

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74131; File No. SR-MIAX-2015-04)

January 26, 2015

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing of a Proposed Rule Change to Amend MIAX Rule 402

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 January 16, 2015, Miami International Securities Exchange LLC (“MIAX” or “Exchange”) filed with the Securities and Exchange Commission (“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 proposes to amend Rule 402 to allow the listing of options overlying Exchange-Traded Fund Shares (“ETFs”) that are listed pursuant to generic listing standards on equities exchanges for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement is not required.

The text of the proposed rule change is available on the Exchange’s website at http://www.miaxoptions.com/filter/wotitle/rule_filing, at MIAX’s principal office, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

1. Purpose

The Exchange proposes to amend Rule 402 to allow the listing of options overlying ETFs that are listed pursuant to generic listing standards on equities exchanges for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a comprehensive surveillance sharing agreement (“comprehensive surveillance agreement” or “CSSA”) is not required.³ This proposal will enable the Exchange to list and trade options on ETFs without a CSSA provided that the ETF is listed on an equities exchange pursuant to the generic listings standards that do not require a CSSA pursuant to Rule 19b-4(e)⁴ of the Exchange Act. Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) shall not be deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4, if the Commission has approved, pursuant to Section 19(b) of the Exchange Act, the SRO’s trading rules, procedures and listing standards for the product class that would include the new derivatives securities product, and the SRO has a surveillance program for the product class.⁵ In other words, the proposal will amend the listing standards to

³ See e.g., NYSE MKT Rule 1000 Commentary .03(a)(B); NYSE Arca Equities Rule 5.2(j)(3) Commentary .01(a)(B); NASDAQ Rule 5705(a)(3)(A)(ii); and BATS Rule 14.11(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(e).

⁵ When relying on Rule 19b-4(e), the SRO must submit Form 19b-4(e) to the Commission within five business days after the SRO begins trading the new derivative securities

allow the Exchange to list and trade options on ETFs based on international or global indexes to a similar degree that they are allowed to be listed on several equities exchanges.⁶

Exchange-Traded Funds

The Exchange allows for the listing and trading of options on ETFs. Rule 402(i)(5)(ii)(A)-(C) provide the listings standards for options on ETFs with non-U.S. component securities, such as ETFs based on international or global indexes. Rule 402(i)(5)(ii)(A) requires that any non-U.S. component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio.⁷ Rule 402(i)(5)(ii)(B) requires that component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index.⁸ Rule 402(i)(5)(ii)(C) requires that component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index.⁹

products. See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998).

⁶ See NYSE MKT Rule 1000 Commentary .03(a)(B); NYSE Arca Equities Rule 5.2(j)(3) Commentary .01(a)(B); NASDAQ Rule 5705(a)(3)(A)(ii); and BATS Rule 14.11(b)(3)(A)(ii). See also Securities Exchange Act Release Nos. 54739 (November 9, 2006), 71 FR 66993 (SR-Amex-2006-78); 55269 (February 9, 2007), 72 FR 7490 (February 15, 2007) (SR-NASDAQ-2006-050); 55621 (April 12, 2007), 72 FR 19571 (April 18, 2007) (SR-NYSEArca-2006-86).

⁷ See Rule 402(i)(5)(ii)(A).

⁸ See Rule 402(i)(5)(ii)(B).

⁹ See Rule 402(i)(5)(ii)(C).

Generic Listing Standards for Exchange-Traded Funds

The Exchange notes that the Commission has previously approved generic listing standards pursuant to Rule 19b-4(e)¹⁰ of the Exchange Act for ETFs based on indexes that consist of stocks listed on U.S. exchanges.¹¹ In general, the criteria for the underlying component securities in the international and global indexes are similar to those for the domestic indexes, but with modifications as appropriate for the issues and risks associated with non-U.S. securities.

In addition, the Commission has previously approved the listing and trading of ETFs based on international indexes – those based on non-U.S. component stocks – as well as global indexes – those based on non-U.S. and U.S. component stocks.¹²

In approving ETFs for equities exchange trading, the Commission thoroughly considered the structure of the ETFs, their usefulness to investors and to the markets, and SRO rules that govern their trading. The Exchange believes that allowing the listing of options overlying ETFs that are listed pursuant to the generic listing standards on equities exchanges for ETFs based on international and global indexes and applying Rule 19b-4(e)¹³ should fulfill the intended objective of that Rule by allowing options on those ETFs that have satisfied the generic listing standards to commence trading, without the need for the public comment period and

¹⁰ 17 CFR 240.19b-4(e).

¹¹ See Commentary .03 to Amex Rule 1000 and Commentary .02 to Amex Rule 1000A. See also Securities Exchange Act Release No. 42787 (May 15, 2000), 65 FR 33598 (May 24, 2000).

¹² See, e.g., Securities Exchange Act Release Nos. 50189 (August 12, 2004), 69 FR 51723 (August 20, 2004) (approving the listing and trading of certain Vanguard International Equity Index Funds); 44700 (August 14, 2001), 66 FR 43927 (August 21, 2001) (approving the listing and trading of series of the iShares Trust based on certain S&P global indexes).

¹³ 17 CFR 240.19b-4(e).

Commission approval. The proposed rule has the potential to reduce the time frame for bringing options on ETFs to market, thereby reducing the burdens on issuers and other market participants. The failure of a particular ETF to comply with the generic listing standards under Rule 19b-4(e)¹⁴ would not, however, preclude the Exchange from submitting a separate filing pursuant to Section 19(b)(2),¹⁵ requesting Commission approval to list and trade options on a particular ETF.

Requirements for Listing and Trading Options Overlying ETFs Based on International and Global Indexes

Options on ETFs listed pursuant to these generic standards for international and global indexes would be traded, in all other respects, under the Exchange's existing trading rules and procedures that apply to options on ETFs and would be covered under the Exchange's surveillance program for options on ETFs.

Pursuant to proposed Rule 402(i)(E)(2)(i), the Exchange may list and trade options on an ETF without a CSSA provided that the ETF is listed pursuant to generic listing standards for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement is not required. MIAX believes that these generic listing standards are intended to ensure that stocks with substantial market capitalization and trading volume account for a substantial portion of the weight of an index or portfolio.

The Exchange believes that this proposed listing standard for options on ETFs is reasonable for international and global indexes, and, when applied in conjunction with the other listing requirements, and [sic] will result in options overlying ETFs that are sufficiently broad-

¹⁴ 17 CFR 240.19b-4(e).

¹⁵ 15 U.S.C. 78s(b)(2).

based in scope and not readily susceptible to manipulation. The Exchange also believes that allowing the Exchange to list options overlying ETFs that are listed on equities exchanges pursuant to generic standards for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a CSSA is not required, will result in options overlying ETFs that are adequately diversified in weighting for any single security or small group of securities to significantly reduce concerns that trading in options overlying ETFs based on international or global indexes could become a surrogate for trading in unregistered securities.

The Exchange believes that ETFs based on international and global indexes that have been listed pursuant to the generic standards are sufficiently broad-based enough as to make options overlying such ETFs not susceptible instruments for manipulation. The Exchange believes that the threat of manipulation is sufficiently mitigated for underlying ETFs that have been listed on equities exchanges pursuant to generic listing standards for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement is not required and for the overlying options, that the Exchange does not see the need for CSSA [sic] to be in place before listing and trading options on such ETFs. The Exchange notes that its proposal does not replace the need for a CSSA as provided in current Rule 402(i)(5)(ii). The provisions of current Rule 402(i)(5)(ii), including the need for a CSSA, remain materially unchanged in proposed Rule 402(i)(E)(2)(ii) and will continue to apply to options on ETFs that are not listed on an equities exchange pursuant to generic listing standards for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement is not required. Instead, proposed Rule 402(i)(E)(2)(i) adds an additional listing mechanism for certain

qualifying options on ETFs to be listed on the Exchange.

Finally, the Exchange proposes several technical changes to the formatting of Rule 402(i), including relocating current Rule 402(i)(5)(ii)(E) to proposed Rule 402(i)(E)(1)(iii) and the re-numbering of current Rule 402(i)(5)(ii) to proposed Rule 402(i)(E)(2)(ii). In addition, the Exchange proposes making corrections to inaccurate citations located in Rule 403(g)(1) and (2), so that Rule 403(g)(1) properly cites to Rule 402(i)(E)(1)(i) regarding closed-end ETFs and Rule 403(g)(2) properly cites to Rule 402(i)(E)(1)(ii) regarding open-end ETFs. The Exchange believes that these technical changes are necessary for Rule 402(i) and Rule 403(g) to correspond with other option exchanges.¹⁶

2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act¹⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁸ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest. In particular, the proposed rules have the potential to reduce the time frame for bringing options on ETFs to market, thereby reducing the burdens on issuers and other market participants. The Exchange also believes enabling the listing and trading of options on ETFs pursuant to this new listing standard will benefit investors by providing them with valuable risk management tools. The Exchange notes that its proposal does not replace the need for a CSSA

¹⁶ See i.e., NYSE Arca Rule 5.3(g).

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

as provided in current Rule 402(i)(5)(ii). The provisions of current Rule 402(i)(5)(ii), including the need for a comprehensive surveillance sharing agreement, remain materially unchanged in proposed Rule 402(i)(E)(2)(ii) and will continue to apply to options on ETFs that are not listed on an equities exchange pursuant to generic listing standards for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement is not required. Instead, proposed Rule 402(i)(E)(2)(i) adds an additional listing mechanism for certain qualifying options on ETFs to be listed on the Exchange in a manner that 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.

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 this proposed rule change will benefit investors by providing additional methods to trade options on ETFs, and by providing them with valuable risk management tools. Specifically, the Exchange believes that market participants on MIAX would benefit from the introduction and availability of options on ETFs in a manner that is similar to equities exchanges and will provide investors with a venue on which to trade options on these products. For all the reasons stated above, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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

Written comments were neither solicited nor received.

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

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MIAX-2015-04 on the subject line.

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-2015-04. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all

comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-MIAX-2015-04 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.¹⁹

Brent J. Fields
Secretary

¹⁹ 17 CFR 200.30-3(a)(12).