

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94671; File No. SR-MIAX-2022-13)

April 11, 2022

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 1, 2022, Miami International Securities Exchange, LLC (“MIAX Options” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is filing a proposal to amend Exchange Rule 518, Complex Orders.

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 the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 change the value used in the calculation that determines whether a complex order is eligible to initiate a Complex Auction.³

Currently the Exchange uses the following methods to determine whether a complex order is qualified to initiate a Complex Auction:

Initial Improvement Percentage (“IIP”)

For complex orders received prior to the opening of all individual components of a complex strategy, the System⁴ will calculate an IIP value, which is a defined percentage of the current dcMBBO⁵ bid/ask differential once all of the components of the complex strategy have

³ Certain option classes, as determined by the Exchange and communicated to Members via Regulatory Circular, will be eligible to participate in a Complex Auction (an “eligible class”). Upon evaluation as set forth in subparagraph (c)(5) of Exchange Rule 518, the Exchange may determine to automatically submit a Complex Auction-eligible order into a Complex Auction. 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”). See Exchange Rule 518(d).

⁴ The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

⁵ 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 Exchange Rule 518(a)(8).

opened. Such percentage will be defined by the Exchange and communicated to Members⁶ via Regulatory Circular.⁷ If a Complex Auction-eligible order is priced equal to, or improves, the IIP value⁸ 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.⁹

Upon Receipt Improvement Percentage (“URIP”)

Upon receipt of a complex order when the complex strategy is open, the System will calculate a URIP value, which is a defined percentage of the current dcMBBO bid/ask differential. Such percentage will be defined by the Exchange and communicated to Members via Regulatory Circular.¹⁰ If a Complex Auction-eligible order is priced equal to, or improves, the URIP value¹¹ and is also priced to improve 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.¹²

Re-evaluation Improvement Percentage (“RIP”)

Upon evaluation of a complex order resting at the top of the Strategy Book, the System will calculate a Re-evaluation Improvement Percentage (“RIP”) value, which is a defined percentage of the current dcMBBO bid/ask differential. Such percentage will be defined by the

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 MIAX Options Regulatory Circular 2016-48, MIAX Complex Auction Initiating Percentages (October 20, 2016) available at https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_RC_2016_48.pdf.

⁸ The Initial Improvement Percentage (“IIP”) is currently set to 70%. See Id.

⁹ See Policy .03(a) of Exchange Rule 518.

¹⁰ See supra note 7.

¹¹ The Upon Receipt Improvement Percentage (“URIP”) is currently set to 70%. See supra note 7.

¹² See Policy .03(b) of Exchange Rule 518.

Exchange and communicated to Members via Regulatory Circular.¹³ If a complex order resting at the top of the Strategy Book is priced equal to, or improves, the RIP value,¹⁴ the complex order will be eligible to initiate a Complex Auction.¹⁵

Proposal

The Exchange now proposes to replace the dcMBBO bid/ask differential with the cNBBO¹⁶ bid/ask differential in the calculations described above for IIP, URIP, and RIP, respectively. The dcMBBO is calculated using the displayed price for each component of a complex strategy from the Simple Order Book¹⁷ on the Exchange, whereas the cNBBO is calculated using the NBBO¹⁸ for each component of a complex strategy to establish the best net bid and offer for a complex strategy.¹⁹ The Exchange believes that using the cNBBO will reduce the number of auctions generated by the Exchange System which do not receive responses or result in price improvement for the initiating order. The cNBBO, which includes the best away markets as well as the MBBO for each component of a complex strategy, will always be equal to

¹³ See supra note 7.

¹⁴ The Re-evaluation Improvement Percentage (“RIP”) is currently set to 80%. See supra note 7.

¹⁵ See Policy .03(c) of Exchange Rule 518.

¹⁶ The Complex National Best Bid or Offer (“cNBBO”) is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy. For stock-option orders, the cNBBO for a complex strategy will be calculated using the NBBO in the individual option component(s) and the NBBO in the stock component. See Exchange Rule 518(a)(2).

¹⁷ The “Simple Order Book” is the Exchange’s regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

¹⁸ 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).

¹⁹ See supra note 5.

or better than the dcMBBO, which includes the MBBO for each component of a complex strategy. The component prices contained in the cNBBO provide a more accurate indicator of the overall market interest in each component, and therefore, provides a more accurate indicator of the overall market interest in the complex strategy. The Exchange believes that this will result in a reduction of the overall number of Complex Auctions initiated on the Exchange but will in turn increase the percentage of Complex Auctions that result in price improvement, as the auction start price will be more closely aligned to prevailing market prices.

Implementation

The Exchange proposes to implement the proposed rule change in the second quarter of 2022. The Exchange will announce the implementation date to its Members via Regulatory Circular.

2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act²⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act²¹ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and 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 that its proposal to use the cNBBO instead of the dcMBBO in the calculation used to determine whether a complex order is qualified to initiate a Complex Auction

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(5).

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 as using the cNBBO provides a better measure of the current market and is more likely to result in price improvement for the initiating order as the cNBBO is calculated using the NBBO (which in turn is calculated by taking the best prices of all exchanges into consideration)²² for each component of a complex strategy to establish the best net bid and offer for a complex strategy,²³ and therefore is more representative of the prevailing market interest and market prices. The example below demonstrates the difference between the current and proposed calculations.

Example 1

(Current Auction Evaluation Based on dcMBBO)

Reevaluation Improvement Percentage (RIP) for a complex order at the best price on the Strategy Book²⁴ subject to dcMBBO.

RIP = 80%

MBBO:²⁵ Option A 2.00 x 2.10

MBBO: Option B 1.05 x 1.20

Strategy +1A -1B = (2.00-1.20) x (2.10-1.05)

dcMBBO = 0.80 x 1.05

A complex order is resting on the Strategy Book to buy 1 Strategy at a price of 1.00. Upon reevaluation of the Strategy Book it is determined the complex order to buy at 1.00 improves the Strategy bid by 0.20; (1.00-0.80). The improvement percentage is then calculated as the 0.20

²² See supra note 19.

²³ See supra note 16

²⁴ The “Strategy Book” is the Exchange’s electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

²⁵ The term “MBBO” means the best bid or offer on the Exchange. See Exchange Rule 100.

improvement divided by the Strategy bid/offer spread; (1.05-0.80), in this case resulting in 80% improvement. Because the 80% improvement equals the configured RIP of 80% an auction is initiated.

Example 2

(Proposed Auction Evaluation Based on cNBBO)

Reevaluation Improvement Percentage (RIP) for a complex order at the best price on the Strategy Book subject to cNBBO.

RIP = 80%

NBBO: Option A 2.05 x 2.10

NBBO: Option B 1.05 x 1.10

Strategy +1A -1B = (2.05-1.10) x (2.10-1.05)

cNBBO = 0.95 x 1.05

A complex order is resting on the Strategy Book to buy 1 Strategy at a price of 1.00. Upon reevaluation of the Strategy Book it is determined the complex order to buy at 1.00 improves the Strategy bid by 0.05; (1.00-0.95). The improvement percentage is then calculated as the 0.05 improvement divided by the Strategy bid/offer spread; (1.05-0.95), in this case resulting in 50% improvement. Because the 50% improvement is less than the configured RIP of 80% an auction is not initiated.

The Exchange believes that using the cNBBO in its calculation to determine whether a complex order is qualified to initiate a Complex Auction will reduce the number of Complex Auctions initiated by the Exchange System²⁶ which do not receive responses. Using the cNBBO instead of the dcMBBO better reflects the current state of the market and may result in Complex Auctions that receive responses which in turn may result in price improvement for the initiating order.

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

²⁶ The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

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

The Exchange does not believe that the proposed rule change to replace the dcMBBO value with the cNBBO value in the calculation used to determine whether a complex order is qualified to initiate a Complex Auction will impose any burden on inter-market competition. The Exchange believes its proposal may benefit competition as using the cNBBO in the calculation better reflects current market prices and may result in the initiation of Complex Auctions which result in price improvement for the initiating order. The Exchange believes the proposed rule change will enhance competition among the various markets for complex order execution, potentially resulting in more active complex order trading on all exchanges. Additionally, the Exchange believes that this change will result in a reduction of the overall number of Complex Auctions initiated on the Exchange but will in turn increase the percentage of auctions that result in price improvement, as the auction start price will be more closely aligned to prevailing market prices.

The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition as all complex orders submitted to the Exchange will be evaluated, and re-evaluated, equally under the Exchange's Rules.

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

Written comments were neither solicited nor received.

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

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

Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act²⁷ and Rule 19b-4(f)(6)²⁸ thereunder.

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

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-2022-13.

Paper Comments:

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

²⁷ 15 U.S.C. 78s(b)(3)(A).

²⁸ 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.

All submissions should refer to File Number SR-MIAX-2022-13. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet 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-2022-13, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

J. Matthew DeLesDernier
Assistant Secretary

²⁹ 17 CFR 200.30-3(a)(12).