

MIAx Sapphire Options Exchange Regulatory Circular 2024-01

DATE: August 2, 2024

TO: MIAx Exchange Members

FROM: MIAx Regulatory Department

RE: Compliance with Section 11(a) of the Securities Exchange Act of 1934, as Amended (the “Act”)

Section 11(a) of the Act prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or an account over which it or an associated person exercises investment discretion (collectively, “covered accounts”) unless an exception applies.

Exceptions to the 11(a) Prohibition

The Securities and Exchange Commission (“SEC” or “Commission”) provided an exception to the Rule 11(a) prohibition by adopting Rule 11a2-2(T) under the Act, known as the “Effect Versus Execute” rule.

Rule 11a2-2(T) permits an exchange member, subject to certain conditions, to effect transactions for covered accounts. To qualify for the Rule 11a2-2(T) exception, exchange members must meet the following conditions:

- **Off Floor Transmission** – A member must transmit the order from off the exchange floor;
- **Non-Participation in Order Execution** – A member may not participate in the execution of the transaction once it has been transmitted to the member performing the execution (although the member may participate in clearing and settling the transaction);
- **Execution Through an Unaffiliated Member** – A member may not be affiliated with the executing member; and
- **Non-Retention of Compensation for Discretionary Accounts** – With respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule.

Off Floor Transmission

The Commission has found that the off-floor transmission requirement is met if a covered account order is transmitted from a remote location directly to an exchange’s floor by electronic means.

Non-Participation in Order Execution

The design of MIAx Sapphire Options systems ensures that members do not possess any special or unique trading advantages in handling orders after transmission to the systems.

Execution Through an Unaffiliated Member

In the past, the Commission has expanded the “unaffiliated member” requirement to be met when an order is transmitted and executed solely electronically, without human intervention.

Non-Retention of Compensation for Discretionary Accounts

- In the case of a transaction effected for the account for which the initiating member exercises investment discretion, in general, the member may not retain compensation for effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to both Section 11(a) of the Act and Rule 11a2-2(T).

Please direct questions to the Regulatory Department at Regulatory@miaxglobal.com or (609) 897-7309.