

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81739; File No. SR-MIAX-2017-39)

September 27, 2017

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Order Granting Approval of a Proposed Rule Change to Adopt Rules Relating to Trading in Index Options

I. Introduction

On August 9, 2017, Miami International Securities Exchange, LLC (“MIAX Options” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to adopt rules relating to trading in index options. The proposed rule change was published for comment in the Federal Register on August 16, 2017.³ The Commission received no comments regarding the proposal. This order approves the proposed rule change.

II. Description of the Proposal

A. Overview

The Exchange proposes to adopt new Chapter 18 and amend certain rules in the MIAX Options rulebook. The purpose of the Exchange’s proposal is to establish: (1) trading rules enabling MIAX Options Members to trade index options on the Exchange and (2) generic listing standards and maintenance standards to permit the Exchange to list “broad-based” and “narrow-based” index options on the Exchange pursuant to Rule 19b-4(e) under the Act.⁴ The proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 81371 (August 10, 2017), 82 FR 38942 (“Notice”).

⁴ 17 CFR 240.19b-4(e). The term “broad-based index” is defined as an index designed to be representative of a stock market as a whole or of a range of companies in unrelated

generic listing and maintenance standards for broad-based indices listed and traded on the Exchange require, among other things, that options on the index be a.m.-settled; that the index be capitalization-weighted, modified capitalization-weighted, price-weighted, or equal dollar-weighted; and that the index be comprised of at least fifty securities, all of which must be “NMS stocks,” as defined in Rule 600 of Regulation NMS.⁵ The proposed generic listing and maintenance standards for narrow-based indices require, among other characteristics, that the proposed indices must consist of ten or more component securities.⁶

In accordance with the proposal, the Exchange will need to file additional proposed rule changes with the Commission when the Exchange identifies specific products, because the rules related to trading options in indices are product specific in many areas.⁷ For purposes of this proposed rule change, certain rules will indicate that they apply to “Specified” indices. Proposed Rules 1800, 1801(n), 1804(a), 1807(a), 1809, and 1811 all contain provisions that are dependent upon the Exchange identifying specific index products in the rule. Accordingly, Proposed Rule 1800 states that where the rules in Chapter 18 indicate that particular indices or requirements with respect to particular indices will be “Specified,” the Exchange will file a proposed rule change with the Commission pursuant to Section 19 of the Act⁸ and Rule 19b-4⁹ thereunder to specify such indices or requirements. As more fully set forth in the Notice and further described

industries. See Proposed Rule 1801(k). The term “narrow-based index” is defined as an index designed to be representative of a particular industry or a group of related industries or an index whose constituents are all headquartered within a single country. See Proposed Rule 1801(j).

⁵ See Proposed Rule 1802(d)(4).

⁶ See Proposed Rule 1802(b)(2).

⁷ See Notice, supra note 3, at 38942-43.

⁸ 15 U.S.C. 78s.

⁹ 17 CFR 240.19b-4.

below, the proposed new Exchange Rules and changes to existing Exchange Rules, are based on the existing rules of other options exchanges.¹⁰

B. Index Options Trading Rules

MIAX Options proposes to add new Chapter 18 to the Exchange rules and make conforming changes to certain existing Exchange rules.¹¹ The proposed rules, among other things, set forth general rules that will govern the trading sessions for index options, including the days and hours of business, the rules governing trading rotations at the opening, and the rules related to trading halts or suspensions.¹² The proposed rules further provide for the procedures Members must follow with respect to the exercise of American-style, cash settled index options.¹³

The proposed rules also establish position limit and exercise limits for index options.¹⁴ In addition, the proposed rules provide for exemption standards from position limits and procedures for requesting exemptions from those proposed rules.¹⁵ The proposed position limits and exercise limits, as well as the proposed exemptions, are different for broad-based index options and narrow-based index options.¹⁶

¹⁰ See, e.g., Nasdaq ISE, LLC (“ISE”) Rules, Chapter 20, Index Rules; NASDAQ PHLX LLC (“Phlx”) Rules 1000A-1108A; and Chicago Board Options Exchange, Inc. (“CBOE”) Rules, Chapter XXIV, Index Options. See also Notice, *supra* note 3, at 38942.

¹¹ The Exchange also proposes to amend the following rules to account for the trading of index options: MIAX Rule 503 (index options in the opening); MIAX Rule 504 (handling of trade nullification in index options due to trading halts); MIAX Rule 527 (limitation of liability regarding the calculation or dissemination of index information); and MIAX Rule 603 (obligations of market makers).

¹² See Proposed Rule 1808.

¹³ See Proposed Rules 313(a)(3) and 700(h).

¹⁴ See Proposed Rules 1804, 1805, and 1807.

¹⁵ See Proposed Rule 308(b) and 1806.

¹⁶ See Proposed Rules 1804 to 1807.

C. Generic Listing Standards and Maintenance Standards for Broad-Based Index Options

The Exchange also proposes to establish generic listing and maintenance standards in proposed Rule 1802 to enable the Exchange to list and trade new broad-based index options pursuant to Rule 19b-4(e) under the Act.¹⁷ Proposed Rule 1802(d) sets forth the initial listing standards for broad-based index options. The listing standards require, among other things, that the underlying index be broad-based, as defined in Rule 1801(k); that options on the index be a.m. settled; that the index be capitalization-weighted, modified capitalization-weighted, price-weighted, or equal dollar-weighted; and that the index consist of 50 or more component securities, each of which must be an “NMS stock” as defined in Rule 600 of Regulation NMS under the Exchange Act.¹⁸ In addition, Proposed Rule 1802(d) requires that the index’s component securities meet certain minimum market capitalization and average daily trading volume requirements; that no single component account for more than 10% of the weight of the index and that the five highest weighted component securities represent no more than 33% of the weight of the index; that the index value be widely disseminated at least once every 15 seconds; and that the Exchange have written surveillance procedures in place with respect to the index options. Proposed Rule 1802(e) establishes maintenance standards for broad-based index options listed pursuant to Proposed Rule 1802(d). The Exchange states that the proposed listing

¹⁷ 17 CFR 240.19b-4(e). Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) shall not be deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4, if the Commission has approved, pursuant to Section 19(b) of the Act, the SRO’s trading rules, procedures, and listing standards for the product class that includes the new derivative securities product and the SRO has a surveillance program for the product class. When relying on Rule 19b-4(e), the SRO must submit Form 19b-4(e) to the Commission within five business days after the exchange begins trading the new derivative securities products. See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998) (File No. S7-13-98).

¹⁸ See 17 CFR 242.600.

and maintenance standards are modeled after standards approved by the Commission for other options exchanges.¹⁹

D. Generic Listing Standards and Maintenance Standards for Narrow-Based Index Options

The Exchange further proposes to establish generic listing and maintenance standards in Proposed Rule 1802 to enable the Exchange to list and trade new narrow-based index options pursuant to Rule 19b-4(e) under the Act.²⁰ Proposed Rule 1802(b) sets forth the initial listing standards for narrow-based index options. The listing standards require, among other things, that options on the index be a.m. settled; that the index be capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted; and that the index consist of 10 or more component securities, each of which must be an “NMS stock” as defined in Rule 600 of Regulation NMS under the Exchange Act.²¹ In addition, Proposed Rule 1802(b) requires that the index’s component securities meet certain minimum market capitalization and average daily trading volume requirements; that no single component account for more than 30% of the weight of the index and that the five highest weighted component securities represent no more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index; that the index value be widely disseminated at least once every 15 seconds; and that non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index. Proposed Rule 1802(c) establishes maintenance standards for narrow-based index options listed

¹⁹ See, e.g., NYSE American LLC (“NYSE American”) Rule 901C.02(a) and (b); CBOE Rule 24.2(f) and (g); NYSE Arca, Inc. (“NYSE Arca”) Rule 5.12-O; Phlx Rule 1009A(d) and (e); and ISE Rule 2002(d) and (e).

²⁰ 17 CFR 240.19b-4(e). See also supra note 17.

²¹ See 17 CFR 242.600.

pursuant to Proposed Rule 1802(b). The Exchange states that the proposed listing and maintenance standards are modeled after standards approved by the Commission for other options exchanges.²²

E. Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for index options. The Exchange is a member of the Intermarket Surveillance Group (“ISG”), which is comprised of an international group of exchanges, market centers, and market regulators.²³ The Exchange further represents that it has analyzed its capacity and believes the Exchange and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle the additional traffic associated with the listing and trading of index options.²⁴

F. Implementation

The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 90 days following the approval of the proposed rule change. The implementation date will be no later than 90 days following the issuance of the Regulatory Circular.

²² See, e.g., NYSE American Rule 901C.03; CBOE Rule 24.2(b) and (c); NYSE Arca Rule 5.13-O; Phlx Rule 1009A(b) and (c); and ISE Rule 2002(b) and (c).

²³ See Notice, supra note 3, at 38957. The ISG was formed on July 14, 1983, to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. The purpose of the ISG is to provide a framework for the sharing of information and the coordination of regulatory efforts among exchanges trading securities and related products to address potential intermarket manipulations and trading abuses. Id. The ISG plays a crucial role in information sharing among markets that trade securities, options on securities, security futures products, and futures and options on broad-based security indexes. Id.

²⁴ See id.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with Section 6(b) of the Act.²⁵ In particular, the Commission believes that the Exchange's proposal to establish trading rules and procedures applicable to index options and establish generic listing and maintenance standards for broad-based and narrow-based index options is consistent with Section 6(b)(5) of the Act,²⁶ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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 Commission's approval of the Exchange's proposed listing standards for broad-based and narrow-based index options will allow those index option products that satisfy the generic listing standards to begin trading pursuant to Rule 19b-4(e) under the Act, without the need for notice and comment and Commission approval. The Exchange's ability to rely on Rule 19b-4(e) under the Act for these products potentially reduces the time frame for listing and trading these securities, and thus enhances investors' opportunities.²⁷

²⁵ 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁶ 15 U.S.C. 78f(b)(5).

²⁷ The Exchange, however, must maintain regulatory oversight over any products listed under the generic listing standards through adequate surveillance. The Exchange represents that it has an adequate surveillance program in place for index options. See Notice, supra note 3, at 38957.

A. Index Options Trading Rules

The Commission believes that trading options on an index of securities (including a narrow-based index) permits investors to participate in the price movements of the index's underlying securities and allows investors holding positions in some or all of such securities to hedge the risks associated with their portfolios. The Commission further believes that trading options on an index provides investors with an important trading and hedging mechanism that is designed to reflect accurately the overall movement of the component stocks. In particular, the Commission believes that the proposed position and exercise limits should serve to minimize potential manipulation concerns.

B. Generic Listing and Maintenance Standards for Broad-Based and Narrow-Based Index Options

In considering the proposed generic listing and maintenance standards for broad-based and narrow-based index options, the Commission notes that they are consistent with the listing and maintenance standards for broad-based and narrow-based index options that other exchanges²⁸ have developed and that the Commission has previously approved.²⁹ The Commission finds that the generic standards covering minimum capitalization, monthly trading volume, and relative weightings of component stocks are designed to ensure that the trading markets for component stocks are adequately capitalized and sufficiently liquid, and that no one

²⁸ See, e.g., NYSE American Rules 901C.02 and 901C.03; CBOE Rule 24.2; NYSE Arca Rules 5.12-O and 5.13-O; Phlx Rule 1009A; and ISE Rule 2002.

²⁹ See, e.g., Securities Exchange Act Release Nos. 48405 (August 25, 2003), 68 FR 52257 (September 2, 2003) (SR-ISE-2003-05) (order approving trading rules for index options and generic listing and maintenance standards for narrow-based index options); 52578 (October 7, 2005), 70 FR 60590 (October 18, 2005) (SR-ISE-2005-27) (order approving generic listing and maintenance standards for broad-based index options); and 75650 (August 7, 2015), 80 FR 48600 (August 13, 2015) (SR-EDGX-2015-18) (order approving options trading rules, including generic listing and maintenance standards for broad-based and narrow-based index options).

stock or stock group dominates the index. Thus, the Commission believes that the satisfaction of these requirements significantly minimizes the potential for manipulation of the index.

The Commission also finds the requirements that all securities comprising the index be an “NMS stock” as defined in Rule 600 of Regulation NMS under the Act,³⁰ and that the index value be disseminated at least once every 15 seconds during trading hours of the index, will contribute significantly to the transparency of the market for such index options.

The Commission further notes that the Exchange’s rules that are applicable to broad-based and narrow-based index options, including provisions addressing sales practices, floor trading procedures, position and exercise limits, margin requirements, and trading halts and suspensions, will continue to apply to any broad-based or narrow-based index options listed pursuant to Rule 19b-4(e) under the Act.

C. Surveillance

As noted above,³¹ the Commission believes that the Exchange must maintain regulatory oversight over any products listed under the generic listing standards through adequate surveillance, and the Exchange represents that it has an adequate surveillance program in place for index options. The Commission also believes that a surveillance sharing agreement between an Exchange proposing to list a stock index derivative product and the exchange(s) trading the stocks underlying the derivative product is an important measure for surveillance of the derivative and underlying securities markets. The Commission notes that such agreements ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the stock index product less readily susceptible to manipulation. When a new derivative securities product based upon domestic securities is listed

³⁰ See 17 CFR 242.600.

³¹ See supra note 27.

and traded on an exchange pursuant to Rule 19b-4(e) under the Act, the exchange should determine that the markets upon which all of the U.S. component securities trade are members of the ISG, which provides information relevant to the surveillance of the trading of securities on other market centers.³² In this regard, all of the registered national securities exchanges, including the Exchange, as well as the Financial Industry Regulatory Authority (FINRA), are members of the ISG.

For new derivative securities products based on securities from a foreign market, the SRO should have a comprehensive Intermarket Surveillance Agreement with the market for the securities underlying the new securities product.³³ Accordingly, the Commission finds that the requirement that no more than 20% of the weight of the index may be comprised of non-U.S. component securities (stocks or ADRs) that are not subject to a comprehensive surveillance sharing agreement between the particular U.S. exchange and the primary market of the underlying security will continue to ensure that the Exchange has the ability to adequately surveil trading in the broad-based and narrow-based index options and the ADR components of the index.³⁴

³² See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998) (File No. S7-13-98).

³³ Id.

³⁴ See Proposed Rule 1802(b)(9) and (d)(10).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,³⁵ that the proposed rule change (SR-MIAX-2017-39), be and hereby is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁶

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Assistant Secretary

³⁵ 15 U.S.C. 78s(b)(2).

³⁶ 17 CFR 200.30-3(a)(12).