

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80768; File No. SR-MIAX-2017-19)

May 25, 2017

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing of a Proposed Rule Change to Amend MIAX Options Rules 515, Execution of Orders and Quotes; 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism; and 518, Complex Orders

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 May 12, 2017, 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, 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 Rules 515, Execution of Orders and Quotes; 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism; and 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’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

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 Rules 515, Execution of Orders and Quotes; 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism; and 518, Complex Orders, to establish three new types of complex orders,³ and to adopt new provisions that relate to the processing of those new complex order types. In particular, the Exchange is proposing to modify those rules to permit the entry and execution of Complex Customer Cross (“cC2C”) Orders, Complex Qualified Contingent Cross (“cQCC”) Orders, and Complex PRIME (“cPRIME”) Orders, each as discussed more fully below.

Background

Exchange Rule 515(h) currently permits the entry and execution of Customer Cross Orders⁴ and Qualified Contingent Cross (“QCC”) Orders⁵ in the Exchange’s simple market. A Customer Cross Order is comprised of a Priority Customer⁶ Order to buy and a Priority Customer Order to sell at the same price and for the same quantity. A Customer Cross Order is

³ For a description of the trading of complex orders on the Exchange, see Exchange Rule 518. See also, Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016)(SR-MIAX-2016-26).

⁴ See Exchange Rule 515(h)(1).

⁵ See Exchange Rule 515(h)(2).

⁶ The term “Priority Customer” means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Exchange Rule 100.

not valid during the opening rotation process described in Rule 503.⁷ A QCC Order is comprised of an originating order to buy or sell at least 1,000 contracts, or 10,000 mini-option contracts, that is identified as being part of a qualified contingent trade,⁸ as that term is defined in Rule 516, Interpretations and Policies .01, coupled with a contra-side order or orders totaling an equal number of contracts. A QCC Order is not valid during the opening rotation process described in Rule 503.⁹

Customer Cross Orders and QCC Orders are processed in a crossing mechanism of the Exchange's System¹⁰ designed specifically for the execution of those order types, and Rule 515(h) contains order processing and execution requirements that are unique to these order types. The Exchange proposes to use that same crossing mechanism for the processing and execution of cC2C Orders and cQCC Orders. Accordingly, the Exchange is proposing to modify Rule 515(h) so that it also permits the execution of cC2C Orders and cQCC Orders, through the adoption of Rule 515(h)(3) (relating to cC2C Orders) and Rule 515(h)(4) (relating to cQCC Orders). Rules

⁷ See Exchange Rule 516(i).

⁸ A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where: (a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Act; (b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (c) the execution of one component is contingent upon the execution of all other components at or near the same time; (d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. See Exchange Rule 516, Interpretations and Policies .01.

⁹ See Exchange Rule 516(j).

¹⁰ The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

515(h)(3) and (4) include processing and execution requirements for cC2C Orders and cQCC Orders that differ from the processing and execution requirements under 515(h)(1) and (2) for Customer Cross Orders and QCC Orders, respectively.

Exchange Rule 515A currently permits the entry and execution of PRIME Orders¹¹ and PRIME Solicitation Orders¹² in the Exchange's simple market. PRIME is a price-improvement mechanism of the Exchange's System pursuant to which a Member¹³ ("Initiating Member") electronically submits an order that it represents as agent (an "Agency Order") into a PRIME Auction ("Auction"). The Initiating Member, in submitting an Agency Order, must be willing to either (i) cross the Agency Order at a single price (a "single-price submission") against principal or solicited interest, or (ii) automatically match ("auto-match"), against principal or solicited interest, the price and size of responses to a Request for Response ("RFR") that is broadcast to MIAX Options participants up to an optional designated limit price.¹⁴

PRIME Orders are processed in the PRIME mechanism of the Exchange's System that is designed specifically for the execution of those order types. Accordingly, Rule 515A contains order processing and execution requirements that are unique to these order types. The Exchange proposes to utilize that same PRIME mechanism for the processing and execution of cPRIME

¹¹ See Exchange Rule 515A(a).

¹² See Exchange Rule 515A(b).

¹³ 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 Act. See Exchange Rule 100.

¹⁴ See Exchange Rule 515A(a)(2)(i). When the Exchange receives a properly designated Agency Order for auction processing, an RFR detailing the option, side, size, and initiating price will be sent to all subscribers of the Exchange's data feeds. The RFR currently lasts for 500 milliseconds. Members may submit responses to the RFR (specifying prices and sizes). RFR responses shall be an Auction or Cancel ("AOC") order or an AOC eQuote. Such responses cannot cross the disseminated MIAX Best Bid or Offer ("MBBO") on the opposite side of the market from the response.

Orders. Accordingly, the Exchange is proposing to modify Rule 515A so that it also permits the execution of cPRIME Orders, through certain modifications to Rule 515A(a) and the adoption of Interpretations and Policies .12 (PRIME for Complex Orders). Interpretations and Policies .12 includes processing and execution requirements for cPRIME Orders that differ from the processing and execution requirements under 515A(a) for simple PRIME Orders.

The Exchange is also proposing to amend Exchange Rule 518, which governs the processing and execution of complex orders on the Exchange. In particular, Rule 518(b) lists and defines complex order types that are available for trading on the Exchange.¹⁵ Accordingly, the Exchange proposes to amend Rule 518(b) to list and define the three new complex order types: cC2C, cQCC, and cPRIME.

cC2C Orders

As discussed above, the Exchange proposes to use the same crossing mechanism for the processing and execution of cC2C Orders that is used for Customer Cross Orders in the simple market. Accordingly, proposed Rule 515(h)(3) shall govern the trading of cC2C Orders, as defined in Rule 518(b)(5), on MIAX Options.

Proposed Rule 518(b)(5) defines a cC2C Order as a type of complex order which is comprised of one Priority Customer complex order to buy and one Priority Customer complex order to sell (the same strategy) at the same price (which must be better than (inside) the

¹⁵ Exchange Rule 518(b), Types of Complex Orders, lists the various complex orders available for trading on the Exchange. The Exchange is proposing to add two new complex order types, cC2C and cQCC Orders, to this rule.

icMBBO¹⁶ or the best net price of the complex order on the Strategy Book¹⁷ for the strategy, whichever is more aggressive) and for the same quantity.

Proposed Rule 515(h)(3) describes the execution price requirements that are specific for cC2C Orders. Specifically, cC2C Orders are automatically executed upon entry provided that the execution is at least \$0.01 better than (inside) the icMBBO (as defined in Rule 518(a)(11)) price or the best net price of a complex order (as defined in Rule 518(a)(5)) on the Strategy Book (as defined in Rule 518(a)(17)), whichever is more aggressive (i.e., the higher bid and/or lower offer). The purpose of the requirement that the execution be at the more aggressive price of either the icMBBO or the best net price of the complex order on the Strategy Book is to ensure that each participant in the complex order receives a better price than it would receive if submitted as a single complex order, and to ensure that there is no interference between the simple and complex markets.

The System will reject a cC2C Order if, at the time of receipt of the cC2C Order, (i) the strategy is subject to a cPRIME Auction pursuant to Rule 515A proposed Interpretations and Policies .12, or to a Complex Auction pursuant to Rule 518(d); or (ii) any component of the strategy is subject to a SMAT Event as described in Rule 518(a)(16).¹⁸ The purpose of this

¹⁶ The Implied Complex MIAX Best Bid or Offer (“icMBBO”) is a calculation that uses the best price from the Simple Order Book (defined below) for each component of a complex strategy including displayed and non-displayed trading interest. For stock-option orders, the icMBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book (defined below) in the individual option component(s), and the NBBO in the stock component. See Exchange Rule 518(a)(11).

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

¹⁸ A Simple Market Auction or Timer, or “SMAT” Event, is defined as any of the following: (i) a PRIME Auction (pursuant to Rule 515A); (ii) a Route Timer (pursuant to Rule 529); or (iii) a liquidity refresh pause (pursuant to Rule 515(c)(2)). See Exchange Rule 518(a)(16).

provision is to maintain an orderly market by avoiding the execution of cC2C Orders with components that are involved in other System functions (specifically a PRIME Auction, Route Timer, or liquidity refresh pause) that could affect the execution price of the cC2C Order, and by avoiding concurrent processing on the Exchange involving the same security. This methodology for the handling of cC2C Orders differs somewhat from the methodology for handling Customer Cross Orders, wherein the System will not reject a cC2C Order when a component of the strategy is subject to the managed interest process¹⁹ pursuant to Rule 515(c) (as the System would reject a Customer Cross Order in the simple market during such a condition). A cC2C Order already has a guaranteed execution price at the better of \$0.01 inside the icMBBO price or at the best net price of a complex order on the Strategy Book. Therefore, it is not necessary or desirable to reject and thereby preclude the execution of a cC2C Order in this circumstance.

Proposed Rule 515(h)(3)(A) states that cC2C Orders will be automatically cancelled if they cannot be executed. Proposed Rule 515(h)(3)(B) provides that cC2C Orders may only be entered in the minimum trading increments applicable to complex orders under Rule 518(c)(1)(i).²⁰

As a regulatory matter, proposed Rule 515(h)(3)(C) states that Rule 520, Interpretations and Policies .01²¹ applies to the entry and execution of cC2C Orders.

¹⁹ Under the managed interest process, if the limit price of a non-routable order locks or crosses the current opposite side NBBO, the System will display the order one Minimum Price Variation away from the current opposite side NBBO, and book the order at a price that will lock the current opposite side NBBO. See Exchange Rule 515(c)(ii).

²⁰ Bids and offers on complex orders and quotes may be expressed in \$0.01 increments, and the component(s) of a complex order may be executed in \$0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order. See Exchange Rule 518(c)(1)(i).

²¹ Rule 520(b) prevents an Electronic Exchange Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the agency order or to

Proposed Rule 515(h)(3)(D) states that the Exchange will determine, on a class-by-class basis, the option classes in which cC2C Orders are available for trading on the Exchange, and will announce such classes to Members via Regulatory Circular.

The following example illustrates the execution of a cC2C Order:

Example 1 – A cC2C Order is Executed

MIAX – LMM Mar 50 Call 6.00-6.50 (10x10)

MIAX – LMM Mar 55 Call 3.00-3.30 (10x10)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The Strategy Book contains a Priority Customer offer to sell the Strategy at 3.30 credit, 20 times.

The Exchange receives a cC2C Order representing Priority Customers on both sides for the simultaneous purchase and sale of the strategy at a net price of 3.29, 500 times.

Since the order price is at least \$0.01 better than (inside) the icMBBO and the best net price of any order for the Strategy on the Strategy Book, the cC2C order is automatically executed upon entry.

cQCC Orders

As discussed above, the Exchange proposes to use the same crossing mechanism for the processing and execution of cQCC Orders that is used for QCC Orders in the simple market.²²

trade at the execution price when the Member was already bidding or offering on the Book. However, the Exchange recognizes that it may be possible for an Electronic Exchange Member to establish a relationship with a customer or other person (including affiliates) to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of Rule 520(b) for an Electronic Exchange Member to be a party to any arrangement designed to circumvent Rule 520(b) by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the Electronic Exchange Member immediately upon their entry into the System. See Exchange Rule 520, Interpretations and Policies .01.

²²

See Exchange Rule 515(h)(2).

Accordingly, proposed Rule 515(h)(4) shall govern the trading of cQCC Orders, as defined in Rule 518(b)(6), on MIAX Options.

Proposed Rule 518(b)(6) defines a cQCC Order as a type of complex order which is comprised of a complex order to buy or sell where each component is at least 1,000 contracts that is identified as being part of a qualified contingent trade, as defined in Rule 516, Interpretations and Policies .01,²³ coupled with a contra-side complex order or orders (for the same strategy) totaling an equal number of contracts.

Proposed Rule 515(h)(4) mirrors the execution price requirements for simple QCC Orders by providing that cQCC Orders are automatically executed upon entry provided that, with respect to each option leg of the cQCC Order, the execution (i) is not at the same price as a Priority Customer Order on the Exchange's Book;²⁴ and (ii) is at or between the NBBO. The purpose of the requirement that each option leg be executed at or between the NBBO is to ensure that no option component of the cQCC Order trades through the NBBO. The purpose of the requirement that each option leg be executed at a price better than any Priority Customer on the Book is to ensure that no option component of the cQCC Order trades ahead of a Priority Customer Order.

The Options Order Protection and Locked/Crossed Markets Plan (the "Plan"), provides an exception to the requirement that Participants establish, maintain and enforce written policies and procedures that are reasonably designed to prevent Trade-Throughs when the transaction that

²³ See supra note 8.

²⁴ The term "Book" means the electronic book of buy and sell orders and quotes maintained by the System. See Exchange Rule 100.

constituted the Trade-Through was effected as a portion of a “complex trade,” as defined in the rules of a Participant.²⁵

The System does not consider the NBBO price for the stock component because the Exchange does not execute the stock component; the Exchange executes the option components at a net price and ensures that the execution price of each option component of the strategy is (i) not at the same price as a Priority Customer Order on the Exchange’s Simple Order Book;²⁶ and (ii) at or between the NBBO. The Exchange does require that the Member entering a QCC Order provide certain information to the Exchange regarding the execution of the stock component, such as the underlying price, quantity, price delta, execution time and executing venue.²⁷ The Exchange will require this same information from Members with respect to cQCC Orders.

This complex pricing requirement aligns with the simple order pricing requirement for a Qualified Contingent Trade (“QCT”) to consider the NBBO price. In each case, the parties to a contingent trade are focused on the spread or ratio between the transaction prices for each of the component instruments (i.e., the net price of the entire contingent trade), rather than on the absolute price of any single component. Pursuant to the requirements of the NMS QCT Exemption, the spread or ratio between the relevant instruments must be determined at the time the order is placed, and this spread or ratio stands regardless of the market prices of the individual orders at their time of execution. As the Commission noted in the Original QCT

²⁵ See Section 5(b)(viii) of the Plan. See also, Exchange Rule 1401(b)(7).

²⁶ The “Simple Order Book” is the Exchange’s regular electronic book of orders and quotes, as defined in Exchange Rule 518, Complex Orders. See Exchange Rule 518(a)(15). For purposes of the instant proposed rule change, the terms “Book” (see *supra* note 24) and “Simple Order Book” have the same meaning and are interchangeable.

²⁷ See MIAX Options Regulatory Circular No. 2015-47 (October 2, 2015), describing Regulatory Requirements when entering a Qualified Contingent Cross Order.

Exemption, “the difficulty of maintaining a hedge, and the risk of falling out of hedge, could dissuade participants from engaging in contingent trades, or at least raise the cost of such trades.” Thus, the Commission found that, if each stock leg of a qualified contingent trade were required to meet the trade-through provisions of Rule 611 of Regulation NMS, such trades could become too risky and costly to be employed successfully and noted that the elimination or reduction of this trading strategy potentially could remove liquidity from the market.²⁸ This is also true for QCC Orders in options, and thus the Exchange believes that its proposal is consistent with the Original QCT Exemption.

The System will reject a cQCC Order if, at the time of receipt of the cQCC Order, (i) the strategy is subject to a cPRIME Auction pursuant to proposed Rule 515A, Interpretations and Policies .12, or to a Complex Auction pursuant to Rule 518(d); or any component of the strategy is subject to a SMAT Event as described in Rule 518(a)(16).²⁹ This provision is intended to maintain an orderly market by avoiding the execution of cQCC Orders with components that are involved in other System functions (specifically a PRIME Auction, Route Timer, or liquidity refresh pause) that could affect the execution price of the cQCC Order, and by avoiding concurrent processing on the Exchange involving the same security. For the same reasons as described above with respect to cC2C Orders, the System will not reject a cQCC Order when a component of the strategy that is subject to the managed interest process pursuant to Rule 515(c) (as the System would reject a QCC Order in the simple market during such a condition).

Proposed Rule 515(h)(4)(A) states that cQCC Orders will be automatically cancelled if they cannot be executed. Proposed Rule 515(h)(4)(B) provides that cQCC Orders may only be

²⁸ See Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) (“Original QCT Exemption”).

²⁹ See supra note 18.

entered in the minimum trading increments applicable to complex orders under Rule 518(c)(1)(i).³⁰

Just as with cC2C Orders, proposed Rule 515(h)(4)(C) states that the Exchange will determine, on a class-by-class basis, the option classes in which cQCC Orders are available for trading on the Exchange, and will announce such classes to Members via Regulatory Circular.

The following example illustrates the execution of a cQCC Order:

Example 2 – A cQCC Order is Executed

MIAX – LMM Mar 50 Call 6.00-6.50 (10x10 - no Priority Customer interest)
MIAX – LMM Mar 55 Call 3.00-3.30 (10x10 - no Priority Customer interest)
ABBO – Mar 50 Call 6.00-6.30 (10x10)
ABBO – Mar 55 Call 3.00-3.30 (10x10)
NBBO – Mar 50 Call 6.00-6.30 (20x10)
NBBO – Mar 55 Call 3.00-3.30 (20x20)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icMBBO is 2.70 debit bid at 3.50 credit offer
The dcMBBO is 2.70 debit bid at 3.50 credit offer
The ABBO is 2.70 debit bid at 3.30 credit offer

The Exchange receives a cQCC Order representing Public Customers on both sides for the simultaneous purchase and sale of the strategy at a net price of 3.30, 1000 times along with information regarding the execution of the stock component relating to the crossing of 20,000 shares of the underlying security (which information related to a separate order that was sent to the stock execution venue by the Clearing Member previously identified to the Exchange as a Designated Give Up for the Member that submitted the cQCC Order in accordance with the Rule).

Since the order can be executed at or between the NBBO for each leg of the Strategy, is not at the same price as a Priority Customer Order on the Exchange's Simple Order Book, and the order size and underlying security requirements have been met, the cQCC Order is automatically executed upon entry.

The Exchange is proposing the same price execution requirements that are currently in

³⁰ See supra note 20.

place on other exchanges.³¹

Complex PRIME Orders

As discussed above, the Exchange proposes to use the same PRIME mechanism for the processing and execution of cPRIME Orders that is used for PRIME Orders in the simple market. The manner in which cPRIME Orders will be processed and executed will be the same as the manner in which simple PRIME Orders are currently processed and executed, except as otherwise provided in proposed Interpretations and Policies .12 to Rule 515A. Accordingly, proposed Interpretations and Policies .12, PRIME for Complex Orders, states that, unless otherwise provided in Interpretations and Policies .12 to Rule 515A or unless the context otherwise requires, the provisions of Exchange Rule 515A(a) (which governs the processing and execution of simple PRIME orders) shall be applicable to the trading of complex orders on PRIME.

Proposed Rule 518(b)(7) defines a cPRIME Order as a type of complex order that is submitted for participation in a cPRIME Auction. Trading of cPRIME Orders is governed by Rule 515A, Interpretations and Policies .12.

The Exchange will determine, on a class-by-class basis, the option classes in which complex orders are available for trading on PRIME on the Exchange, and will announce such classes to Members via Regulatory Circular.

The Exchange is proposing to amend Rule 515A(a)(2)(D) by stating clearly in the rule that the System will reject RFR responses submitted with a price that is not equal to or better than the initiating price. The purpose of this proposal is to avoid the handling of RFR responses

³¹ See, e.g., Securities Exchange Act Release No. 69948 (July 9, 2013), 78 FR 42132 (July 15, 2013) (SR-CBOE-2013-41). See also, NYSEArca Regulatory Information Bulletin no. RBO-11-04 (May 26, 2011).

by the System that could not be executed in an Auction because they are inferior to the initiating price, at which the Agency Order has been stopped. The Exchange is proposing to delete the last sentence of Rule 515A(a)(2)(i)(D) which states simply that such RFR responses cannot cross the disseminated MBBO on the opposite side of the market from the response. Such a response would result in the conclusion of the Auction under current Rule 515A(2)(ii)(E), which states that the Auction will conclude any time an RFR response matches the NBBO on the opposite side of the market from the RFR responses. The Exchange is proposing to delete the last sentence of Rule 515A(a)(2)(i)(D), because the NBBO cannot be outside, or inferior to, the MBBO, and an RFR response therefore could not cross the MBBO without matching or crossing the NBBO, which stops the Auction. This provision in Rule 515A(a)(2)(i)(D) is unnecessary and should be deleted.

Proposed Interpretations and Policies .12(a) to Rule 515A includes general rules applicable to cPRIME Orders and cPRIME Auctions. Under the proposal, Members may use PRIME to execute complex orders at a net price. In order to distinguish PRIME Auctions involving simple PRIME Orders from cPRIME Auctions involving cPRIME Orders, the Exchange is proposing to add new defined terms to Interpretations and Policies .12(a).

Proposed Interpretations and Policies .12(a) states that “cPRIME” is the process by which a Member may electronically submit a “cPRIME Order” (as defined in proposed Rule 518(b)(7)) it represents as agent (a “cPRIME Agency Order”) against principal or solicited interest for execution (a “cPRIME Auction”). The Exchange is proposing to adopt these new terms for clarity and ease of reference.

Proposed Interpretations and Policies .12(a)(i) to Rule 515A states that the initiating price for a cPRIME Agency Order must be better than (inside) the icMBBO³² for the strategy and any other complex orders on the Strategy Book. This ensures that the execution price of the cPRIME Agency Order improves the best price on the Exchange at the time of receipt, and that there is no interference between the simple and complex markets. The System will reject cPRIME Agency Orders submitted with an initiating price that is equal to or worse than (outside) the icMBBO or any other complex orders on the Strategy Book.

Proposed Interpretations and Policies .12(a)(ii) to Rule 515A states that Members may enter RFR responses on the opposite side of the market from the cPRIME Agency Order at net prices, and bids and offers for complex orders may participate in the execution of an order as provided in MIAX Options Rule 515A. The purpose of this provision is to clarify that cPRIME Auctions, including the RFR and RFR responses, will, with certain exceptions described herein, be handled and executed in the same manner as simple PRIME Auctions.

Proposed Interpretations and Policies .12(a)(iii) to Rule 515A states that, except as provided in proposed Interpretations and Policies .12(c) (described below), with respect to bids and offers for the individual legs of a complex order entered into cPRIME, the order allocation rules contained in Rule 514 will apply. This ensures that simple orders on the Exchange's Simple Order Book are allocated under the simple order allocation rules when they are executed against the legs of a complex order.

Proposed Interpretations and Policies .12(a)(iv) to Rule 515A states that, if an improved net price for the complex order being executed can be achieved from bids and offers for the individual legs of the complex order in the simple market, and the complex order is otherwise

³² See supra note 16.

eligible for Legging pursuant to Rule 518(c)(2)(iii),³³ the Strategy being matched will receive an execution at the better net price. The purpose of this provision is to ensure that the Exchange will provide the best net price available on the Exchange, whether by way of matching strategies or by way of Legging with the Simple Order Book, as long as the complex order is eligible for Legging.

Proposed Interpretations and Policies .12(a)(v) to Rule 515A states that all references to the NBBO in Rule 515A are inapplicable.³⁴ Any of the references to the NBBO in Rule 515A apply to simple orders and do not apply to complex orders; proposed Interpretations and Policies .12 replaces references to the NBBO with references to the icMBBO that apply to complex orders.

The following example illustrates the execution of a cPRIME Order with the single price submission election (no auto-match):

Example 3 - A cPRIME Order is Executed (without auto-match)

MIAX – LMM Mar 50 Call 6.00-6.50 (10x10)

³³ Complex orders up to a maximum number of legs (determined by the Exchange on a class-by-class basis as either two or three legs and communicated to Members via Regulatory Circular) may be automatically executed against bids and offers on the Simple Order Book for the individual legs of the complex order (“Legging”), provided the complex order can be executed in full or in a permissible ratio by such bids and offers, and provided that the execution price of each component is not executed at a price that is outside of the NBBO. Legging is not available for cAOC orders, complex Standard quotes, complex eQuotes, or stock-option orders. Notwithstanding the foregoing, complex orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other complex orders on the Strategy Book and will not be permitted to leg into the Simple Order Book. Complex orders with three option legs where all legs are buying or all legs are selling may only trade against other complex orders on the Strategy Book, regardless of whether the option leg is a call or a put. The System will not generate derived orders for these complex orders. See Exchange Rule 518(c)(2)(iii).

³⁴ Complex orders and quotes are executed without consideration of any prices for the complex strategy that might be available on other exchanges trading the same options contracts. See Exchange Rule 518(c)(2)(ii).

MIAX – LMM Mar 55 Call 3.00-3.30 (10x10)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The Strategy Book contains a Priority Customer offer to sell the Strategy at 3.30 credit, 20 times.

The Exchange receives a cPRIME Order with the cPRIME Agency Order representing the purchase of the Strategy at a net debit of 3.29, 500 times. Auto-match is not enabled.

Since the order price is at least \$0.01 better than (inside) the icMBBO and the best net price of any order for the Strategy on the Book, a cPRIME Auction can begin.

An RFR is broadcast to all subscribers showing price, the quantity of matched complex orders at that price, and the side of the cPRIME Agency Order, is sent and a 500 millisecond RFR period is started.

The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.25 credit sell of 100 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.27 credit sell of 100 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.29 credit sell of 200 arrives
- @ 300 milliseconds MM4 response, cAOC eQuote @ 3.29 credit sell of 200 arrives

The cPRIME Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the cPRIME Auction process will trade the cPRIME Agency Order with the best priced responses. The cPRIME Agency order will be filled as follows:

- The cPRIME Agency Order buys 100 from BD1 @ 3.25
- The cPRIME Agency Order buys 100 from MM1 @ 3.27
- At the final price, the cPRIME Agency Order buys:
 - 50 from MM3 @ 3.29;
 - 50 from MM4 @ 3.29; and
 - 200 (40%) from the cPRIME Contra Order @ 3.29.

The following example illustrates the execution of a cPRIME Order with the auto-match election:

Example 4 - A cPRIME Order is Executed (with auto-match)

MIAX – LMM Mar 50 Call 6.00-6.50 (10x10)

MIAX – LMM Mar 55 Call 3.00-3.30 (10x10)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The Strategy Book contains a Priority Customer offer to sell the Strategy at 3.30 credit, 20 times.

The Exchange receives a cPRIME Order with the cPRIME Agency Order representing the purchase of the Strategy at a net debit of 3.29, 500 times. Auto-match has been enabled with an auto-match limit price of 3.25.

Since the order price is at least \$0.01 better than (inside) the icMBBO and the best net price of any order for the Strategy on the Book, a cPRIME Auction can begin.

An RFR is broadcast to all subscribers showing price, the quantity of matched complex orders at that price, and the side of the cPRIME Agency Order, is sent and a 500 millisecond RFR period is started.

The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.25 credit sell of 100 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.27 credit sell of 300 arrives

The cPRIME Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the cPRIME Auction process will trade the Agency Order with the best priced responses. The Agency Order will be filled as follows:

- At the interim price, the cPRIME Agency Order buys:
 - 100 from BD1 @ 3.25; and
 - 100 (auto-match RFR Response) from the cPRIME Contra Order @ 3.25.
- At the final price, the cPRIME Agency Order buys:
 - 150 from MM1 @ 3.27; and
 - 150 (auto-match 50% of the remaining Agency Order size) from the cPRIME Contra Order @ 3.27

The following example illustrates the execution of a cPRIME Order that legs into the simple market:

Example 5 - A cPRIME Order is Executed (by legging into the simple market)

MIAX – LMM Mar 50 Call 6.00-6.50 (10x10)

MIAX – LMM Mar 55 Call 3.00-3.30 (10x10)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The Strategy Book contains a Priority Customer offer to sell the Strategy at 3.30 credit, 20 times.

The Exchange receives a cPRIME Order with the cPRIME Agency Order representing the purchase of the Strategy at a net debit of 3.29, 500 times. Auto-match is not enabled.

Since the order price is at least \$0.01 better than (inside) the icMBBO and the best net price of any order for the Strategy on the Book, a cPRIME Auction can begin.

An RFR is broadcast to all subscribers showing price, the quantity of matched complex orders at that price, and the side of the cPRIME Agency Order, is sent and a 500 millisecond RFR period is started.

The following responses are received:

- @ 150 milliseconds MM2 response, cAOC Order @ 3.28 credit sell of 100 arrives
- @ 200 milliseconds MM1 response, cAOC Order @ 3.27 credit sell of 300 arrives
- @ 300 milliseconds the MIAX LMM improves its offer to sell 10 Mar 50 Calls to a price of 6.25

The offer to sell 10 Mar 50 Calls @ 6.25 changes the icMBBO credit offer to 3.25, crossing the Auction Start Price and causing the cPRIME Auction process to be terminated immediately.

The cPRIME Auction process will trade the Agency Order with the best priced liquidity opposite the Agency Order according to the allocation process contained in Rule 515A. The Agency Order will be filled as follows:

- The cPRIME Agency Order buys:
 - 10 from legging into the Simple market icMBBO @ 3.25 (buy 10 Mar 50 Calls at 6.25, and sell 10 Mar 55 Calls at 3.00); and
 - 300 from MM1 @ 3.27; and
 - 100 from MM2 @ 3.28; and
 - 90 from the cPRIME Contra Order @ 3.29

There are certain circumstances that are unique to cPRIME Orders (such as when a component of the cPRIME Order is in a certain state), where the System will reject the cPRIME Order. Accordingly, proposed Interpretations and Policies .12(b) describes each of these specific

circumstances. Specifically, the System will reject a cPRIME Agency Order if, at the time of receipt of the cPRIME Agency Order: (i) the strategy is subject to a cPRIME Auction or to a Complex Auction pursuant to Rule 518(d); (ii) any component of the strategy is subject to a SMAT Event as described in Rule 518(a)(16); or (iii) any component of the strategy is subject to the managed interest process described in Rule 515(c)(1)(ii). The purpose of this provision is to maintain an orderly market by avoiding simultaneous multiple cPRIME Auctions and multiple concurrent PRIME, cPRIME and Complex Auctions, and to avoid executions during a Route Timer³⁵ or liquidity refresh pause³⁶ that could affect the price of the components and of the strategy.

The Exchange believes that, if the System were to accept and process cPRIME Agency Orders during the various circumstances described in proposed Interpretations and Policies .12(b) to Rule 515A, market participants could be faced with a number of simultaneous PRIME, cPRIME and/or Complex Auctions involving the same strategy or component, which in turn could have an impact the orderly functioning of the markets.

Proposed Interpretations and Policies .12(c) to Rule 515A describes various other situations that are unique to, or otherwise apply specifically to, cPRIME Orders. The purpose of

³⁵ For those initiating Public Customer orders that are routable, but do not meet the additional criteria for Immediate Routing, the System will implement a Route Timer not to exceed one second (the duration of the Timer will be announced to Members through a Regulatory Circular), in order to allow Market Makers and other participants an opportunity to interact with the initiating order. See Exchange Rule 529(b)(2)(i).

³⁶ The System will pause the market for a time period not to exceed one second to allow additional orders or quotes refreshing the liquidity at the MBBO to be received (“liquidity refresh pause”) when at the time of receipt or reevaluation of the initiating order by the System: (A) either the initiating order is a limit order whose limit price crosses the NBBO or the initiating order is a market order, and the limit order or market order could only be partially executed; (B) a Market Maker quote was all or part of the MBBO when the MBBO is alone at the NBBO; and (C) and the Market Maker quote was exhausted. See Exchange Rule 515(c)(2).

this provision is to “carve out” rules for cPRIME Orders for which the rules for simple PRIME Orders do not apply and to otherwise make clear in the Exchange’s rules the manner in which cPRIME Orders will be processed and executed under the proposal. Accordingly, proposed Interpretations and Policies .12(c) states that, notwithstanding the provisions of this Rule 515A with respect to PRIME, the following shall apply to cPRIME Orders only.

Proposed Interpretations and Policies .12(c)(i) to Rule 515A states that the RFR period for cPRIME Auctions shall be independent from the RFR for PRIME Auctions and shall last for a period of time set forth in Rule 515A(a)(2)(i)(C). The current RFR period for PRIME Auctions is 500 milliseconds.³⁷

The Exchange is proposing to adopt Interpretations and Policies .12(c)(ii) to Rule 515A which states that participants that submit simple orders that are executed as individual legs of complex orders at the execution price point will be allocated contracts only after all complex interest at such price point have received allocations. cPRIME Orders are matched first against other complex orders and have priority over simple orders that are on the Book and “legged,” at the execution price, regardless of the origin code of the simple order. The Exchange believes that this is appropriate because the initiating price of the cPRIME Agency Order is always

³⁷ The Exchange notes that, on April 13, 2017, it filed with the Commission a proposed rule change (SR-MIAX-2017-16) that would amend the duration of the RFR period contained in Rule 515A(a)(2)(i)(c) so that the duration can be a period of time within a range of no less than 100 milliseconds and no more than 1 second, as determined by the Exchange and announced via Regulatory Circular. If approved, such provision would allow a separate and potentially different time period for simple PRIME Auctions and cPRIME Auctions, provided that each time period is within the permissible range. The Exchange notes that MIAX’s proposed rule change to amend the duration of a PRIME Auction was published in the Federal Register on May 5, 2017 and is subject to a public comment period expiring on May 26, 2017. See Securities Exchange Act Release No. 80570 (May 1, 2017), 82 FR 21288 (May 5, 2017) (SR-MIAX-2017-16) Notice of Filing of a Proposed Rule Change to Amend MIAX Options Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism.

superior to the net price of simple orders resting on the Simple Order Book. The Agency Order is submitted at an improved price with an accompanying contra side order (principal or solicited interest) that is intended to trade with all components of the Agency Order at a net price at the time of submission. Simple orders resting on the Book do not necessarily intend to trade with the legs of the Agency Order, and thus the Exchange believes that it is equitable and not unfairly discriminatory to afford priority to complex interest over simple interest.

Additionally, under the proposal, when new interest is received in the simple market that causes the icMBBO on the opposite side of the market from the cPRIME Agency Order to be equal to or better than the initiating price, the cPRIME Auction ends before the expiration of the RFR period. In this situation, the receipt of such an order simply ends the cPRIME Auction and the execution and allocation process is accelerated, prior to the end of the RFR period.

Regardless of when the cPRIME Auction ends, contracts are first allocated by matching complex strategies; thereafter, contracts that are executed by way of Legging³⁸ complex strategy components against the Book are allocated among the complex strategies, and then finally among the simple orders on the Book that are matched with components of the Legged strategy. Thus, the allocation process is not changed, and simple orders resting on the book that may be executed by way of Legging are still subject to complex order priority interest and are allocated contracts only after all complex interest has been filled at that price. The Exchange believes that it is consistent, equitable and not unfairly discriminatory to afford priority to complex interest over simple interest even when Complex Auction ends early.³⁹

³⁸ See Exchange Rule 518(c)(2)(iii).

³⁹ The Exchange notes that other exchanges afford priority to complex interest over simple interest. See, e.g., NASDAQ PHLX, LLC (“PHLX”) Rule 1098(e)(vi)(A)(2); see also, PHLX Rule 1098(e)(viii)(C)(3).

The Exchange believes that its proposal to afford priority to complex orders in cPRIME over simple orders is appropriate because it rewards participants that assume greater market risk and actively improve the execution price by submitting complex RFR responses in a cPRIME Auction. A simple order on the Book is not responding to an RFR for price improvement, and thus the Exchange believes that it is equitable and not unfairly discriminatory to afford priority to complex orders in a cPRIME Auction over simple orders on the MIAX Options Book. The Exchange believes that affording priority to complex interest over simple interest on the Simple Order Book is consistent with Section 6(b) of the Act⁴⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act⁴¹ in particular, in that it promotes just and equitable principles of trade by affording priority to participants submitting cPRIME Orders and RFR responses that are intended to improve the then-existing price on the Exchange. The Exchange believes that affording this priority encourages participants to submit more price-improving complex orders, and that they should be rewarded with priority over simple orders that are resting on the Simple Order Book that were not submitted or intended to be price improving orders.

The following example illustrates the execution and allocation of a cPRIME Order (with simple interest allocated after all complex interest has been allocated):

Example 6 - A cPRIME Order is Executed (simple interest allocated after complex interest)

MIAX – LMM Mar 50 Call 6.00-6.50 (10x10)

MIAX – LMM Mar 55 Call 3.00-3.30 (10x10)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

⁴⁰ 15 U.S.C. 78f(b).

⁴¹ 15 U.S.C. 78f(b)(5).

The Strategy Book contains a Priority Customer offer to sell the Strategy at 3.30 credit, 20 times.

The Exchange receives a cPRIME Order with the cPRIME Agency Order representing the purchase of the Strategy at a net debit of 3.29, 500 times. Auto-match is not enabled.

Since the order price is at least \$0.01 better than (inside) the icMBBO and the best net price of any order for the Strategy on the Book, a cPRIME Auction can begin.

An RFR is broadcast to all subscribers showing price, the quantity of matched complex orders at that price, and the side of the cPRIME Agency Order, is sent and a 500 millisecond RFR period is started.

The following responses are received:

- @ 250 milliseconds MM2 response, cAOC Order @ 3.25 credit sell of 500 arrives
- @ 300 milliseconds the MIAX LMM improves its offer to sell 10 Mar 50 Calls to a price of 6.25

The offer to sell 10 Mar 50 Calls @ 6.25 changes the icMBBO credit offer to 3.25, crossing the Auction Start Price and causing the cPRIME Auction process to be terminated immediately.

The cPRIME Auction process will trade the Agency Order with the best priced liquidity opposite the Agency Order according to the allocation process contained in Rule 515A. The Agency Order will be filled as follows:

- The cPRIME Agency Order buys:
 - 500 from MM2 @ 3.25
 - Simple Interest receives no allocation

Proposed Interpretations and Policies .12(c)(iii) to Rule 515A states that the size and bid/ask differential provisions contained in Exchange Rule 515A(a)(1)(iii)⁴² shall not apply to cPRIME Orders. Rule 515A(a)(1) is intended to apply to simple PRIME Auctions, and not to apply to complex orders.⁴³ Under Rule 515A(a)(1)(iii), with respect to Agency Orders that have

⁴² With respect to Agency Orders that have a size of less than 50 contracts, if at the time of receipt of the Agency Order, the NBBO has a bid/ask differential of \$0.01, the System will reject the Agency Order. See Exchange Rule 515A(a)(1)(iii).

⁴³ In late 2016, the Exchange filed to adopt new Rule 515A(a)(1)(iii), upon the expiration of a Pilot, to establish on a permanent basis that, with respect to Agency Orders that have a size of less than 50 contracts, if at the time of receipt of the Agency Order, the NBBO has

a size of less than 50 contracts, if at the time of receipt of the Agency Order, the NBBO has a bid/ask differential of \$0.01, the System will reject the Agency Order. This rule would not apply to complex orders, including cPRIME Orders, because the NBBO is not a consideration in determining the execution price of a complex order.⁴⁴

Proposed Interpretations and Policies .12(c)(iv) to Rule 515A states that the conclusion of auction provisions contained in Rule 515A(a)(2)(ii) shall not apply to cPRIME Auctions. Rather, the Exchange is proposing to adopt a separate set of provisions relating to the conclusion of auctions that apply only to cPRIME Auctions, in proposed Interpretations and Policies .12(d), discussed below.

Proposed Rule 515A, Interpretations and Policies .12(c)(v), states that the order allocation provisions contained in Rule 515A(a)(2)(iii) shall apply to cPRIME Auctions, provided that (A) all references to contracts shall be deemed to be references to complex strategies;⁴⁵ and (B) the last priority allocation option described in Rule 515A(a)(2)(iii)(L) is not available for Initiating Members that submit cPRIME Agency Orders. With respect to cPRIME Auctions, the System allocates complex strategies, not contracts. Additionally, the last priority

a bid/ask differential of \$0.01, the System will reject the Agency Order. Agency Orders with a size of under 50 contracts will be accepted and processed by the System when the NBBO bid/ask differential is greater than \$0.01, and all Agency Orders with a size of 50 contracts or greater will be accepted and processed by the System, regardless of the NBBO bid/ask differential. The Pilot and Rule 515A(a)(1)(iii) do not apply to Complex Orders. See Securities Exchange Act Release No. 79837 (January 18, 2017), 82 FR 8472 (January 25, 2017)(SR-MIAX-2016-46).

⁴⁴ See proposed Exchange Rule 515A, Interpretations and Policies .12(a)(v).

⁴⁵ The term “complex strategy” means a particular combination of components and their ratios to one another. New complex strategies can be created as the result of the receipt of a complex order or by the Exchange for a complex strategy that is not currently in the System. The Exchange may limit the number of new complex strategies that may be in the System at a particular time and will communicate this limitation to Members via Regulatory Circular. See Exchange Rule 518(a)(6).

allocation option described in Rule 515A(a)(iii)(L)⁴⁶ is not available for Initiating Members that submit cPRIME Agency Orders. The Exchange believes that there is not significant Member demand for the use of the last priority allocation option in cPRIME Auctions, which obviates the need for its inclusion in the allocation model for cPRIME Auctions.

Finally, proposed Interpretations and Policies .12(c)(vi), which states that provisions contained in Interpretations and Policies .06 and .07 of Rule 515A shall not apply to cPRIME Auctions. Interpretations and Policies .06 and .07 relate to the managed interest process and route timers on the same and opposite sides of the Agency Order in PRIME Auctions. Proposed Interpretations and Policies .12(b) specifically states that cPRIME Agency Orders will be rejected if received during these conditions. Therefore, Interpretations and Policies .06 and .07 will not apply to cPRIME Auctions.

Conclusion of the cPRIME Auction

Proposed Interpretations and Policies .12(d) to Rule 515A describes the circumstances under which a cPRIME Auction is concluded. Proposed Interpretations and Policies .12(d)(i) to Rule 515A states that the cPRIME Auction shall conclude at the sooner to occur of the following events (described below) with the cPRIME Agency Order executing pursuant to proposed Rule 515A(2)(iii).

First, a cPRIME Auction will conclude at the end of the RFR period. This completes the cPRIME Auction.

⁴⁶ If the Initiating Member elected to have last priority in allocation when submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Member will be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other responses at the single price specified by the Initiating Member. See Exchange Rule 515A(a)(iii)(L).

A cPRIME Auction will conclude when an AOC eQuote⁴⁷ or cAOC Order⁴⁸ (the permitted RFR responses⁴⁹) on the opposite side of the market from the cPRIME Agency Order locks or crosses: (A) the icMBBO, or (B) the best net price of a complex order in the same strategy on the Strategy Book, whichever is more aggressive.

Pursuant to proposed Interpretations and Policies .12(d)(iii) to Rule 515A, a cPRIME Auction will conclude when unrelated interest on the same side of the market as the cPRIME Agency Order locks or crosses the best price on the opposite side of the market.

Proposed Interpretations and Policies .12(d)(iv) to Rule 515A states that a cPRIME Auction will conclude when unrelated interest on the opposite side of the market from the cPRIME Agency Order (A) locks or crosses (1) the icMBBO, or (2) the best net price of a complex order in the same strategy on the Strategy Book, whichever is more aggressive (e.g., a higher bid or lower offer); or (B) improves the price of any RFR response.

Under proposed Interpretations and Policies .12(d)(v) to Rule 515A, a cPRIME Auction will conclude when a simple order or quote in a component of the strategy on the same side of the market as the cPRIME Agency Order locks or crosses the NBBO for such component.

Proposed Interpretations and Policies .12(d)(vi) states that a cPRIME Auction will conclude when a simple order or quote in a component of the strategy on the opposite side of the market

⁴⁷ A “Complex Auction or Cancel eQuote” or “cAOC eQuote,” is an eQuote submitted by a Market Maker that is used to provide liquidity during a specific Complex Auction with a time in force that corresponds with the duration of the Complex Auction. See Exchange Rule 518, Interpretations and Policies .02(c)(1).

⁴⁸ A Complex Auction-or-Cancel or “cAOC” order is a complex limit order used to provide liquidity during a specific Complex Auction with a time in force that corresponds with that event. See Exchange Rule 518(b)(3).

⁴⁹ Members may submit responses to the RFR (specifying prices and sizes). RFR responses shall be an Auction or Cancel (“AOC”) order or an AOC eQuote. See Exchange Rule 515A(a)(2)(i)(D). This applies by reference to cPRIME Auctions (and cAOC eQuotes and cAOC orders). See proposed Interpretations and Policies .12(a).

from the cPRIME Agency Order (A) locks or crosses the NBBO for such component, or (B) causes the icMBBO to be equal to or better than the initiating price. These provisions ensure that a cPRIME Agency Order will always receive the best price on the Exchange, while at the same time preserving the sanctity of the simple market.

Allocation of Contracts at the Conclusion of the cPRIME Auction

Except as provided in proposed Interpretations and Policies .12(c) to Rule 515A, at the conclusion of the Auction, the cPRIME Order will be allocated in the same manner as simple PRIME Orders in the simple PRIME Auction at the best price(s) as set forth in Rule 515A. Proposed Interpretations and Policies .12(c)(v) states that the order allocation provisions contained in Rule 515A(a)(2)(iii) shall apply to cPRIME Auctions, provided that, as described above: all references to contracts shall be deemed to be references to complex strategies as defined in Rule 518(a)(6); and the last priority allocation option described in Rule 515A(a)(2)(iii)(L) is not available for Initiating Members that submit cPRIME Agency Orders.

Exchange Rule 515A(a)(2)(iii) currently provides that at the conclusion of the PRIME Auction, the Agency Order will be allocated at the best price(s), subject to the following: (A) Such best prices include non-Auction quotes and orders; (B) Priority Customer⁵⁰ orders resting on the Book before, or that are received during, the Response Time Interval and Priority Customer RFR responses shall, collectively have first priority to trade against the Agency Order. The allocation of an Agency Order against the Priority Customer orders resting in the Book, Priority Customer orders received during the Response Time Interval, and Priority Customer RFR responses shall be in the sequence in which they are received by the System; (C) Market

⁵⁰ See supra note 6.

Maker priority quotes and RFR responses from Market Makers⁵¹ with priority quotes will collectively have second priority. The allocation of Agency Orders against these contra sided quotes and RFR responses shall be on a size pro rata basis as defined in Rule 514(c)(2); (D) Professional Interest orders resting in the Book, Professional Interest orders placed in the Book during the Response Time Interval, Professional Interest quotes, and Professional Interest RFR responses will collectively have third priority. The allocation of Agency Orders against these contra sided orders and RFR Responses shall be on a size pro rata basis as defined in Rule 514(c)(2); (E) No participation entitlement shall apply to orders executed pursuant to this Rule; (F) If an unrelated market or marketable limit order on the opposite side of the market as the Agency Order was received during the Auction and ended the Auction, such unrelated order shall trade against the Agency Order at the midpoint of the best RFR response (or in the absence of a RFR response, the initiating price) and the NBBO on the other side of the market from the RFR responses (rounded towards the disseminated quote when necessary). (G) If an unrelated non-marketable limit order on the opposite side of the market as the Agency Order was received

⁵¹ The term “Market Makers” refers to “Lead Market Makers,” “Primary Lead Market Makers,” and “Registered Market Makers,” collectively. The term “Lead Market Maker” means a Member registered with the Exchange for the purpose of making markets in securities traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI of the Exchange’s Rules with respect to Lead Market Makers. When a Lead Market Maker is appointed to act in the capacity of a Primary Lead Market Maker, the additional rights and responsibilities of a Primary Lead Market Maker specified in Chapter VI of the Exchange’s Rules will apply. The term “Primary Lead Market Maker” means a Lead Market Maker appointed by the Exchange to act as the Primary Lead Market Maker for the purpose of making markets in securities traded on the Exchange. The Primary Lead Market Maker is vested with the rights and responsibilities specified in Chapter VI of the Exchange’s Rules with respect to Primary Lead Market Makers. The term “Registered Market Maker” means a Member registered with the Exchange for the purpose of making markets in securities traded on the Exchange, who is not a Lead Market Maker and is vested with the rights and responsibilities specified in Chapter VI of the Exchange’s Rules with respect to Registered Market Makers. See Exchange Rule 100.

during the Auction and ended the Auction, such unrelated order shall trade against the Agency Order at the midpoint of the best RFR response and the unrelated order's limit price (rounded towards the unrelated order's limit price when necessary).

Rules 515A(a)(2)(iii)(H) and (I) describe the allocation of contracts executed when the Initiating Member selects the single-price submission or the auto-match option, respectively, when submitting their Agency Order and there are either two or more participants at the execution price or when there is only one other participant on parity with the Initiating Member at either the single price execution price or at the final auto-match price point.

Exchange Rules 515A(a)(2)(iii)(H) and (I) currently state that, upon conclusion of an Auction, an Initiating Member will retain certain priority and trade allocation privileges for a single-price submission and for an auto-match submission. Under current Rule 515A(a)(2)(iii)(H), if the best price equals the Initiating Member's single-price submission, the Initiating Member's single-price submission shall be allocated the greater of one contract or a certain percentage of the order, which percentage will be determined by the Exchange and may not be larger than 40% of the Agency Order. However, if only one Member's response matches the Initiating Member's single price submission, then the Initiating Member may be allocated up to 50% of the Agency Order.

Similarly, current Exchange Rule 515A(a)(2)(iii)(I) provides that if the Initiating Member selected the auto-match option of the Auction, the Initiating Member shall be allocated its full size of RFR responses at each price point until the final auto-match price point is reached. At the final auto-match price point, the Initiating Member shall be allocated the greater of one

contract⁵² or a certain percentage of the remainder of the Agency Order, which percentage will be determined by the Exchange and may not be larger than 40%. However, if only one Member's response matches the Initiating Member's submission at the final auto-match price point, then the Initiating Member may be allocated up to 50% of the remainder of the Agency Order at the final auto-match price point.

At the conclusion of the Auction, the Agency Order is allocated at the best price(s) pursuant to the matching algorithm in effect for the class.⁵³ The System first must determine the number of participants that are entitled to receive contracts to be allocated, and whether any participant(s) such as Priority Customers are entitled to receive contracts first. Thereafter, contracts are allocated among participants at the execution price.

Finally, the Exchange is proposing to amend Rule 518(c) to clarify that the processing and execution of these three new complex order types is governed by Exchange Rule 515 (for cC2C Orders and cQCC Orders) and Exchange Rule 515A (for cPRIME Orders), as specified in the definition of each new complex order type under 518(b).

As a technical numbering matter, the Exchange is proposing to mark Interpretations and Policies .10 and .11 to Rule 515A "Reserved" because these two numbers are being used in a separate proposed rule change which has not been published as of the filing date of the instant proposed rule change.

The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 60 days following the operative date of the

⁵² Under the proposal, with respect to order allocation, all references to contracts shall be deemed to be references to complex strategies. See Proposed Rule 515A, Interpretations and Policies .12(c)(v)(A).

⁵³ See Exchange Rule 515A(a)(2)(iii).

proposed rule. The implementation date will be no later than 60 days following the issuance of the Regulatory Circular.

2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act⁵⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act⁵⁵ 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 proposal to amend Exchange Rules 515, 515A, and 518 to establish three new complex order types, and to adopt new provisions that relate to the processing of those new complex order types is consistent with Section 6(b)(5) of the Act because this proposal promotes just and equitable principles of trade and protects investors and the public interest by providing increased opportunities for the execution of complex orders. The Exchange believes that the new cC2C, cQCC, and cPRIME order types will benefit MIAX Options participants and the marketplace as a whole by providing more ways in which complex orders are able to interact with one another, and in some instances through Legging with the simple market. The Exchange believes the proposed rule change removes impediments to and perfects the mechanism of a free and open market and a national market system and will result in more efficient trading and enhance the likelihood that complex orders execute at the best prices by providing additional order types resulting in potentially greater liquidity available for trading on the Exchange.

⁵⁴ 15 U.S.C. 78f(b).

⁵⁵ 15 U.S.C. 78f(b)(5).

The proposed rule change will make existing functionality available to additional order types. Making PRIME available for complex orders removes impediments to and perfects the mechanisms of a free and open market and a national market system because Members will be given additional ways in which they can seek liquidity for complex orders with the potential for price improvement on the Exchange.

The proposed rule change will protect investors and the public interest by assuring that the existing priority and allocation rules applicable to the processing and execution of Customer Cross Orders, QCC Orders, and PRIME Orders remains consistent with the processing and execution of these new order types, unless as otherwise specifically set forth in the rules.

The Exchange believes that the requirement that the execution of cC2C be at least \$0.01 better than (inside) either the icMBBO price or the best net price of a complex order on the Strategy Book, whichever is more aggressive, protects investors and the public interest by ensuring that each side of the cC2C Order receives a better price than it would receive if submitted as a single complex order. MIAX Options participants will thus receive the best prices available for both sides of a cC2COrder.

The Exchange further believes that the proposed methodology for the execution of cQCC Orders without consideration of the NBBO of the stock component is consistent with the Plan. As stated above, the Plan provides an exception to the requirement that Participants establish, maintain and enforce written policies and procedures that are reasonably designed to prevent Trade-Throughs when the transaction that constituted the Trade-Through was effected as a portion of a “complex trade,” as defined in the rules of a Participant.⁵⁶ Therefore, the System considers the NBBO for each option leg of the cQCC Order, and not the NBBO for the stock

⁵⁶ See supra note 25.

component, in calculating the pricing requirement for cQCC Orders.

The System does not consider the NBBO price for the stock component because the Exchange does not execute the stock component; the Exchange executes the option components at a net price and ensures that the execution price of each option component of the strategy is (i) not at the same price as a Priority Customer Order on the Exchange's Book; and (ii) at or between the NBBO. The Exchange does require that the Member entering the cQCC Order provide certain information to the Exchange regarding the execution of the stock component, such as the underlying price, quantity, price delta, execution time and executing venue.⁵⁷

This complex pricing requirement aligns with the simple order pricing requirement for a Qualified Contingent Trade ("QCT") to consider the NBBO price. In each case, the parties to a contingent trade are focused on the spread or ratio between the transaction prices for each of the component instruments (i.e., the net price of the entire contingent trade), rather than on the absolute price of any single component. Pursuant to the requirements of the NMS QCT Exemption, the spread or ratio between the relevant instruments must be determined at the time the order is placed, and this spread or ratio stands regardless of the market prices of the individual orders at their time of execution. As the Commission noted in the Original QCT Exemption, "the difficulty of maintaining a hedge, and the risk of falling out of hedge, could dissuade participants from engaging in contingent trades, or at least raise the cost of such trades." Thus, the Commission found that, if each stock leg of a qualified contingent trade were required to meet the trade-through provisions of Rule 611 of Regulation NMS, such trades could become too risky and costly to be employed successfully and noted that the elimination or reduction of

⁵⁷ See supra note 27.

this trading strategy potentially could remove liquidity from the market.⁵⁸ This is also true for QCC Orders in options, and thus the Exchange believes that its proposal is consistent with the Original QCT Exemption.⁵⁹

The Exchange believes that the proposal to reject a cC2C or cQCC Order at the time of receipt of the Order when any component of the strategy is subject to a PRIME Auction, Complex Auction, or a SMAT Event removes impediments to and perfects the mechanisms of a free and open market and a national market system by avoiding concurrent order processing in the same security on the Exchange.

The Exchange believes that the rejection of cC2C Orders and cQCC Orders when the strategy is subject to a cPRIME or Complex Auction removes impediments to and perfects the mechanisms of a free and open market by ensuring orderly markets involving multiple complex orders with common components.

Similarly, the proposed rejection of cPRIME Agency Orders when the strategy is subject to a cPRIME Auction or a Complex Auction, or any component of the strategy is subject to a SMAT Event or the managed interest process, protects investors and the public interest by ensuring that the strategy and its components are handled by the System in an orderly fashion without multiple simultaneous cPRIME Auctions, SMAT Events or the managed interest processes.

The Exchange also believes that the pricing requirements under which the initiating price for a cPRIME Agency Order must be better than (inside) the icMBBO for the strategy and any other complex orders on the Strategy Book perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest, by

⁵⁸ See supra note 28.

⁵⁹ Id.

ensuring that the initiating price results in executions in cPRIME Auctions at an improved price or prices.

The proposal to establish rules setting forth the various circumstances under which the system will conclude cPRIME Auction is designed to facilitate transactions, to remove impediments to and perfect the mechanism of a free and open market by freeing up interest in the cPRIME Auction when unrelated orders or other conditions cause the initiating price of the cPRIME Order to no longer be at the best price available to market participants.

The Exchange believes that its proposal to afford priority to complex orders in cPRIME over simple orders is appropriate because it rewards participants that assume greater market risk and actively improve the execution price by submitting complex RFR responses in a cPRIME Auction. A simple order on the Book is not responding to an RFR for price improvement, and thus the Exchange believes that it is equitable and not unfairly discriminatory to afford priority to complex orders in a cPRIME Auction over simple orders on the Simple Order Book. The Exchange believes that affording priority to complex interest over simple interest on the Simple Order Book promotes just and equitable principles of trade by affording priority to participants submitting cPRIME Orders and RFR responses that are intended to improve the execution price on the Exchange. The Exchange believes that affording this priority to encourages participants to submit more price-improving complex orders, and that they should be rewarded with priority over simple orders that are resting on the Simple Order Book that were not submitted or intended to be price improving orders.

Additionally, when the cPRIME Auction ends prior to the expiration of the RFR period due to the receipt of new interest that causes the icMBBO to be equal to or better than the initiating price, the Exchange believes that it is equitable and not unfairly discriminatory to

continue to afford priority at each price point to complex interest over simple interest resting on the Simple Order Book that is executed against the individual legs of a complex order. In this situation, the new interest is arriving after complex orders at the same price; the receipt of such an order simply ends the cPRIME Auction and the execution and allocation process is accelerated, prior to the end of the RFR period. The allocation process is not changed, and simple orders resting on the book that may be executed by way of Legging are still subject to complex order priority interest at each price point and are allocated contracts only after all complex interest at that price has been filled. The Exchange believes that it is consistent and equitable and not unfairly discriminatory to afford priority at each price point to complex interest over simple interest even when the cPRIME Auction ends early.

The Exchange also believes that the proposed rule change removes impediments to and perfects the mechanisms of a free and open market and a national market system by attracting more order flow and by increasing the frequency with which Initiating Members initiate Auctions in complex orders through PRIME, using complex orders. Moreover, the proposed rule change is consistent with the rules of other exchanges.⁶⁰

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 that is not necessary or appropriate in furtherance of the purposes of the Act.

On the contrary, the proposed rule change is intended to promote competition by adding new order types that enable MIAX Options participants to execute complex orders on the Exchange. The Exchange believes that this enhances inter-market competition by enabling

⁶⁰ See International Securities Exchange LLC ("ISE") Rule 723, Supplementary Materials .09; Chicago Board Options Exchange, Inc. ("CBOE") Rule 6.74, Interpretations and Policies .07; NASDAQ PHLX LLC ("Phlx") Rule 1080(n).

MIAX Options to compete for this type of order flow with other exchanges that have similar rules and functionalities in place.

The Exchange further believes that adding complex orders to the PRIME mechanism enhances intra-market competition by adding another manner in which competing MIAX Options participants may submit competitive bids and offers into the System. This should result in enhanced liquidity and more competition on the Exchange.

For all the reasons stated, 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 in fact 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-2017-19 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-MIAX-2017-19. 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-2017-19 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.⁶¹

Eduardo A. Aleman
Assistant Secretary

⁶¹ 17 CFR 200.30-3(a)(12).