest terms the parity price of a call option can be expressed as (Stock Price – Strike Price = Call Option Parity Price). If, for example, the stock is trading at $45.00 and the Strike Price of the call option is $40.00, the parity price of the call option would then be $5.00 ($45.00 – $40.00 = $5.00). The Exchange is able to leverage the parity relationship between the components to establish a minimum option trading price limit for Buy-Write Strategies by adding the PSV to the strike price of the option. The effect on the option price can be seen in the

16 The "Strategy Book" is the Exchange's electronic book of complex orders and complex quotes. <u>See</u> Exchange Rule 518(a)(17).

following calculation ($45.00 – ($40.00 + $.10) = $45.00 – $40.10 = $4.90). The Exchange will calculate the parity protected price for a Buy-Write Strategy by leveraging the call option parity formula by simply adding the PSV to the strike price of the option. This would result in a parity protected price for the strategy of $40.10 net debit using the figures above.

This allows for the stock component and the option component prices to fluctuate to achieve the strategy's net price, but ensures that the strategy will not trade below its parity protected price. Buy-Write strategy interest received to sell a price protected Buy-Write Strategy below $40.10 net debit will be placed on the Strategy Book at $40.10 net debit.[17] Buy-Write strategy interest received to buy a price protected Buy-Write Strategy below $40.10 net debit will be rejected.

Second, the Exchange proposes to delete certain existing rule text from Exchange Rule 518, Interpretations and Policies .01, subsection (b), to eliminate an unnecessary execution price restriction for the stock component of a stock-option strategy. Exchange Rule 518, Interpretations and Policies .01 subsection (b), contains a paragraph that provides that, "[t]he 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. If the underlying security component price is not within these parameters, the stock-option order is not executable."[18] The Exchange does not believe that this execution price restriction for the stock component is necessary given the existing price protections already in place on the Exchange.

The Exchange believes that the execution price restriction for the stock component of a

17 A seller of the strategy would receive a $40.10 net credit.

18 See Exchange Rule 518, Interpretations and Policies .01(b).

stock-option strategy is unnecessary because all complex orders on the Exchange, including stock-option orders, receive Implied Complex MIAX Best Bid or Offer ("icMBBO") protection.[19] The icMBBO is a calculation that uses 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 is calculated using the best price (whether displayed or non-displayed) on the Simple Order Book[20] in the individual option component(s), and the NBBO[21] in the stock component.[22] Exchange Rule 518(c)(2)(ii) provides, in relevant part, that incoming complex orders and quotes will not be executed at prices inferior to the icMBBO or at a price that is equal to the icMBBO when there is a Priority Customer Order (as defined in Rule 100) at the best icMBBO price. Further, the rule provides that complex orders will never be executed at a price that is outside of the individual component prices on the Simple Order Book, and 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. Accordingly, as a result of the icMBBO price protection feature, the execution price for the stock component of a stock-option order will always be inside the NBBO of the stock. Therefore, rule text stating that the execution price of the underlying security component must be within the high-low range for the day is unnecessary, as the icMBBO protection ensures that executions are always within the NBBO.

Finally, the Exchange proposes to make a number of minor, non-substantive edits to Rule

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19 See Exchange Rule 518(a)(11).

20 The "Simple Order Book" is the Exchange's regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

21 The term "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 Exchange Rule 518(a)(14).

22 See Exchange Rule 518(a)(11).

518, Interpretations and Policies .05(e), to add clarity and precision to the Exchange's rule text. Since the Exchange will be introducing the trading of complex strategies which include a "stock" component, the Exchange seeks to clarify certain aspects of the rule that are intended to apply only to the "option" component of a complex strategy. Specifically, the Exchange proposes to clarify the definition of a Wide Market Condition, as described in Interpretations and Policies .05, subsection (e)(1), so that it is clear that it is only applying to the "option" component of a complex strategy. The new proposed rule text will provide that, "[a] 'wide market condition' is defined as any individual option component of a complex strategy having, at the time of evaluation, an MBBO[23] quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4)." By definition, the MBBO is comprised of option interest only, therefore providing additional detail to the existing rule adds clarity to the Exchange's rules.

Similarly, the Exchange proposes to clarify that Simple Market Auction or Timer Events ("SMAT Events") pertain only to "option" components of a complex strategy, by amending Interpretations and Policies .05, subsection (e)(2)(i) and (e)(2)(ii), to include the term "option component" in the first sentence of each section. By definition, the Exchange's Simple Market is comprised of option interest only, on the Simple Order Book, therefore providing additional detail to the existing rule adds clarity to the Exchange's rules.

2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act[24] in general, and furthers the objectives of Section 6(b)(5) of the Act[25] in particular, in that it

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23 The term "MBBO" means the best bid or offer on the Simple Order Book on the Exchange. See Exchange Rule 518(a)(13).

24 15 U.S.C. 78f(b).

25 15 U.S.C. 78f(b)(5).

is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes establishing a parity price protection for certain Buy-Write and Married-Put strategies promotes just and equitable principles of trade and removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by ensuring that strategies are not executed at potentially erroneous prices.

Given the relationship that the stock price, strike price, and option price have to each other, the Exchange is able to calculate a minimum option trading price limit for the option leg of certain stock-option strategies with a call or a put component. Specifically, the parity price of a call option can be derived by subtracting the strike price from the stock price (Stock Price – Strike Price = Call Option Parity Price); and the parity price of a put option can be derived by subtracting the stock price from the strike price (Strike Price – Stock Price = Put Option Parity Price). Using these relationships the PSV may be applied to establish a minimum option trading price limit that the System will prevent the option leg from trading below to establish a parity protected price for the strategy to ensure the strategy does not trade below its parity protected price at a potentially erroneous price.

The Exchange believes that Members will benefit from the proposed risk protection measure as the protection ensures that these stock-option strategies are not executed below their parity protected price as calculated by the Exchange. Consequently, the proposed risk protection is designed to encourage Members to submit additional order flow and liquidity to the Exchange in these strategies, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest. This protection should provide Members with confidence that protections are in place on the Exchange to reduce the risk of these strategies being executed at potentially erroneous prices. As a result, the Exchange believes that the proposed price protection feature will promote just and equitable principles of trade.

Additionally the Exchange's proposal to remove unnecessary rule text from its current rule which requires that the execution price of the underlying security component be within the high-low range for the day in the underlying security at the time the stock-option order is processed is consistent with Section 6(b) of the Act[26] in general, and furthers the objectives of Section 6(b)(5) of the Act[27] in particular. The Exchange believes that its existing icMBBO price protection feature will sufficiently guard against potentially erroneous transaction prices for complex strategies which include an underlying stock component. The icMBBO for a complex strategy involving a stock component is calculated using the best price on the Simple Order Book in the individual option component(s) and the NBBO in the stock component.[28] Every complex order entered on the Exchange receives the icMBBO price protection[29] and as a result, the execution price for the stock component of a stock-option order will always be inside the NBBO of the stock. Removal of the unnecessary rule text will protect investors and the public

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26 15 U.S.C. 78f(b).

27 15 U.S.C. 78f(b)(5).

28 See supra note 21.

29 See supra note 19.

interest by providing clarity and precision in the Exchange's rules. Further, the Exchange notes that other exchanges that offer stock-option orders do not have this provision in their rules.[30]

Finally, the Exchange proposes to make minor non-substantive changes to its rule to clarify that Wide Market Conditions and Simple Market Auction or Timer Events on the Exchange are related to the "option" components only for complex strategies. The Exchange believes the proposed changes promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system because they seek to add clarity and precision to the Exchange's rules. The Exchange believes that the proposed rule changes will provide greater clarity to Members and the public regarding the Exchange's Rules, and it is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposed rule change will foster competition as it provides a risk protection mechanism for certain complex strategies entered on the Exchange and may promote competition by enabling Members to trade more aggressively on the Exchange knowing that these strategies will not be executed below [sic] parity protected price at potentially erroneous prices. Accordingly, the price protection feature should instill additional confidence in Members that submit certain stock-option orders to the Exchange that their orders receive price protection, and thus should encourage Members to submit additional order flow and liquidity to the

[30] See CBOE Rule 6.53C.06 and NASDAQ ISE Rule 722.

Exchange, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

The removal of unnecessary rule text pertaining to the execution price of the stock component of a stock-option order does not impose any burden on competition as the proposed change will align the Exchange's rule with that of other exchanges.[31] Further, the additional proposed changes remedy minor non-substantive issues in the text of various rules identified in this proposal.

The Exchange does not believe the proposed rule change will impose any burden on intra-market competition as price protection is available to all market participants that submit orders in certain stock-option strategies. The Exchange further believes that the proposed price protection should promote inter-market competition, and result in more competitive order flow to the Exchange by protecting market participants from potentially erroneous executions occurring at prices below the parity protected price of the strategy, as calculated by the Exchange.

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

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

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the

[31] Id.

Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act[32] and Rule 19b-4(f)(6)[33] thereunder.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[34] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)[35] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay. The Exchange states that waiver of the operative delay is consistent with the protection of investors and the public interest because it will enable market participants to benefit from the proposed parity price protection feature, which is designed to safeguard against the possibility of executions occurring at potentially erroneous prices. MIAX also states that the proposal protects investors and the public interest by deleting a provision requiring the execution price of the underlying security component of a stock-option order to be within the underlying component's high-low range for the day. MIAX notes that this provision is unnecessary because all complex orders on MIAX are protected by the icMBBO price protection feature, which assures that the stock leg of a stock-option order will not be executed at a price that is inferior to the NBBO for the stock. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the proposed parity price protection feature is designed to prevent Buy-Write and

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32 15 U.S.C. 78s(b)(3)(A).

33 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

34 17 CFR 240.19b-4(f)(6).

35 17 CFR 240.19b-4(f)(6)(iii).

Married Put strategies from executing at potentially erroneous prices. As noted above, Buy-Write and Married Put interest to buy that is priced below the parity protected price for the strategy will be rejected, and Buy-Write and Married Put interest to sell that is priced below the parity protected price will be placed on the Strategy Book at the parity protected price for the strategy. Therefore, the Commission hereby waives the operative delay and designates the proposed rule change as operative upon filing.[36]

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MIAX-2018-16 on the subject line.

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36 For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Paper comments:

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

All submissions should refer to File Number SR-MIAX-2018-16. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2018-16 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[37]

Robert W. Errett,
Deputy Secretary.

[37] 17 CFR 200.30-3(a)(12).

[FR Doc. 2018-16528 Filed: 8/1/2018 8:45 am; Publication Date: 8/2/2018]