

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69181; File No. SR-MIAX-2013-07)

March 19, 2013

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt MIAX Rule 530, Limit Up-Limit Down

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 7, 2013, 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 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 adopt new Exchange Rule 530, Limit Up-Limit Down (“LULD”), to provide for how the Exchange intends to treat options orders in response to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time (the “Plan”). The Plan establishes procedures to address extraordinary volatility in NMS Stocks (as defined below). The proposed rule outlines MIAX’s LULD processing for options overlying such NMS Stocks.

The text of the proposed rule change is provided in Exhibit 5.<sup>3</sup> The text of the proposed rule change is also available on the Exchange’s website at

---

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

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

<sup>3</sup> The Commission notes that Exhibit 5 is attached to the filing, not to this Notice.

[http://www.miaxoptions.com/filter/wotitle/rule\\_filing](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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to adopt MIAX Rule 530 to provide for how the Exchange proposes to treat options orders in response to the Plan.

Background

Since May 6, 2010, when the markets experienced excessive volatility in an abbreviated time period, i.e., the “flash crash,” the equities exchanges and The Financial Industry Regulatory Authority (“FINRA”)<sup>4</sup> have implemented market-wide measures designed to restore investor confidence by reducing the potential for excessive market volatility.

Among the measures adopted include pilot plans for stock-by-stock trading pauses, related changes to the equities market clearly erroneous execution rules, and more stringent equities market maker quoting requirements. On May 31, 2012, the Commission approved the

---

<sup>4</sup> FINRA is the largest independent regulator for all securities firms doing business in the United States. FINRA oversees approximately 4,275 brokerage firms, approximately 161,495 branch offices and approximately 630,010 registered securities representatives.

Plan, as amended, on a one-year pilot basis.<sup>5</sup> In addition, the Commission approved changes to the equities market-wide circuit breaker rules on a pilot basis to coincide with the pilot period for the Plan.<sup>6</sup> The Plan is designed to prevent trades in individual NMS stocks from occurring outside of specified Price Bands.<sup>7</sup> The instant proposed rule change is intended to adopt MIAX rules that address the trading of options overlying NMS Stocks that are the subject of the Plan and its provisions during times of unusual volatility in the markets.

The requirements of the Plan are coupled with Trading Pauses to accommodate more fundamental price moves (as opposed to erroneous trades or momentary gaps in liquidity). All trading centers in NMS stocks, including both those operated by Participants and those operated by members of Participants, are required to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the requirements specified in the Plan.<sup>8</sup>

#### Limit State and Straddle State

As set forth in more detail in the Plan, Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are calculated by the Processors.<sup>9</sup> When the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band, the Processors shall

---

<sup>5</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (Order Approving the Plan on a Pilot Basis).

<sup>6</sup> See Securities Exchange Act Release No. 67090 (May 31, 2012), 77 FR 33531 (June 6, 2012) (SR-BATS-2011-038; SR-BYX-2011-025; SR-BX-2011-068; SR-CBOE-2011-087; SR-C2-2011-024; SR-CHX-2011-30; SR-EDGA-2011-31; SR-EDGX-2011-30; SR-FINRA-2011-054; SR-ISE-2011-61; SR-NASDAQ-2011-131; SR-NSX-2011-11; SR-NYSE-2011-48; SR-NYSEAmex-2011-73; SR-NYSEArca-2011-68; SR-Phlx-2011-129).

<sup>7</sup> Unless otherwise specified, capitalized terms used in this rule filing are based on the defined terms of the Plan.

<sup>8</sup> MIAX is currently an options exchange only, and thus currently does not trade NMS Stocks. Therefore, as of the date of this proposal, MIAX is not a Participant in the Plan.

<sup>9</sup> See Section V(A) of the Plan.

disseminate such National Best Bid (Offer) with an appropriate flag identifying it as non-executable. When the National Best Bid (Offer) is equal to the Upper (Lower) Price Band, the Processors shall distribute such National Best Bid (Offer) with an appropriate flag identifying it as a Limit State Quotation.<sup>10</sup> All trading centers in NMS stocks must maintain written policies and procedures that are reasonably designed to prevent the display of offers below the Lower Price Band and bids above the Upper Price Band for NMS stocks. Notwithstanding this requirement, the Processor shall display an offer below the Lower Price Band or a bid above the Upper Price Band, with a flag indicating that it is non-executable. Such bids or offers shall not be included in the National Best Bid or National Best Offer calculations.<sup>11</sup> Trading in an NMS stock immediately enters a Limit State if the National Best Offer (Bid) equals but does not cross the Lower (Upper) Price Band.<sup>12</sup> Trading for an NMS stock exits a Limit State if, within 15 seconds of entering the Limit State, all Limit State Quotations were executed or canceled in their entirety. If the market does not exit a Limit State within 15 seconds, then the Primary Listing Exchange would declare a five-minute trading pause pursuant to Section VII of the Plan, which would be applicable to all markets trading the security.<sup>13</sup>

In addition, the Plan defines a Straddle State as when the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band and the NMS stock is not in a Limit State. For example, assume the Lower Price Band for an NMS Stock is \$9.50 and the Upper Price Band is \$10.50, such NMS stock would be in a Straddle State if the National Best Bid were

---

<sup>10</sup> See Section VI(A) of the Plan.

<sup>11</sup> See Section VI(A)(3) of the Plan.

<sup>12</sup> See Section VI(B)(1) of the Plan.

<sup>13</sup> The primary listing market would declare a Trading Pause in an NMS stock; upon notification by the primary listing market, the Processor would disseminate this information to the public. No trades in that NMS stock could occur during the trading pause, but all bids and offers may be displayed. See Section VII(A) of the Plan.

below \$9.50, and therefore non-executable, and the National Best Offer were above \$9.50 (including a National Best Offer that could be above \$10.50). If an NMS stock is in a Straddle State and trading in that stock deviates from normal trading characteristics, the Primary Listing Exchange may declare a trading pause for that NMS stock if such Trading Pause would support the Plan's goal to address extraordinary market volatility.

### The Proposal

MIAX is not a Participant in the Plan because it does not list and trade NMS Stocks. MIAX lists and trades options overlying NMS Stocks. Trading in options overlying NMS Stocks is impacted by the implementation of the Plan because options pricing models are highly dependent on the price of the underlying security and the ability of options traders to effect hedging transactions in the underlying security. Thus, proposed MIAX Rule 530 would provide for how the Exchange will treat orders and quotes in options overlying NMS stocks when the Plan is in effect.

### Pilot Period

Proposed Rule 530 includes an introductory paragraph stating that the rule shall be in effect during a pilot period to coincide with the pilot period for the Plan, and that the proposed rule establishes procedures to address extraordinary volatility in NMS Stocks and outlines MIAX's Limit Up-Limit Down processing.

### Definitions

Proposed Rule 530(a) lists definitions that are identical to definitions set forth in the Plan. The capitalized terms in proposed Rule 530(a) and throughout the MIAX rules shall have the same meaning as provided for in the Plan. The definitions set forth in proposed Rule 530 are as follows:

“Eligible Reported Transactions” shall have the meaning prescribed by the Operating Committee of the Plan (as defined below) and shall generally mean transactions that are eligible to update the last sale price of an NMS Stock.

“Limit State” shall have the meaning provided in Section VI of the Plan. When a National Best Bid is below the Lower Price Band calculated by the Processor (as defined below) for an NMS Stock or a National Best Offer is above the Upper Price Band calculated by the Processor for an NMS Stock, the Processor will disseminate such National Best Bid or National Best Offer with an appropriate flag identifying it as non-executable. When a National Best Offer is equal to the Lower Price Band or a National Best Bid is equal to the Upper Price Band for an NMS Stock, the Processor will distribute such National Best Bid or National Best Offer with an appropriate flag identifying it as a “Limit State Quotation”.

“LULD Functionality” shall mean the specific processing logic applied by the Exchange System to options traded on the Exchange when the underlying NMS Stock has entered into a Limit State or Straddle State. LULD Functionality remains in effect for the duration that the underlying NMS Stock is in a Limit State or a Straddle State.

“Market Data Plan” shall mean the effective national market system plans through which the Participants act jointly to disseminate consolidated information in compliance with Rule 603(b) of Regulation NMS under the Exchange Act.

“Plan” shall mean the Plan to Address Extraordinary Market Volatility Submitted to the SEC pursuant to Rule 608 of Regulation NMS under the Exchange Act, as amended from time to time in accordance with its provisions.

“Primary Listing Exchange” shall mean the Participant on which an NMS Stock is listed. If an NMS Stock is listed on more than one Participant, the Participant on which the NMS Stock has been listed the longest shall be the Primary Listing Exchange.

“Processor” shall mean the single plan processor responsible for the consolidation of information for an NMS Stock pursuant to Rule 603(b) of Regulation NMS under the Exchange Act.

“Participant” shall mean a party to the Plan.

“Regular Trading Hours” shall have the meaning provided in Rule 600(b)(64) of Regulation NMS under the Exchange Act. For purposes of the Plan, Regular Trading Hours can end earlier than 4:00 p.m. ET in the case of an early scheduled close.

“Regulatory Halt” shall have the meaning specified in the Market Data Plans.

“Straddle State” shall have the meaning provided in Section VII(A)(2) of the Plan. An NMS Stock is in a Straddle State when the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band and the NMS Stock is not in a Limit State, and trading in that NMS Stock deviates from normal trading characteristics such that declaring a Trading Pause would support the Plan’s goal to address extraordinary market volatility.

“Trading Pause” shall have the meaning provided in Section VII of the Plan. If trading for an NMS Stock does not exit a Limit State within 15 seconds of entry during Regular Trading Hours, then the Primary Listing Exchange will declare a Trading Pause for such NMS Stock and shall notify the Processor. The Primary Listing Exchange may also declare a Trading Pause for an NMS Stock when an NMS Stock is in a Straddle State.

### General Statement of LULD Functionality on MIAX

Proposed Rule 530(b) states that LULD Functionality becomes effective for an option traded on the Exchange when the underlying NMS Stock has entered into a Limit State or Straddle State. LULD Functionality remains in effect for the duration that the underlying NMS Stock is in a Limit State or a Straddle State. LULD Functionality modifies the normal operation of the Exchange System in ways identified by this Rule. LULD Functionality ends when the underlying NMS Stock is no longer in a Limit State or a Straddle State, or when a Trading Pause is declared by the Primary Listing Exchange.

The purpose of this provision is to establish in the Exchange's rules, and thus notify investors, that the Exchange will respond by modifying the normal operation of the Exchange's System when an underlying NMS Stock is in a Limit State or a Straddle State.

### Determining Straddle States and Limit States

Proposed Rule 530(c) states that the Exchange shall use the SIP feed (CQS for Tape A and Tape B securities and UQDF for Tape C securities) to determine when an NMS Stock is in a Limit State or a Straddle State, and when such Limit State or Straddle State no longer exists.

### Handling of Orders During Straddle States and Limit States

Proposed Rule 530(d) describes how orders will be handled during a Limit State and Straddle State in the underlying NMS Stock. Under new Rule 530(d)(1), the opening in an option will not commence in the event that the underlying NMS stock is open, but has entered into a Limit State or Straddle State. If this occurs, the opening will only commence and complete if the underlying NMS stock exits, and stays out of, a Limit or Straddle State.

Accordingly, new Rule 530(d)(1) will provide that the Exchange will not open an affected option. As a result, if an opening process is occurring, it will cease and then start the



opening process from the beginning once the Limit State or Straddle State is no longer present. This is consistent with the provisions of Exchange Rule 504(a)(1) that states that the System may halt trading in the case of an option on a security, when trading in the underlying security has been halted or suspended in the primary market.

#### Rejection of Incoming Market Orders

The Exchange proposes to adopt provisions regarding the treatment of certain orders if the underlying NMS stock is in a Limit State or Straddle State. Whenever an NMS stock is in a Limit State or Straddle State, trading continues; however, there will not be a reliable price for a security to serve as a benchmark for the price of the option. For example, if the underlying NMS stock is in a Limit State, while trading in that stock continues, by being in a Limit State, there will be either cancellations or executions at that price, and if the Limit State is not resolved in 15 seconds, the NMS Stock will enter a Trading Pause. If an NMS stock is in a Straddle State, there is either a National Best Bid or National Best Offer that is non-executable, which could result in limited price discovery in the underlying NMS stock. In addition to the lack of a reliable underlying reference price, the Exchange believes that the width of the markets and quality of the execution for market participants during a Limit State or Straddle State could lead to inferior executions. The Exchange believes that certain types of orders increase the risk of errors and poor executions and therefore should not be allowed during these times when there may not be a reliable underlying reference price, there may be a wide bid/ask quotation differential, and there may be lower trading liquidity in the options markets.

Therefore, the Exchange proposes that if an NMS stock is in a Limit State or Straddle State, once the option has opened for trading, the Exchange shall reject all incoming market orders submitted into the Exchange's System.

In order to provide clarity in the Exchange's rules concerning market order cancellations during a Limit or Straddle State, the Exchange proposes to adopt proposed Rule 530(d)(2)(ii), which states that the Exchange will cancel all unexecuted market orders existing within the Exchange System during a Limit or Straddle State. Market orders to sell an option received when the national best bid is zero and the Exchange's disseminated offer is equal to or less than \$0.10 that have been converted to limit orders to sell pursuant to Rule 519(a)<sup>14</sup> will not be cancelled by the Exchange's System. Although such orders were submitted as market orders, due to the zero-bid at the time of receipt of such orders, they are not maintained as market orders in the Exchange's System but instead are converted into limit orders to sell at the minimum price variation ("MPV") applicable to the affected series, provided that the MPV is equal to or less than \$0.10. Proposed Rule 530(d)(2)(ii) would therefore state that once an NMS Stock has entered either a Straddle State or Limit State, after the opening the Exchange will cancel all unexecuted market orders existing within the Exchange System, except that market orders to sell an option received when the national best bid is zero and the Exchange's disseminated offer is equal to or less than \$0.10 that have been converted to limit orders to sell pursuant to Rule 519(a) will not be cancelled by the Exchange's System.

---

<sup>14</sup> If the Exchange receives a market order to sell an option when the national best bid is zero and the Exchange's disseminated offer is equal to or less than \$0.10, the System will convert the market order to sell to a limit order to sell with a limit price of one Minimum Trading Increment. In this case, such sell orders will automatically be placed on the Book in time priority and will be displayed at the appropriate Minimum Price Variation. See Exchange Rule 519(a)(1).

If the Exchange receives a market order to sell an option when the national best bid is zero and the national best offer is greater than \$0.10, the System will reject the market order to sell. See Exchange Rule 519(a)(2).

The Exchange believes that adding certainty to the treatment of market orders when the underlying NMS stock is in these situations should encourage market participants to continue to provide liquidity to the Exchange and thus promote a fair and orderly market.

The Exchange also proposes to adopt Rule 530(e), which provides that the Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions. Although the Exchange's rules currently address a variety of situations involving halts, pauses and suspensions,<sup>15</sup> the purpose of this proposed rule is to adopt a very specific rule to deal with circuit breaker-related halts.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>16</sup> in general, and with Section 6(b)(5) of the Act,<sup>17</sup> in particular, which requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, because it should provide certainty about how options orders and trades will be handled during periods of extraordinary volatility in the underlying security.

The proposed rule change addresses specific order types that are subject to added risks during such periods. The Exchange believes that the rejection of options market orders should

---

<sup>15</sup> See, e.g., Exchange Rules 504, 506(d), 515 and 523.

<sup>16</sup> 15 U.S.C. 78f.

<sup>17</sup> 15 U.S.C. 78f(b)(5).

help to prevent executions that might occur at prices that have not been reliably formed, which should, in turn, protect investors from poor executions during times of significant volatility.

Accordingly, the Exchange believes that the proposed rule change is consistent with these requirements in that it should reduce the negative impacts of sudden, unanticipated volatility in individual options, and serve to preserve an orderly market in a transparent and uniform manner, enhance the price-discovery process, increase overall market confidence, and promote fair and orderly markets and the protection of investors.

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. .

Specifically, the proposal does not impose a burden on competition among the options exchanges, because, despite the intense competition for order flow among the options exchanges, the proposal addresses a regulatory situation common to all options exchanges. To the extent that market participants disagree with the particular approach taken by the Exchange in the instant proposal, market participants are certainly able to direct order flow to competing venues.

The Exchange believes this proposal for how to treat options openings and orders will not impose a burden on competition and will help provide certainty during periods of extraordinary volatility in an NMS stock.

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

Written comments were neither solicited or received.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of

the Act<sup>18</sup> and Rule 19b-4(f)(6) thereunder.<sup>19</sup> Because the 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B) of the Act<sup>20</sup> to determine whether the proposed rule change 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

---

<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>19</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of 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.

<sup>20</sup> 15 U.S.C. 78s(b)(2)(B).

- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-MIAX-2013-07 on the subject line.

Paper comments:

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

All submissions should refer to File No. SR-MIAX-2013-07. 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 such 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 No. SR-MIAX-2013-07 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.<sup>21</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>21</sup> 17 CFR 200.30-3(a)(12).