

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87199; File No. SR-MIAX-2019-37)

October 2, 2019

Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Order Approving a Proposed Rule Change to Amend Exchange Rule 518, Complex Orders, to Adopt New Interpretation and Policy .07, SPIKES Combo Orders

I. Introduction

On August 9, 2019, Miami International Securities Exchange, LLC (“MIAX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to provide for the trading of SPIKES Combo Orders.³ The proposed rule change was published for comment in the Federal Register on August 20, 2019.⁴ The Commission received no comment letters regarding the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to amend MIAX Rule 518, Complex Orders, to adopt new Interpretation and Policy .07 to provide for the trading of SPIKES Combo Orders. A SPIKES Combo Order is an order to purchase or sell one or more SPIKES option series and the offsetting

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ SPIKES Combo Orders are comprised of multiple series of SPIKES™ Index (“SPIKES”) options. The SPIKES Index measures expected 30-day volatility of the SPDR S&P 500 ETF Trust (“SPY”). See Securities Exchange Act Release No. 84417 (October 12, 2018), 83 FR 52865 (October 18, 2018) (File No. SR-MIAX-2018-14) (approving the listing and trading of SPIKES Index options).

⁴ See Securities Exchange Act Release No. 86682 (August 14, 2019), 84 FR 43212 (“Notice”).

number of SPIKES Combinations defined by the delta.⁵ A SPIKES Combination is a purchase (sale) of a SPIKES call option and the sale (purchase) of a SPIKES put option having the same expiration date and strike price.⁶ The delta is the positive (negative) number of SPIKES Combinations that must be sold (purchased) to establish a market neutral hedge with one or more SPIKES option series.⁷

Under the proposed rule, a SPIKES Combo Order may not have a ratio greater than eight options to one Spikes Combination.⁸ In addition, a SPIKES Combo Orders will be subject to all of the provisions in MIAX Rule 518 that are applicable to complex orders, other than the requirement that the component legs of a complex order have a ratio that is equal to or greater than one-to-three and less than or equal to three-to-one.⁹ The proposal is designed to facilitate delta neutral hedging

⁵ See proposed MIAX Rule 518, Interpretation and Policy .07(a)(3).

⁶ See proposed MIAX Rule 518, Interpretation and Policy .07(a)(1).

⁷ See proposed MIAX Rule 518, Interpretation and Policy .07(a)(2). The delta is a measure of the change in an option's price resulting from a change in the underlying security. See Notice, 84 FR at 43212.

⁸ See proposed MIAX Rule 518, Interpretation and Policy .07(a)(4). MIAX notes that its rules governing stock-option orders currently permit the trading of stock-option orders with an 8:1 ratio, where the ratio represents the number of option contracts to the underlying security. See Notice, 84 FR at 43214. See also MIAX Rule 518(a)(5) (defining stock-option order as an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share) or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of options contract(s) on the opposite side of the market representing either (i) the same number of units of the underlying security or convertible security, or (ii) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying security or convertible security (i.e., contracts) in the option leg to the total number of units of the underlying security (i.e., 100 shares) or convertible security in the stock leg).

⁹ See proposed MIAX Rule 518, Interpretation and Policy .07(a)(4)(i). MIAX's rules defines a complex order as any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security (the "legs" or "components" of the complex order), for the same account, in a ratio that is equal to or greater than one-to-three

for SPIKES options.¹⁰ MIAX states that delta hedging aims to reduce the risk associated with price movements in the underlying asset.¹¹ MIAX notes that an options position may be delta hedged with other options¹² or with shares of the underlying stock.¹³ Although SPIKES options, which are based on an index, do not have an underlying stock that may serve as a hedge, a SPIKES Combination Order creates a synthetic underlying position that is the functional equivalent of the stock leg of a stock-option order.¹⁴ MIAX believes that permitting SPIKES Combo Orders with an 8:1 ratio will align the treatment of SPIKES Combo Orders with the treatment of stock-option orders and permit additional hedging opportunities.¹⁵

MIAX states that it has the system capacity and capability to handle the potential increase in transaction rates that could result from the trading of SPIKES Combo Orders.¹⁶ In addition, MIAX states that it will have surveillance to monitor compliance with the Exchange's rules, specifically as they pertain to delta neutral transactions.¹⁷

III. Discussion and Commission Findings

(.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. See MIAX Rule 518(a)(5).

¹⁰ See Notice, 84 FR at 43214.

¹¹ See id. at 43213.

¹² For example, a call option with a delta of 0.50 could be hedged by a put option with a delta of -0.50, resulting in a position with a delta of zero. See id.

¹³ See id.

¹⁴ See id. at 43214.

¹⁵ MIAX notes that market participants that transact in SPIKES options currently may submit complex orders that are delta neutral as long as the ratio for the component legs of the transaction conforms to the current 1:3/3:1 ratio applicable to complex orders. See id.

¹⁶ See id. at 43215.

¹⁷ See id.

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act,¹⁸ and the rules and regulations thereunder applicable to a national securities exchange.¹⁹ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁰ 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 mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and that the rules are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission believes that the proposal will protect investors and the public interest by helping market participants to hedge positions in SPIKES options and execute delta neutral trading strategies involving SPIKES options. All of the provisions in MIAX Rule 518 that are applicable to complex orders will apply to SPIKES Combo Orders, other than the requirement that the component legs of a complex order have a ratio that is equal to or greater than one-to-three and less than or equal to three-to-one.²¹ The Commission notes that permitting SPIKES Combo Orders to have a ratio of no more than eight options to one SPIKES Combination is consistent with the 8:1 ratio permitted for stock-option orders.²² As noted above, a SPIKES Combination Order creates a synthetic underlying position that is the functional equivalent of the stock leg in stock-option

¹⁸ 15 U.S.C. 78f.

¹⁹ 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).

²⁰ 15 U.S.C. 78f(b)(5).

²¹ See proposed MIAX Rule 518(a)(4)(i).

²² See note 8, *supra*.

orders,²³ and the SPIKES Combination hedges one or more SPIKES option series.²⁴ Finally, as discussed above, MIAX has represented that it has the system capacity to accommodate the trading of SPIKES Combo Orders as well as surveillance procedures to monitor compliance with its rules relating to delta neutral transactions.²⁵

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁶ that the proposed rule change (SR-MIAX-2019-37) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

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Assistant Secretary

²³ See Notice, 84 FR at 43214.

²⁴ See proposed MIAX Rule 518, Interpretation and Policy .07(a)(3).

²⁵ See id. at 43215.

²⁶ 15 U.S.C. 78s(b)(2).

²⁷ 17 CFR 200.30-3(a)(12).