

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 54	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2019 - * 13	Amendment No. (req. for Amendments *)
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Filing by MIAX Emerald, LLC  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Amend Exchange Rule 518 to adopt rules pertaining to stock-option orders

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Gregory Last Name \* Ziegler

Title \* Senior Associate Counsel

E-mail \* gziegler@miaxoptions.com

Telephone \* (609) 897-1483 Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 03/06/2019 Senior Associate Counsel

By Gregory P. Ziegler

(Name \*)

gziegler@miaxoptions.com

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**1. Text of the Proposed Rule Change**

(a) MIAX Emerald, LLC (“MIAX EMERALD” or the “Exchange”), pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act” or the “Exchange Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (the “Commission”) a proposal to amend Exchange Rule 518, Complex Orders, to implement identical functionality currently operative on one of the Exchange’s affiliates, Miami International Securities Exchange, LLC (“MIAX Options”).

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1, and the text of the proposed rule change is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by the Chief Executive Officer of the Exchange pursuant to authority delegated by the MIAX Emerald Board of Directors on January 31, 2019. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority.

Questions and comments on the proposed rule change may be directed to Gregory P. Ziegler, Senior Associate Counsel, at (609) 897-1483.

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

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

3. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

a. Purpose

The Exchange proposes to amend Exchange Rule 518, Complex Orders, to implement stock-option trading on the Exchange in an identical fashion, and with an identical rule, as MIAX Options.<sup>3</sup> MIAX Emerald commenced operations as a national securities exchange registered under Section 6 of the Act<sup>4</sup> on March 1, 2019. As described more fully in MIAX Emerald's Form 1 application,<sup>5</sup> the Exchange is an affiliate of Miami International Securities Exchange, LLC ("MIAX Options") and MIAX PEARL, LLC ("MIAX PEARL"). MIAX Emerald Rules, in their current form, were filed as Exhibit B to its Form 1 on August 16, 2018. At that time stock-option orders as described in MIAX Options Rule 518 were being implemented on the MIAX Options Exchange and MIAX Options Rule 518 was undergoing revisions to support the implementation and trading of stock-option orders, therefore the revised MIAX Options rule<sup>6</sup> was not included in the Exchange's Form 1 filing. In order to ensure consistent operation of both MIAX Emerald and MIAX Options through having consistent rules, the Exchange now proposes to amend the MIAX Emerald Rule as described below.

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<sup>3</sup> See MIAX Options Exchange Rule 518.

<sup>4</sup> 15 U.S.C. 78f.

<sup>5</sup> See Securities Exchange Act Release No. 84891 (December 20, 2018), 83 FR 67421 (December 28, 2018) (File No. 10-233) (order approving application of MIAX Emerald, LLC for registration as a national securities exchange.)

<sup>6</sup> See Securities Exchange Act Release No. 83726 (July 27, 2018), 83 FR 37849 (August 2, 2018) (SR-MIAX-2018-16).

### Proposal

Complex orders began trading on MIAX Options on October 24, 2016.<sup>7</sup> In its rule filing to establish the trading of complex orders, MIAX Options adopted rules for handling stock-option orders.<sup>8</sup> MIAX Options filed SR-MIAX-2018-16<sup>9</sup> to update its rule text regarding stock-option orders in connection with the launch of such orders on the MIAX Options Exchange. MIAX Emerald now proposes to amend Exchange Rule 518, to adopt the identical provisions from the MIAX Options rulebook for handling stock-option orders that are currently in place on MIAX Options, in order to align stock-option trading on MIAX Emerald to MIAX Options.

In particular, the Exchange is proposing to (i) amend the definition of complex orders to add a stock-option order definition; (ii) amend the definition of Displayed Complex MIAX Emerald Best Bid or Offer (“dcEBBO”) and Implied Complex MIAX Emerald Best Bid or Offer (“icEBBO”) to add the stock-option order provision; (iii) amend subsection (b)(3) Complex Order Priority, to describe order priority handling for a stock-option order that has only one leg; (iv) adopt Interpretation and Policy .01 to Rule 518 titled, Special Provisions Applicable to Stock-Option Orders, to provide additional detail regarding the trading and regulation of stock-option orders on the Exchange; and (v) make certain minor clarifying edits to existing rule text.

A “complex order” is currently defined in Exchange Rule 518 as any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security

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<sup>7</sup> See MIAX Options Regulatory Circular 2016-43, October 20, 2016.

<sup>8</sup> See Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26).

<sup>9</sup> See supra note 6.

(the “legs” or “components” of the complex order),<sup>10</sup> for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. Mini-options may only be part of a complex order that includes other mini-options.<sup>11</sup> Only those complex orders in the classes designated by the Exchange and communicated to Members<sup>12</sup> via Regulatory Circular with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing.

The Exchange now proposes to update the definition of a complex order to include stock-option orders. The proposed text will state that, a complex order can also be a “stock-option order” as described further, and subject to the limitations set forth in proposed Interpretation and Policy .01 of Rule 518. A stock-option order is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share (“ETF”)) 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 in the option leg to the total number of units of the underlying security or

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<sup>10</sup> The different options in the same underlying security that comprise a particular complex order are referred to as the “legs” or “components” of the complex order throughout this proposal.

<sup>11</sup> This definition is consistent with other options exchanges. See e.g., CBOE Rule 6.53C(a)(1). See also PHLX Rule 1098(a)(i); NYSE MKT Rule 900.3NY(e); and BOX Rule 7240(a)(5).

<sup>12</sup> 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 Exchange Act. See Exchange Rule 100.

convertible security in the stock leg. Only those stock-option orders in the classes designated by the Exchange and communicated to Members via Regulatory Circular with no more than the applicable number of legs as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing.

The Displayed Complex MIAX Emerald Best Bid or Offer (“dcEBBO”) is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. The Exchange proposes to update the definition of the dcEBBO to include stock-option orders and proposes to append the following sentence to the existing definition, “For stock-option orders, the dcEBBO for a complex strategy will be calculated using the Exchange’s best displayed bid or offer in the individual option component(s) and the NBBO in the stock component.”

The Implied Complex MIAX Emerald Best Bid or Offer (“icEBBO”) is a calculation that uses the best price from the Simple Order Book for each component of a complex strategy including displayed and non-displayed trading interest. The Exchange now proposes to update the definition of the icEBBO to include stock-option orders by appending the following sentence to the end of the current definition, “For stock-option orders, the icEBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book<sup>13</sup> in the individual option component(s), and the national best bid or offer (“NBBO”) in the stock component.”

Current Rule 518(c), Trading of Complex Orders and Quotes, describes the manner in which complex orders will be handled and traded on the Exchange. The Exchange will determine and communicate to Members via Regulatory Circular which complex order origin

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<sup>13</sup> The “Simple Order Book” is the Exchange’s regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

types (i.e., non-broker-dealer customers, broker-dealers that are not Market Makers on an options exchange, and/or Market Makers on an options exchange) are eligible for entry onto the Strategy Book.<sup>14</sup> The rule also states that complex orders will be subject to all other Exchange Rules that pertain to orders generally, unless otherwise provided in Rule 518(b).

Current Rule 518(c)(2)(iii), Legging, provides that 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 that the execution price of each component is not executed at a price that is outside of the NBBO. The current rule also provides that legging is not available for cAOC orders, complex Standard quotes, or complex eQuotes. The Exchange now proposes to amend this sentence to provide that legging is not available for cAOC orders, complex Standard quotes, complex eQuotes, or stock-option orders.

Current Rule 518(c)(3), Complex Order Priority, describes how the System<sup>15</sup> will establish priority for complex orders. The complex order priority structure is based generally on the same approach and structure currently effective on MIAX Emerald respecting priority of orders and quotes in the simple market as established in Exchange Rule 514.<sup>16</sup> A complex order

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<sup>14</sup> See Rule 518(c). See also CBOE Rule 6.53C(c)(i), which states that CBOE will determine which classes and which complex order origin types (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange) are eligible for entry into the Complex Order Book.

<sup>15</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>16</sup> Exchange Rule 514, Priority of Quotes and Orders, describes among other things the various execution priority, trade allocation and participation guarantees generally applicable to the Simple Order Book. Some sections of Exchange Rule 514 are cross-referenced herein and will apply as noted to complex orders, as the context requires.



may be executed at a net credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such net credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a \$0.01 increment.<sup>17</sup> The Exchange now proposes to amend Rule 518(c)(3)(i) to now include stock-option orders to the circumstances described above, if a stock-option order has one option leg, such option leg has priority over bids and offers established in the marketplace by Professional Interest (as defined in Rule 100)<sup>18</sup> and Market Makers with priority quotes<sup>19</sup> that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders. If a stock-option order has more than one option leg, such option legs may be executed in accordance with Rule 518(c)(3)(i).

#### Stock-Option Orders

The Exchange proposes to adopt Interpretation and Policy .01, Special Provisions Applicable to Stock-Option Orders, to provide detail regarding the trading and regulation of stock-option orders on the Exchange.

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<sup>17</sup> See Rule 518(c)(3). See also, ISE Rule 722(b)(2), which states that in this situation at least one leg must trade at a price that is better by at least one minimum trading increment, and PHLX Rule 1098(c)(iii), requiring in this situation that at least one option leg is executed at a better price than the established bid or offer for that option contract and no option leg is executed at a price outside of the established bid or offer for that option contract.

<sup>18</sup> The term “Professional Interest” means (i) an order that is for the account of a person or entity that is not a Priority Customer or (ii) an order or non-priority quote for the account of a Market Maker. See Exchange Rule 100.

<sup>19</sup> See Exchange Rule 517(b)(1).

The Exchange proposes to adopt new subsection (a) to Interpretation and Policy .01, to provide that stock-option orders may be executed against other stock-option orders through the Strategy Book and Complex Auction. Stock-option orders will not be legged against the individual component legs, and the System will not generate a derived order based upon a stock-option order. A stock-option order shall not be executed on the System unless the underlying security component is executable at the price(s) necessary to achieve the desired net price.

Members may only submit stock-option orders if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS<sup>20</sup> under the Act. Members submitting such complex orders represent that such orders comply with the Qualified Contingent Trade Exemption.

To participate in stock-option order processing, a Member must give up a Clearing Member previously identified to, and processed by the Exchange as a Designated Give Up for that Member in accordance with Exchange Rule 507 and which has entered into a brokerage agreement with one or more Exchange-designated broker-dealers that are not affiliated with the Exchange to electronically execute the underlying security component of the stock-option order at a stock trading venue selected by the Exchange-designated broker-dealer on behalf of the Member.

The Exchange proposes to adopt new subsection (b), Process, to, Interpretation and Policy .01 to provide that when a stock-option order is received by the Exchange, the System will validate that the stock-option order has been properly marked as required by Rule 200 of Regulation SHO under the Act (“Rule 200”).<sup>21</sup> Rule 200 requires all broker-dealers to mark sell orders of equity securities as “long,” “short,” or “short exempt.” Accordingly, Members

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<sup>20</sup> 17 CFR 242.611(a).

<sup>21</sup> 17 CFR 242.200.

submitting stock-option orders must mark the underlying security component (including ETF) “long,” “short,” or “short exempt” in compliance with Rule 200. If the stock-option order is not so marked, the order will be rejected by the System. Likewise, any underlying security component of a stock-option order sent by the Exchange to the Exchange-designated broker-dealer shall be marked “long,” “short,” or “short exempt” in the same manner in which it was received by the Exchange from the submitting Member.

If the stock-option order is properly marked, the System will determine whether the stock-option order is Complex Auction-eligible. If the stock-option order is Complex Auction-eligible, the System will initiate the Complex Auction Process described in paragraph (d) of this Rule. Any stock-option order executed utilizing the Complex Auction Process will comply with the requirements of Rule 201 of Regulation SHO under the Act (“Rule 201”)<sup>22</sup> as discussed further below.

When the short sale price test in Rule 201 is triggered for a covered security,<sup>23</sup> a “trading center,”<sup>24</sup> such as the Exchange, an Exchange-designated broker-dealer, or a stock trading venue, as applicable, must comply with Rule 201. Rule 201 requires a trading center to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the

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<sup>22</sup> 17 CFR 242.201.

<sup>23</sup> For purposes of this proposal, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO. The term “covered security” is defined in Rule 201(a)(1) as any NMS stock as defined in Rule 600(b)(47) of Regulation NMS. See also 17 CFR 242.600(b)(47).

<sup>24</sup> Rule 201(a)(9) states that the term “trading center” shall have the same meaning as in Rule 600(b)(78). Rule 600(b)(78) of Regulation NMS defines a “trading center” as “a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.” See 17 CFR 242.600(b)(78). The definition encompasses all entities that may execute short sale orders. Thus, Rule 201 will apply to any entity that executes short sale orders.

execution or display of a short sale order of a covered security at a price that is less than or equal to the current national best bid<sup>25</sup> if the price of that covered security decreases by 10% or more from the covered security's closing price as determined by the listing market<sup>26</sup> for the covered security as of the end of regular trading hours on the prior day;<sup>27</sup> and impose these requirements for the remainder of the day and the following day when a national best bid for the covered security is calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan.<sup>28</sup> A trading center such as the Exchange, an Exchange-designated broker-dealer and a stock trading venue, as applicable, on which the underlying security component is executed, must also comply with Rule 201(b)(1)(iii)(B),<sup>29</sup> which provides that a trading center must establish, maintain, and enforce written policies and procedures reasonably designed to permit the execution or display of a short sale order of a covered security marked "short exempt",<sup>30</sup> without regard to whether the order is at a price that is less than or equal to the current national best bid.<sup>31</sup>

If the stock-option order is not Complex Auction-eligible, the System will determine if it is eligible to be executed against another inbound stock-option order or another stock-option order resting on the Strategy Book. If eligible, the System will route both sides of the matched underlying security component of the stock-option order as a Qualified Contingent Trade

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<sup>25</sup> The term "national best bid" is defined in Rule 201(a)(4). 17 CFR 242.201(a)(4).

<sup>26</sup> The term "listing market" is defined in Rule 201(a)(3). 17 CFR 242.201(a)(3).

<sup>27</sup> 17 CFR 242.201(b)(1)(i).

<sup>28</sup> 17 CFR 242.201(b)(1)(ii).

<sup>29</sup> 17 CFR 242.201(b)(1)(iii)(B).

<sup>30</sup> 17 CFR 242.200(g)(2).

<sup>31</sup> Since the underlying security component of a stock-option order is not displayed by the Exchange, the exception in Rule 201(b)(1)(iii)(A) is not available. 17 CFR 242.201(b)(1)(iii)(A).

("QCT") to an Exchange-designated broker-dealer for execution on a stock trading venue. The stock trading venue will then either successfully execute the QCT or cancel it back to the Exchange-designated broker-dealer, which in turn will either report the execution of the QCT or cancel it back to the Exchange. While the Exchange is a trading center pursuant to Rule 201, the Exchange will neither execute nor display the underlying security component of a stock-option order. Instead, the execution or display of the underlying security component of a stock-option order will occur on a trading center other than the Exchange, such as an Exchange-designated broker-dealer or other stock trading venue.

If the Exchange-designated broker-dealer or other stock trading venue, as applicable, cannot execute the underlying security component of a stock-option order in accordance with Rule 201, the Exchange will not execute the option component(s) of the stock-option order and will either place the unexecuted stock-option order on the Strategy Book or cancel it back to the submitting Member in accordance with the submitting Member's instructions (except that cAOC and cIOC stock-option orders and eQuotes will be cancelled). Once placed back onto the Strategy Book, the stock-option order will be handled in accordance with Proposed Rule 518, Interpretation and Policy .01(b) as described herein.

If the stock-option order is not Complex Auction-eligible and cannot be executed or placed on the Strategy Book, it will be cancelled by the System. Otherwise, the stock-option order will be placed on the Strategy Book.

The Exchange proposes to adopt subsection (c), Option Component, to Interpretation and Policy .01, to provide that the option leg(s) of a stock-option order shall not be executed (i) at a price that is inferior to the Exchange's best bid (offer) in the option or (ii) at the Exchange's best bid (offer) in that option if one or more Priority Customer Orders are resting at the best bid

(offer) price on the Simple Order Book in each of the option components and the stock-option order could otherwise be executed in full (or in a permissible ratio). If one or more Priority Customer Orders are resting at the best bid (offer) price on the Simple Order Book, at least one option component must trade at a price that is better than the corresponding bid or offer in the marketplace by at least \$0.01. The option leg(s) of a stock-option order may be executed in a \$0.01 increment, regardless of the minimum quoting increment applicable to that series.<sup>32</sup>

The Exchange proposes to adopt subsection (d), Strategy Book, to Interpretation and Policy .01, to provide that stock-option orders and quotes on the Strategy Book that are marketable against each other will automatically execute, subject to price and priority provisions described in the above paragraph relating to the option component of the stock-option order.

Orders and quotes may be submitted by Members to trade against orders on the Strategy Book.<sup>33</sup>

The Exchange proposes to adopt subsection (e), Stock-Option Orders in MIAX Emerald Complex Order Auctions, to Interpretation and Policy .01, to provide that stock-option orders executed via Complex Auction shall trade in the sequence set forth in proposed Rule 518(d)(5) described above except that the provision regarding individual orders and quotes in the leg markets resting on the Simple Order Book prior to the initiation of a Complex Auction will not

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<sup>32</sup> See also CBOE Rule 6.53C.06(b), which states that the option leg(s) shall not be executed at a price that is (i) at a price that is inferior to the Exchange's best bid (offer) in the series or (ii) at the Exchange's best bid (offer) in that series if one or more public customer orders are resting at the best bid (offer) price on the Ebook in each of the component option series and the stock-option order could otherwise be executed in full (or in a permissible ratio). The option leg(s) of a stock-option order may be executed in a one-cent increment, regardless of the minimum quoting increment applicable to that series.

<sup>33</sup> See also CBOE Rule 6.53C.06(c), which differs slightly, stating that orders and quotes may be submitted by market participants to trade against orders in the COB except that the N-second group timer shall not be in effect for stock-option orders. MIAX does not have an "N-second group timer."

be applicable and such execution will be subject to the conditions noted above concerning the price of the option leg(s), together with all applicable securities laws.

The Exchange proposes to adopt subsection (f), Limit Up-Limit Down State, to Interpretation and Policy .01, to provide that when the underlying security of a stock-option order is in a limit up-limit down state as defined in Rule 530, such order will only execute if the calculated stock price is within the permissible Price Bands as determined by SIPs<sup>34</sup> under the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time (the “LULD Plan”).

The Exchange proposes to adopt subsection (g), Parity Price Protection, to Interpretation and Policy .01, to provide that the System will provide parity price protection for strategies that consist of a sale (purchase) of one call and the purchase (sale) of 100 shares of the underlying stock (“Buy-Write”) or that consist of the purchase (sale) of one put and the purchase (sale) of 100 shares of the underlying stock (“Married-Put”). A Parity Spread Variance (“PSV”) value between \$0.00 and \$0.50 which will be uniform for all option classes traded on the Exchange, will be determined by the Exchange and communicated via Regulatory Circular. The PSV will be used to calculate a minimum option trading price limit that the System will prevent the option leg from trading below. For call option legs, the PSV value is added to the strike price of the option to establish a parity protected price for the strategy. For put option legs, the PSV value is subtracted from the strike price of the option to establish a parity protected price for the strategy. Married-Put and Buy-Write interest to buy (buy put and buy stock; or buy call and sell stock) that is priced below the parity protected price for the strategy will be rejected. Married-Put and

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<sup>34</sup> All U.S. exchanges and associations that quote and trade exchange-listed securities must provide their data to a centralized SIP for data consolidation and dissemination. See 15 U.S.C. 78c (22)(A).

Buy-Write interest to sell (sell put and sell stock; or sell call and buy stock) that is priced below the parity protected price for the strategy will be placed on the Strategy Book at the parity protected price for the strategy.

The examples below provide an illustration of how the protection is calculated for Buy-Write and Married-Put strategies. For the purposes of the following examples the PSV used in the calculations is \$.10.

Following is an example of the operation of the price protection feature for a Married-Put Strategy:

Example 1 (Married-Put)

In its simplest terms the parity price of a put option can be expressed as (Strike Price – Stock Price = Put Option Parity Price). If, for example, the stock is trading at \$45.00 and the Strike Price of the put option is \$50.00, the parity price of the put option would then be \$5.00 ( $\$50.00 - \$45.00 = \$5.00$ ). The Exchange is able to leverage the parity relationship between the components to establish a minimum option trading price limit for Married-Put Strategies by simply subtracting the PSV from the strike price of the option. The effect on the option price can be seen in the following calculation ( $(\$50.00 - \$0.10) - \$45.00 = \$49.90 - \$45.00 = \$4.90$ ). The Exchange will calculate the parity protected price for a Married-Put Strategy by leveraging the put option parity formula by simply subtracting the PSV from the strike price of the option. This would result in a parity protected price for the strategy of \$49.90 using the figures above.

This allows for the stock component and the option component prices to fluctuate to achieve the strategy's net price, but ensures that the strategy will not trade below its parity protected price. Married Put Strategy interest received to sell a price protected Married-Put



Strategy below \$49.90 will be placed on the Strategy Book<sup>35</sup> at \$49.90. Married Put Strategy interest received to buy a price protected Married-Put Strategy below \$49.90 will be rejected.

Example 2 (Buy-Write)

In its simplest terms the parity price of a call option can be expressed as (Stock Price – Strike Price = Call Option Parity Price). If, for example, the stock is trading at \$45.00 and the Strike Price of the call option is \$40.00, the parity price of the call option would then be \$5.00 ( $\$45.00 - \$40.00 = \$5.00$ ). The Exchange is able to leverage the parity relationship between the components to establish a minimum option trading price limit for Buy-Write Strategies by adding the PSV to the strike price of the option. The effect on the option price can be seen in the following calculation ( $\$45.00 - (\$40.00 + \$.10) = \$45.00 - \$40.10 = \$4.90$ ). The Exchange will calculate the parity protected price for a Buy-Write Strategy by leveraging the call option parity formula by simply adding the PSV to the strike price of the option. This would result in a parity protected price for the strategy of \$40.10 net debit using the figures above.

This allows for the stock component and the option component prices to fluctuate to achieve the strategy's net price, but ensures that the strategy will not trade below its parity protected price. Buy-Write strategy interest received to sell a price protected Buy-Write Strategy below \$40.10 net debit will be placed on the Strategy Book at \$40.10 net debit.<sup>36</sup> Buy-Write strategy interest received to buy a price protected Buy-Write Strategy below \$40.10 net debit will be rejected.

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<sup>35</sup> The "Strategy Book" is the Exchange's electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

<sup>36</sup> A seller of the strategy would receive a \$40.10 net credit.

The Exchange proposes to amend subsection (d), Implied Away Best Bid or Offer (“ixABBO”) Price Protection,<sup>37</sup> of Interpretation and Policy .05 to add that for stock-option orders, the ixABBO for a complex strategy will be calculated using the BBO for each component on each individual away options market and the NBBO for the stock component.

Finally, the Exchange proposes to make a number of minor, non-substantive edits to Rule 518, Interpretation and Policy .05(e), to add clarity and precision to the Exchange’s rule text. Since the Exchange will be introducing the trading of complex strategies which include a “stock” component, the Exchange seeks to clarify certain aspects of the rule that are intended to apply only to the “option” component of a complex strategy. Specifically, the Exchange proposes to clarify the definition of a Wide Market Condition, as described in Interpretation and Policy .05, subsection (e)(1), so that it is clear that it is only applying to the “option” component of a complex strategy. The new proposed rule text will provide that, “[a] ‘wide market condition’ is defined as any individual option component of a complex strategy having, at the time of evaluation, an EBBO<sup>38</sup> quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4).” By definition, the EBBO is comprised of option interest only, therefore providing additional detail to the existing rule adds clarity to the Exchange’s rules.

Similarly, the Exchange proposes to clarify that Simple Market Auction or Timer Events (“SMAT Events”) pertain only to “option” components of a complex strategy, by amending Interpretation and Policy .05, subsection (e)(2)(i) and (e)(2)(ii), to include the term “option

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<sup>37</sup> The Implied Away Best Bid or Offer (“ixABBO”) price protection feature is a price protection mechanism under which, when in operation as requested by the submitting Member, a buy order will not be executed at a price that is higher than each other single exchange’s best displayed offer for the complex strategy, and under which a sell order will not be executed at a price that is lower than each other single exchange’s best displayed bid for the complex strategy. See Exchange Rule 518.05(d)

<sup>38</sup> The term “EBBO” means the best bid or offer on the Simple Order Book on the Exchange. See Exchange Rule 518(a)(10).

component” in the first sentence of each section. By definition, the Exchange’s Simple Market is comprised of option interest only, on the Simple Order Book, therefore providing additional detail to the existing rule adds clarity to the Exchange’s rules.

Additionally, the Exchange believes that although MIAX Emerald rules may, in certain instances, intentionally differ from MIAX Options rules, the proposed changes will promote uniformity with MIAX Options with respect to rules that are intended to be identical. MIAX Emerald and MIAX Options may have a number of Members in common, and where feasible the Exchange intends to implement similar behavior to provide consistency between MIAX Options and MIAX Emerald so as to avoid confusion among Members.

b. Statutory Basis

The Exchange believes that its proposed rule changes are consistent with Section 6(b) of the Act<sup>39</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>40</sup> 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 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 Exchange believes introducing stock-option orders promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by providing investors additional complex orders to use to meet their investment objectives. The Exchange believes that the proposed rule change will assist in the electronic processing of stock-

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<sup>39</sup> 15 U.S.C. 78f(b).

<sup>40</sup> 15 U.S.C. 78f(b)(5).

option orders by providing an efficient mechanism for transacting these strategies. The Exchange believes that the general provisions regarding the trading of complex orders provide a clear framework for trading of complex orders in a manner consistent with other options exchanges. This consistency should promote a fair and orderly national options market system.

The Exchange believes establishing a parity price protection for certain Buy-Write and Married-Put strategies promotes just and equitable principles of trade and removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by ensuring that strategies are not executed at potentially erroneous prices.

Given the relationship that the stock price, strike price, and option price have to each other, the Exchange is able to calculate a minimum option trading price limit for the option leg of certain stock-option strategies with a call or a put component. Specifically, the parity price of a call option can be derived by subtracting the strike price from the stock price ( $\text{Stock Price} - \text{Strike Price} = \text{Call Option Parity Price}$ ); and the parity price of a put option can be derived by subtracting the stock price from the strike price ( $\text{Strike Price} - \text{Stock Price} = \text{Put Option Parity Price}$ ). Using these relationships the PSV may be applied to establish a minimum option trading price limit that the System will prevent the option leg from trading below to establish a parity protected price for the strategy to ensure the strategy does not trade below its parity protected price at a potentially erroneous price.

The Exchange believes that Members will benefit from the proposed risk protection measure as the protection ensures that these stock-option strategies are not executed below their parity protected price as calculated by the Exchange. Consequently, the proposed risk protection is designed to encourage Members to submit additional order flow and liquidity to the Exchange

in these strategies, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest. This protection should provide Members with confidence that protections are in place on the Exchange to reduce the risk of these strategies being executed at potentially erroneous prices. As a result, the Exchange believes that the proposed price protection feature will promote just and equitable principles of trade.

Finally, the Exchange proposes to make minor non-substantive changes to its rule to clarify that Wide Market Conditions and Simple Market Auction or Timer Events on the Exchange are related to the “option” components only for complex strategies. The Exchange believes the proposed changes promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system because they seek to add clarity and precision to the Exchange’s rules. The Exchange believes that the proposed rule changes will provide greater clarity to Members and the public regarding the Exchange’s Rules, and it is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

#### **4. Self-Regulatory Organization’s Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposed rule change will foster competition as the Exchange will offer stock-option orders which are offered on other exchanges.<sup>41</sup> Additionally, the proposed rule change will foster competition as it provides a risk protection mechanism for certain complex strategies entered on the Exchange and may promote competition by enabling Members to trade

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<sup>41</sup> See MIAX Options Exchange Rule 518, CBOE Rule 6.53C(a)(2), and NASDAQ PHLX Rule 1098.

more aggressively on the Exchange knowing that these strategies will not be executed below parity protected price at potentially erroneous prices. Accordingly, the price protection feature should instill additional confidence in Members that submit certain stock-option orders to the Exchange that their orders receive price protection, and thus should encourage Members to submit additional order flow and liquidity to the Exchange, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest. Further, the additional proposed changes remedy minor non-substantive issues in the text of various rules identified in this proposal.

The Exchange does not believe the proposed rule change will impose any burden on intra-market competition as the rules of the Exchange apply equally to all Members. The Exchange further believes that the proposed price protection should promote inter-market competition, and could result in more competitive order flow to the Exchange.

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 enhance competition.

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

No written comments were either solicited or received.

**6. Extension of Time Period for Commission Action**

Not applicable.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Pursuant to Section 19(b)(3)(A) of the Act<sup>42</sup> and Rule 19b-4(f)(6)<sup>43</sup> thereunder, the Exchange has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>44</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)<sup>45</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. As described above, the Exchange's proposed rule changes are identical to those currently in place on MIAX Options.<sup>46</sup> Accordingly, because the proposed rule changes are based on the rules of another Self-Regulatory Organization and thus do not introduce any new regulatory issues, the Exchange

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<sup>42</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>43</sup> 17 CFR 240.19b-4(f)(6).

<sup>44</sup> Id.

<sup>45</sup> 17 CFR 240.19b-4(f)(6).

<sup>46</sup> See supra note 3.

has filed this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>47</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>48</sup>

The Exchange respectfully requests that the Commission waive the 30-day pre-operative delay pursuant to Section 19(b)(3)(A) of the Act<sup>49</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>50</sup> Waiver of this requirement, specified in Rule 19b-4(f)(6),<sup>51</sup> will allow the Exchange to implement the handling and trading of stock-option orders in an identical fashion to that of MIAX Options.<sup>52</sup> Based on the foregoing, the Exchange believes that its proposal should become immediately effective and requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.<sup>53</sup> Waiver of this requirement is consistent with the protection of investors and the public interest for the reasons described above.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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<sup>47</sup> 17 CFR 240.19b-4.

<sup>48</sup> 17 CFR 240.19b-4(f)(6).

<sup>49</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>50</sup> 17 CFR 240.19b-4(f)(6).

<sup>51</sup> Id.

<sup>52</sup> See supra note 3.

<sup>53</sup> 17 CFR 240.19b-4(f)(6)(iii).



**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule changes are based on MIAX Options Rule 518, which were recently amended by MIAX Options in a manner consistent with the changes proposed in this proposal.<sup>54</sup>

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

1. Notice of proposed rule for publication in the Federal Register.

5. Text of proposed changes to rule change.

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<sup>54</sup> See supra notes 6 and 8.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-EMERALD-2019-13)

March\_\_, 2019

Self-Regulatory Organizations: Notice of Filing and Immediate Effectiveness of a Proposed Rule Change by MIAX Emerald, LLC to Amend Exchange Rule 518, Complex Orders

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 6, 2019, MIAX Emerald, LLC (“MIAX Emerald” 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 Rule 518, Complex Orders, to implement identical functionality currently operative on one of the Exchange’s affiliates, Miami International Securities Exchange, LLC (“MIAX Options”).

The text of the proposed rule change is available on the Exchange’s website at <http://www.miaxoptions.com/rule-filings/emerald> at MIAX Emerald’s principal office, and at the Commission’s Public Reference Room.

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

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

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Exchange Rule 518, Complex Orders, to implement stock-option trading on the Exchange in an identical fashion, and with an identical rule, as MIAX Options.<sup>3</sup> MIAX Emerald commenced operations as a national securities exchange registered under Section 6 of the Act<sup>4</sup> on March 1, 2019. As described more fully in MIAX Emerald's Form 1 application,<sup>5</sup> the Exchange is an affiliate of Miami International Securities Exchange, LLC ("MIAX Options") and MIAX PEARL, LLC ("MIAX PEARL"). MIAX Emerald Rules, in their current form, were filed as Exhibit B to its Form 1 on August 16, 2018. At that time stock-option orders as described in MIAX Options Rule 518 were being implemented on the MIAX Options Exchange and MIAX Options Rule 518 was undergoing revisions to support the implementation and trading of stock-option orders, therefore the revised MIAX Options rule<sup>6</sup>

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<sup>3</sup> See MIAX Options Exchange Rule 518.

<sup>4</sup> 15 U.S.C. 78f.

<sup>5</sup> See Securities Exchange Act Release No. 84891 (December 20, 2018), 83 FR 67421 (December 28, 2018) (File No. 10-233) (order approving application of MIAX Emerald, LLC for registration as a national securities exchange.)

<sup>6</sup> See Securities Exchange Act Release No. 83726 (July 27, 2018), 83 FR 37849 (August 2, 2018) (SR-MIAX-2018-16).

was not included in the Exchange's Form 1 filing. In order to ensure consistent operation of both MIAX Emerald and MIAX Options through having consistent rules, the Exchange now proposes to amend the MIAX Emerald Rule as described below.

#### Proposal

Complex orders began trading on MIAX Options on October 24, 2016.<sup>7</sup> In its rule filing to establish the trading of complex orders, MIAX Options adopted rules for handling stock-option orders.<sup>8</sup> MIAX Options filed SR-MIAX-2018-16<sup>9</sup> to update its rule text regarding stock-option orders in connection with the launch of such orders on the MIAX Options Exchange. MIAX Emerald now proposes to amend Exchange Rule 518, to adopt the identical provisions from the MIAX Options rulebook for handling stock-option orders that are currently in place on MIAX Options, in order to align stock-option trading on MIAX Emerald to MIAX Options.

In particular, the Exchange is proposing to (i) amend the definition of complex orders to add a stock-option order definition; (ii) amend the definition of Displayed Complex MIAX Emerald Best Bid or Offer ("dcEBBO") and Implied Complex MIAX Emerald Best Bid or Offer ("icEBBO") to add the stock-option order provision; (iii) amend subsection (b)(3) Complex Order Priority, to describe order priority handling for a stock-option order that has only one leg; (iv) adopt Interpretation and Policy .01 to Rule 518 titled, Special Provisions Applicable to Stock-Option Orders, to provide additional detail regarding the trading and regulation of stock-option orders on the Exchange; and (v) make certain minor clarifying edits to existing rule text.

A "complex order" is currently defined in Exchange Rule 518 as any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security

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<sup>7</sup> See MIAX Options Regulatory Circular 2016-43, October 20, 2016.

<sup>8</sup> See Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26).

<sup>9</sup> See supra note 6.

(the “legs” or “components” of the complex order),<sup>10</sup> for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. Mini-options may only be part of a complex order that includes other mini-options.<sup>11</sup> Only those complex orders in the classes designated by the Exchange and communicated to Members<sup>12</sup> via Regulatory Circular with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing.

The Exchange now proposes to update the definition of a complex order to include stock-option orders. The proposed text will state that, a complex order can also be a “stock-option order” as described further, and subject to the limitations set forth in proposed Interpretation and Policy .01 of Rule 518. A stock-option order is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share (“ETF”)) 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 in the option leg to the total number of units of the underlying security or

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<sup>10</sup> The different options in the same underlying security that comprise a particular complex order are referred to as the “legs” or “components” of the complex order throughout this proposal.

<sup>11</sup> This definition is consistent with other options exchanges. See e.g., CBOE Rule 6.53C(a)(1). See also PHLX Rule 1098(a)(i); NYSE MKT Rule 900.3NY(e); and BOX Rule 7240(a)(5).

<sup>12</sup> 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 Exchange Act. See Exchange Rule 100.

convertible security in the stock leg. Only those stock-option orders in the classes designated by the Exchange and communicated to Members via Regulatory Circular with no more than the applicable number of legs as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing.

The Displayed Complex MIAX Emerald Best Bid or Offer (“dcEBBO”) is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. The Exchange proposes to update the definition of the dcEBBO to include stock-option orders and proposes to append the following sentence to the existing definition, “For stock-option orders, the dcEBBO for a complex strategy will be calculated using the Exchange’s best displayed bid or offer in the individual option component(s) and the NBBO in the stock component.”

The Implied Complex MIAX Emerald Best Bid or Offer (“icEBBO”) is a calculation that uses the best price from the Simple Order Book for each component of a complex strategy including displayed and non-displayed trading interest. The Exchange now proposes to update the definition of the icEBBO to include stock-option orders by appending the following sentence to the end of the current definition, “For stock-option orders, the icEBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book<sup>13</sup> in the individual option component(s), and the national best bid or offer (“NBBO”) in the stock component.”

Current Rule 518(c), Trading of Complex Orders and Quotes, describes the manner in which complex orders will be handled and traded on the Exchange. The Exchange will determine and communicate to Members via Regulatory Circular which complex order origin

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<sup>13</sup> The “Simple Order Book” is the Exchange’s regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

types (i.e., non-broker-dealer customers, broker-dealers that are not Market Makers on an options exchange, and/or Market Makers on an options exchange) are eligible for entry onto the Strategy Book.<sup>14</sup> The rule also states that complex orders will be subject to all other Exchange Rules that pertain to orders generally, unless otherwise provided in Rule 518(b).

Current Rule 518(c)(2)(iii), Legging, provides that 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 that the execution price of each component is not executed at a price that is outside of the NBBO. The current rule also provides that legging is not available for cAOC orders, complex Standard quotes, or complex eQuotes. The Exchange now proposes to amend this sentence to provide that legging is not available for cAOC orders, complex Standard quotes, complex eQuotes, or stock-option orders.

Current Rule 518(c)(3), Complex Order Priority, describes how the System<sup>15</sup> will establish priority for complex orders. The complex order priority structure is based generally on the same approach and structure currently effective on MIAX Emerald respecting priority of orders and quotes in the simple market as established in Exchange Rule 514.<sup>16</sup> A complex order

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<sup>14</sup> See Rule 518(c). See also CBOE Rule 6.53C(c)(i), which states that CBOE will determine which classes and which complex order origin types (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange) are eligible for entry into the Complex Order Book.

<sup>15</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>16</sup> Exchange Rule 514, Priority of Quotes and Orders, describes among other things the various execution priority, trade allocation and participation guarantees generally applicable to the Simple Order Book. Some sections of Exchange Rule 514 are cross-referenced herein and will apply as noted to complex orders, as the context requires.

may be executed at a net credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such net credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a \$0.01 increment.<sup>17</sup> The Exchange now proposes to amend Rule 518(c)(3)(i) to now include stock-option orders to the circumstances described above, if a stock-option order has one option leg, such option leg has priority over bids and offers established in the marketplace by Professional Interest (as defined in Rule 100)<sup>18</sup> and Market Makers with priority quotes<sup>19</sup> that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders. If a stock-option order has more than one option leg, such option legs may be executed in accordance with Rule 518(c)(3)(i).

#### Stock-Option Orders

The Exchange proposes to adopt Interpretation and Policy .01, Special Provisions Applicable to Stock-Option Orders, to provide detail regarding the trading and regulation of stock-option orders on the Exchange.

The Exchange proposes to adopt new subsection (a) to Interpretation and Policy .01, to provide that stock-option orders may be executed against other stock-option orders through the

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<sup>17</sup> See Rule 518(c)(3). See also, ISE Rule 722(b)(2), which states that in this situation at least one leg must trade at a price that is better by at least one minimum trading increment, and PHLX Rule 1098(c)(iii), requiring in this situation that at least one option leg is executed at a better price than the established bid or offer for that option contract and no option leg is executed at a price outside of the established bid or offer for that option contract.

<sup>18</sup> The term “Professional Interest” means (i) an order that is for the account of a person or entity that is not a Priority Customer or (ii) an order or non-priority quote for the account of a Market Maker. See Exchange Rule 100.

<sup>19</sup> See Exchange Rule 517(b)(1).



Strategy Book and Complex Auction. Stock-option orders will not be legged against the individual component legs, and the System will not generate a derived order based upon a stock-option order. A stock-option order shall not be executed on the System unless the underlying security component is executable at the price(s) necessary to achieve the desired net price.

Members may only submit stock-option orders if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS<sup>20</sup> under the Act. Members submitting such complex orders represent that such orders comply with the Qualified Contingent Trade Exemption.

To participate in stock-option order processing, a Member must give up a Clearing Member previously identified to, and processed by the Exchange as a Designated Give Up for that Member in accordance with Exchange Rule 507 and which has entered into a brokerage agreement with one or more Exchange-designated broker-dealers that are not affiliated with the Exchange to electronically execute the underlying security component of the stock-option order at a stock trading venue selected by the Exchange-designated broker-dealer on behalf of the Member.

The Exchange proposes to adopt new subsection (b), Process, to, Interpretation and Policy .01 to provide that when a stock-option order is received by the Exchange, the System will validate that the stock-option order has been properly marked as required by Rule 200 of Regulation SHO under the Act (“Rule 200”).<sup>21</sup> Rule 200 requires all broker-dealers to mark sell orders of equity securities as “long,” “short,” or “short exempt.” Accordingly, Members submitting stock-option orders must mark the underlying security component (including ETF) “long,” “short,” or “short exempt” in compliance with Rule 200. If the stock-option order is not

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<sup>20</sup> 17 CFR 242.611(a).

<sup>21</sup> 17 CFR 242.200.

so marked, the order will be rejected by the System. Likewise, any underlying security component of a stock-option order sent by the Exchange to the Exchange-designated broker-dealer shall be marked “long,” “short,” or “short exempt” in the same manner in which it was received by the Exchange from the submitting Member.

If the stock-option order is properly marked, the System will determine whether the stock-option order is Complex Auction-eligible. If the stock-option order is Complex Auction-eligible, the System will initiate the Complex Auction Process described in paragraph (d) of this Rule. Any stock-option order executed utilizing the Complex Auction Process will comply with the requirements of Rule 201 of Regulation SHO under the Act (“Rule 201”)<sup>22</sup> as discussed further below.

When the short sale price test in Rule 201 is triggered for a covered security,<sup>23</sup> a “trading center,”<sup>24</sup> such as the Exchange, an Exchange-designated broker-dealer, or a stock trading venue, as applicable, must comply with Rule 201. Rule 201 requires a trading center to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order of a covered security at a price that is less than or equal

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<sup>22</sup> 17 CFR 242.201.

<sup>23</sup> For purposes of this proposal, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO. The term “covered security” is defined in Rule 201(a)(1) as any NMS stock as defined in Rule 600(b)(47) of Regulation NMS. See also 17 CFR 242.600(b)(47).

<sup>24</sup> Rule 201(a)(9) states that the term “trading center” shall have the same meaning as in Rule 600(b)(78). Rule 600(b)(78) of Regulation NMS defines a “trading center” as “a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.” See 17 CFR 242.600(b)(78). The definition encompasses all entities that may execute short sale orders. Thus, Rule 201 will apply to any entity that executes short sale orders.

to the current national best bid<sup>25</sup> if the price of that covered security decreases by 10% or more from the covered security's closing price as determined by the listing market<sup>26</sup> for the covered security as of the end of regular trading hours on the prior day;<sup>27</sup> and impose these requirements for the remainder of the day and the following day when a national best bid for the covered security is calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan.<sup>28</sup> A trading center such as the Exchange, an Exchange-designated broker-dealer and a stock trading venue, as applicable, on which the underlying security component is executed, must also comply with Rule 201(b)(1)(iii)(B),<sup>29</sup> which provides that a trading center must establish, maintain, and enforce written policies and procedures reasonably designed to permit the execution or display of a short sale order of a covered security marked "short exempt"<sup>30</sup> without regard to whether the order is at a price that is less than or equal to the current national best bid.<sup>31</sup>

If the stock-option order is not Complex Auction-eligible, the System will determine if it is eligible to be executed against another inbound stock-option order or another stock-option order resting on the Strategy Book. If eligible, the System will route both sides of the matched underlying security component of the stock-option order as a Qualified Contingent Trade ("QCT") to an Exchange-designated broker-dealer for execution on a stock trading venue. The

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<sup>25</sup> The term "national best bid" is defined in Rule 201(a)(4). 17 CFR 242.201(a)(4).

<sup>26</sup> The term "listing market" is defined in Rule 201(a)(3). 17 CFR 242.201(a)(3).

<sup>27</sup> 17 CFR 242.201(b)(1)(i).

<sup>28</sup> 17 CFR 242.201(b)(1)(ii).

<sup>29</sup> 17 CFR 242.201(b)(1)(iii)(B).

<sup>30</sup> 17 CFR 242.200(g)(2).

<sup>31</sup> Since the underlying security component of a stock-option order is not displayed by the Exchange, the exception in Rule 201(b)(1)(iii)(A) is not available. 17 CFR 242.201(b)(1)(iii)(A).

stock trading venue will then either successfully execute the QCT or cancel it back to the Exchange-designated broker-dealer, which in turn will either report the execution of the QCT or cancel it back to the Exchange. While the Exchange is a trading center pursuant to Rule 201, the Exchange will neither execute nor display the underlying security component of a stock-option order. Instead, the execution or display of the underlying security component of a stock-option order will occur on a trading center other than the Exchange, such as an Exchange-designated broker-dealer or other stock trading venue.

If the Exchange-designated broker-dealer or other stock trading venue, as applicable, cannot execute the underlying security component of a stock-option order in accordance with Rule 201, the Exchange will not execute the option component(s) of the stock-option order and will either place the unexecuted stock-option order on the Strategy Book or cancel it back to the submitting Member in accordance with the submitting Member's instructions (except that cAOC and cIOC stock-option orders and eQuotes will be cancelled). Once placed back onto the Strategy Book, the stock-option order will be handled in accordance with Proposed Rule 518, Interpretation and Policy .01(b) as described herein.

If the stock-option order is not Complex Auction-eligible and cannot be executed or placed on the Strategy Book, it will be cancelled by the System. Otherwise, the stock-option order will be placed on the Strategy Book.

The Exchange proposes to adopt subsection (c), Option Component, to Interpretation and Policy .01, to provide that the option leg(s) of a stock-option order shall not be executed (i) at a price that is inferior to the Exchange's best bid (offer) in the option or (ii) at the Exchange's best bid (offer) in that option if one or more Priority Customer Orders are resting at the best bid (offer) price on the Simple Order Book in each of the option components and the stock-option order could otherwise be executed in full (or in a permissible ratio). If one or more Priority

Customer Orders are resting at the best bid (offer) price on the Simple Order Book, at least one option component must trade at a price that is better than the corresponding bid or offer in the marketplace by at least \$0.01. The option leg(s) of a stock-option order may be executed in a \$0.01 increment, regardless of the minimum quoting increment applicable to that series.<sup>32</sup>

The Exchange proposes to adopt subsection (d), Strategy Book, to Interpretation and Policy .01, to provide that stock-option orders and quotes on the Strategy Book that are marketable against each other will automatically execute, subject to price and priority provisions described in the above paragraph relating to the option component of the stock-option order. Orders and quotes may be submitted by Members to trade against orders on the Strategy Book.<sup>33</sup>

The Exchange proposes to adopt subsection (e), Stock-Option Orders in MIAX Emerald Complex Order Auctions, to Interpretation and Policy .01, to provide that stock-option orders executed via Complex Auction shall trade in the sequence set forth in proposed Rule 518(d)(5) described above except that the provision regarding individual orders and quotes in the leg markets resting on the Simple Order Book prior to the initiation of a Complex Auction will not be applicable and such execution will be subject to the conditions noted above concerning the price of the option leg(s), together with all applicable securities laws.

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<sup>32</sup> See also CBOE Rule 6.53C.06(b), which states that the option leg(s) shall not be executed at a price that is (i) at a price that is inferior to the Exchange's best bid (offer) in the series or (ii) at the Exchange's best bid (offer) in that series if one or more public customer orders are resting at the best bid (offer) price on the Ebook in each of the component option series and the stock-option order could otherwise be executed in full (or in a permissible ratio). The option leg(s) of a stock-option order may be executed in a one-cent increment, regardless of the minimum quoting increment applicable to that series.

<sup>33</sup> See also CBOE Rule 6.53C.06(c), which differs slightly, stating that orders and quotes may be submitted by market participants to trade against orders in the COB except that the N-second group timer shall not be in effect for stock-option orders. MIAX does not have an "N-second group timer."

The Exchange proposes to adopt subsection (f), Limit Up-Limit Down State, to Interpretation and Policy .01, to provide that when the underlying security of a stock-option order is in a limit up-limit down state as defined in Rule 530, such order will only execute if the calculated stock price is within the permissible Price Bands as determined by SIPs<sup>34</sup> under the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time (the “LULD Plan”).

The Exchange proposes to adopt subsection (g), Parity Price Protection, to Interpretation and Policy .01, to provide that the System will provide parity price protection for strategies that consist of a sale (purchase) of one call and the purchase (sale) of 100 shares of the underlying stock (“Buy-Write”) or that consist of the purchase (sale) of one put and the purchase (sale) of 100 shares of the underlying stock (“Married-Put”). A Parity Spread Variance (“PSV”) value between \$0.00 and \$0.50 which will be uniform for all option classes traded on the Exchange, will be determined by the Exchange and communicated via Regulatory Circular. The PSV will be used to calculate a minimum option trading price limit that the System will prevent the option leg from trading below. For call option legs, the PSV value is added to the strike price of the option to establish a parity protected price for the strategy. For put option legs, the PSV value is subtracted from the strike price of the option to establish a parity protected price for the strategy. Married-Put and Buy-Write interest to buy (buy put and buy stock; or buy call and sell stock) that is priced below the parity protected price for the strategy will be rejected. Married-Put and Buy-Write interest to sell (sell put and sell stock; or sell call and buy stock) that is priced below the parity protected price for the strategy will be placed on the Strategy Book at the parity protected price for the strategy.

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<sup>34</sup> All U.S. exchanges and associations that quote and trade exchange-listed securities must provide their data to a centralized SIP for data consolidation and dissemination. See 15 U.S.C. 78c (22)(A).

The examples below provide an illustration of how the protection is calculated for Buy-Write and Married-Put strategies. For the purposes of the following examples the PSV used in the calculations is \$.10.

Following is an example of the operation of the price protection feature for a Married-Put Strategy:

Example 1 (Married-Put)

In its simplest terms the parity price of a put option can be expressed as (Strike Price – Stock Price = Put Option Parity Price). If, for example, the stock is trading at \$45.00 and the Strike Price of the put option is \$50.00, the parity price of the put option would then be \$5.00 ( $\$50.00 - \$45.00 = \$5.00$ ). The Exchange is able to leverage the parity relationship between the components to establish a minimum option trading price limit for Married-Put Strategies by simply subtracting the PSV from the strike price of the option. The effect on the option price can be seen in the following calculation ( $(\$50.00 - \$0.10) - \$45.00 = \$49.90 - \$45.00 = \$4.90$ ). The Exchange will calculate the parity protected price for a Married-Put Strategy by leveraging the put option parity formula by simply subtracting the PSV from the strike price of the option. This would result in a parity protected price for the strategy of \$49.90 using the figures above.

This allows for the stock component and the option component prices to fluctuate to achieve the strategy's net price, but ensures that the strategy will not trade below its parity protected price. Married Put Strategy interest received to sell a price protected Married-Put Strategy below \$49.90 will be placed on the Strategy Book<sup>35</sup> at \$49.90. Married Put Strategy interest received to buy a price protected Married-Put Strategy below \$49.90 will be rejected.

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<sup>35</sup> The "Strategy Book" is the Exchange's electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

### Example 2 (Buy-Write)

In its simplest terms the parity price of a call option can be expressed as (Stock Price – Strike Price = Call Option Parity Price). If, for example, the stock is trading at \$45.00 and the Strike Price of the call option is \$40.00, the parity price of the call option would then be \$5.00 ( $\$45.00 - \$40.00 = \$5.00$ ). The Exchange is able to leverage the parity relationship between the components to establish a minimum option trading price limit for Buy-Write Strategies by adding the PSV to the strike price of the option. The effect on the option price can be seen in the following calculation ( $\$45.00 - (\$40.00 + \$.10) = \$45.00 - \$40.10 = \$4.90$ ). The Exchange will calculate the parity protected price for a Buy-Write Strategy by leveraging the call option parity formula by simply adding the PSV to the strike price of the option. This would result in a parity protected price for the strategy of \$40.10 net debit using the figures above.

This allows for the stock component and the option component prices to fluctuate to achieve the strategy's net price, but ensures that the strategy will not trade below its parity protected price. Buy-Write strategy interest received to sell a price protected Buy-Write Strategy below \$40.10 net debit will be placed on the Strategy Book at \$40.10 net debit.<sup>36</sup> Buy-Write strategy interest received to buy a price protected Buy-Write Strategy below \$40.10 net debit will be rejected.

The Exchange proposes to amend subsection (d), Implied Away Best Bid or Offer (“ixABBO”) Price Protection,<sup>37</sup> of Interpretation and Policy .05 to add that for stock-option

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<sup>36</sup> A seller of the strategy would receive a \$40.10 net credit.

<sup>37</sup> The Implied Away Best Bid or Offer (“ixABBO”) price protection feature is a price protection mechanism under which, when in operation as requested by the submitting Member, a buy order will not be executed at a price that is higher than each other single exchange's best displayed offer for the complex strategy, and under which a sell order will not be executed at a price that is lower than each other single exchange's best displayed bid for the complex strategy. See Exchange Rule 518.05(d)



orders, the ixABBO for a complex strategy will be calculated using the BBO for each component on each individual away options market and the NBBO for the stock component.

Finally, the Exchange proposes to make a number of minor, non-substantive edits to Rule 518, Interpretation and Policy .05(e), to add clarity and precision to the Exchange's rule text. Since the Exchange will be introducing the trading of complex strategies which include a "stock" component, the Exchange seeks to clarify certain aspects of the rule that are intended to apply only to the "option" component of a complex strategy. Specifically, the Exchange proposes to clarify the definition of a Wide Market Condition, as described in Interpretation and Policy .05, subsection (e)(1), so that it is clear that it is only applying to the "option" component of a complex strategy. The new proposed rule text will provide that, "[a] 'wide market condition' is defined as any individual option component of a complex strategy having, at the time of evaluation, an EBBO<sup>38</sup> quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4)." By definition, the EBBO is comprised of option interest only, therefore providing additional detail to the existing rule adds clarity to the Exchange's rules.

Similarly, the Exchange proposes to clarify that Simple Market Auction or Timer Events ("SMAT Events") pertain only to "option" components of a complex strategy, by amending Interpretation and Policy .05, subsection (e)(2)(i) and (e)(2)(ii), to include the term "option component" in the first sentence of each section. By definition, the Exchange's Simple Market is comprised of option interest only, on the Simple Order Book, therefore providing additional detail to the existing rule adds clarity to the Exchange's rules.

Additionally, the Exchange believes that although MIAX Emerald rules may, in certain instances, intentionally differ from MIAX Options rules, the proposed changes will promote

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<sup>38</sup> The term "EBBO" means the best bid or offer on the Simple Order Book on the Exchange. See Exchange Rule 518(a)(10).

uniformity with MIAX Options with respect to rules that are intended to be identical. MIAX Emerald and MIAX Options may have a number of Members in common, and where feasible the Exchange intends to implement similar behavior to provide consistency between MIAX Options and MIAX Emerald so as to avoid confusion among Members.

## 2. Statutory Basis

The Exchange believes that its proposed rule changes are consistent with Section 6(b) of the Act<sup>39</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>40</sup> 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 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 Exchange believes introducing stock-option orders promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by providing investors additional complex orders to use to meet their investment objectives. The Exchange believes that the proposed rule change will assist in the electronic processing of stock-option orders by providing an efficient mechanism for transacting these strategies. The Exchange believes that the general provisions regarding the trading of complex orders provide a clear framework for trading of complex orders in a manner consistent with other options exchanges. This consistency should promote a fair and orderly national options market system.

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<sup>39</sup> 15 U.S.C. 78f(b).

<sup>40</sup> 15 U.S.C. 78f(b)(5).

The Exchange believes establishing a parity price protection for certain Buy-Write and Married-Put strategies promotes just and equitable principles of trade and removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by ensuring that strategies are not executed at potentially erroneous prices.

Given the relationship that the stock price, strike price, and option price have to each other, the Exchange is able to calculate a minimum option trading price limit for the option leg of certain stock-option strategies with a call or a put component. Specifically, the parity price of a call option can be derived by subtracting the strike price from the stock price ( $\text{Stock Price} - \text{Strike Price} = \text{Call Option Parity Price}$ ); and the parity price of a put option can be derived by subtracting the stock price from the strike price ( $\text{Strike Price} - \text{Stock Price} = \text{Put Option Parity Price}$ ). Using these relationships the PSV may be applied to establish a minimum option trading price limit that the System will prevent the option leg from trading below to establish a parity protected price for the strategy to ensure the strategy does not trade below its parity protected price at a potentially erroneous price.

The Exchange believes that Members will benefit from the proposed risk protection measure as the protection ensures that these stock-option strategies are not executed below their parity protected price as calculated by the Exchange. Consequently, the proposed risk protection is designed to encourage Members to submit additional order flow and liquidity to the Exchange in these strategies, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest. This protection should provide Members with confidence that protections are in place on the Exchange to reduce the risk of these strategies being executed at potentially

erroneous prices. As a result, the Exchange believes that the proposed price protection feature will promote just and equitable principles of trade.

Finally, the Exchange proposes to make minor non-substantive changes to its rule to clarify that Wide Market Conditions and Simple Market Auction or Timer Events on the Exchange are related to the “option” components only for complex strategies. The Exchange believes the proposed changes promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system because they seek to add clarity and precision to the Exchange’s rules. The Exchange believes that the proposed rule changes will provide greater clarity to Members and the public regarding the Exchange’s Rules, and it is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposed rule change will foster competition as the Exchange will offer stock-option orders which are offered on other exchanges.<sup>41</sup> Additionally, the proposed rule change will foster competition as it provides a risk protection mechanism for certain complex strategies entered on the Exchange and may promote competition by enabling Members to trade more aggressively on the Exchange knowing that these strategies will not be executed below parity protected price at potentially erroneous prices. Accordingly, the price protection feature should instill additional confidence in Members that submit certain stock-option orders to the Exchange that their orders receive price protection, and thus should encourage Members to

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<sup>41</sup> See MIAX Options Exchange Rule 518, CBOE Rule 6.53C(a)(2), and NASDAQ PHLX Rule 1098.

submit additional order flow and liquidity to the Exchange, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest. Further, the additional proposed changes remedy minor non-substantive issues in the text of various rules identified in this proposal.

The Exchange does not believe the proposed rule change will impose any burden on intra-market competition as the rules of the Exchange apply equally to all Members. The Exchange further believes that the proposed price protection should promote inter-market competition, and could result in more competitive order flow to the Exchange.

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 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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>42</sup> and Rule 19b-4(f)(6)<sup>43</sup> thereunder.

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<sup>42</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>43</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail [to rule-comments@sec.gov](mailto:to-rule-comments@sec.gov). Please include File Number SR-EMERALD-2019-13 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-EMERALD-2019-13. 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 Web site (<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-EMERALD-2019-13 and should be submitted on or before [insert date 21 days from publication in the Federal Register]. For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>44</sup>

Brent J. Fields  
Secretary

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<sup>44</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

New text is underlined;

Deleted text is in [brackets]

**MIAX Emerald, LLC Rules**

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**Rule 518. Complex Orders****(a) Definitions.**

(1) – (4) No change.

(5) **Complex Order.** A “complex order” is 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 (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. Mini-options may only be part of a complex order that includes other mini-options. Only those complex orders in the classes designated by the Exchange and communicated to Members via Regulatory Circular with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing. A Post-Only order may not be a component of a complex order and will be rejected by the System.

A complex order can also be a “stock-option order” as described further, and subject to the limitations set forth, in Interpretation and Policy .01 of this Rule. A stock-option order is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share (“ETF”)) 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 in the option leg to the total number of units of the underlying security or convertible security in the stock leg. Only those stock-option orders in the classes designated by the Exchange and communicated to Members via Regulatory Circular with no more than the applicable number of legs as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing.

(6) – (7) No change.

(8) **Displayed Complex MIAX Emerald Best Bid or Offer (“dcEBBO”).** The dcEBBO is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. For stock-option orders, the dcEBBO for a complex strategy will



be calculated using the Exchange's best displayed bid or offer in the individual option component(s) and the NBBO in the stock component.

(9) – (11) No change.

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

(13) – (17) No change.

(b) No change.

(c) **Trading of Complex Orders and Quotes.** The Exchange will determine and communicate to Members via Regulatory Circular which complex order origin types (i.e., non-broker-dealer customers, broker-dealers that are not Market Makers on an options exchange, and/or Market Makers on an options exchange) are eligible for entry onto the Strategy Book. Complex orders and quotes will be subject to all other Exchange Rules that pertain to orders and quotes generally, unless otherwise provided in this Rule 518. This Rule 518(c) governs trading of all complex order types set forth in Rule 518(b) above, unless otherwise specified in Rule 518(b).

(1) No change.

(2) **Execution of Complex Orders and Quotes.**

(i) – (ii) No change.

(iii) **Legging.** 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, [or] 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.

(iv) – (v) No change.

### (3) Complex Order Priority.

(i) Notwithstanding the provisions of Rule 514, a complex order may be executed at a net credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such net credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a \$0.01 increment. Under the circumstances described above, if a stock-option order has one option leg, such option leg has priority over bids and offers established in the marketplace by Professional Interest (as defined in Rule 100) and Market Makers with priority quotes (as defined in Rule 517(b)(1)) that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders. If a stock-option order has more than one option leg, such option legs may be executed in accordance with the first sentence of this subparagraph (c)(3)(i).

(ii) No change.

(4) – (6) No change.

(d) No change.

### Interpretations and Policies:

#### .01. [Reserved] Special Provisions Applicable to Stock-Option Orders:

(a) General. Stock-option orders may be executed against other stock-option orders through the Strategy Book and Complex Auction. Stock-option orders will not be legged against the individual component legs, and the System will not generate a derived order based upon a stock-option order. A stock-option order shall not be executed on the System unless the underlying security component is executable at the price(s) necessary to achieve the desired net price.

Members may only submit stock-option orders if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Members submitting such complex orders represent that such orders comply with the Qualified Contingent Trade Exemption.

To participate in stock-option order processing, a Member must give up a Clearing Member previously identified to, and processed by the Exchange as a Designated Give Up for that Member in accordance with Rule 507 and which has entered into a brokerage agreement with one or more Exchange-designated broker-dealers that are not affiliated with the Exchange to electronically execute the underlying security component of the stock-option order at a stock trading venue selected by the Exchange-designated broker-dealer on behalf of the Member.

(b) Process. When a stock-option order is received by the Exchange, the System will validate that the stock-option order has been properly marked as required by Rule 200 of Regulation SHO

under the Act (“Rule 200”). Rule 200 requires all broker-dealers to mark sell orders of equity securities as “long,” “short,” or “short exempt.” Accordingly, Members submitting stock-option orders must mark the underlying security component (including ETF) “long,” “short,” or “short exempt” in compliance with Rule 200. If the stock-option order is not so marked, the order will be rejected by the System. Likewise, any underlying security component of a stock-option order sent by the Exchange to the Exchange-designated broker-dealer shall be marked “long,” “short,” or “short exempt” in the same manner in which it was received by the Exchange from the submitting Member.

If the stock-option order is properly marked, the System will determine whether the stock-option order is Complex Auction-eligible. If the stock-option order is Complex Auction-eligible, the System will initiate the Complex Auction Process described in paragraph (d) of this Rule. Any stock-option order executed utilizing the Complex Auction Process will comply with the requirements of Rule 201 of Regulation SHO under the Act (“Rule 201”) as discussed further below.

When the short sale price test in Rule 201 is triggered for a covered security, a “trading center,” such as the Exchange, an Exchange-designated broker-dealer, or a stock trading venue, as applicable, must comply with Rule 201. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO. The term “covered security” is defined in Rule 201(a)(1) as any NMS stock as defined in Rule 600(b)(47) of Regulation NMS. Rule 201(a)(9) states that the term “trading center” shall have the same meaning as in Rule 600(b)(78). Rule 600(b)(78) of Regulation NMS defines a “trading center” as “a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.” Rule 201 requires a trading center to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order of a covered security at a price that is less than or equal to the current national best bid if the price of that covered security decreases by 10% or more from the covered security’s closing price as determined by the listing market for the covered security as of the end of regular trading hours on the prior day; and impose these requirements for the remainder of the day and the following day when a national best bid for the covered security is calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan. A trading center such as the Exchange, an Exchange-designated broker-dealer and a stock trading venue, as applicable, on which the underlying security component is executed, must also comply with Rule 201(b)(1)(iii)(B), which provides that a trading center must establish, maintain, and enforce written policies and procedures reasonably designed to permit the execution or display of a short sale order of a covered security marked “short exempt” without regard to whether the order is at a price that is less than or equal to the current national best bid.

If the stock-option order is not Complex Auction-eligible, the System will determine if it is eligible to be executed against another inbound stock-option order or another stock-option order resting on the Strategy Book. If eligible, the System will route both sides of the matched underlying security component of the stock-option order as a Qualified Contingent Trade (“QCT”) to an Exchange-designated broker-dealer for execution on a stock trading venue. The

stock trading venue will then either successfully execute the QCT or cancel it back to the Exchange-designated broker-dealer, which in turn will either report the execution of the QCT or cancel it back to the Exchange. While the Exchange is a trading center pursuant to Rule 201, the Exchange will neither execute nor display the underlying security component of a stock-option order. Instead, the execution or display of the underlying security component of a stock-option order will occur on a trading center other than the Exchange, such as an Exchange-designated broker-dealer or other stock trading venue.

If the Exchange-designated broker-dealer or other stock trading venue, as applicable, cannot execute the underlying security component of a stock-option order in accordance with Rule 201, the Exchange will not execute the option component(s) of the stock-option order and will either place the unexecuted stock-option order on the Strategy Book or cancel it back to the submitting Member in accordance with the submitting Member's instructions (except that cAOC and cIOC stock-option orders and eQuotes will be cancelled). Once placed back onto the Strategy Book, the stock-option order will be handled in accordance with Rule 518, Interpretation and Policy .01(b).

If the stock-option order is not Complex Auction-eligible and cannot be executed or placed on the Strategy Book, it will be cancelled by the System. Otherwise, the stock-option order will be placed on the Strategy Book.

(c) **Option Component.** The option leg(s) of a stock-option order shall not be executed (i) at a price that is inferior to the Exchange's best bid (offer) in the option or (ii) at the Exchange's best bid (offer) in that option if one or more Priority Customer Orders are resting at the best bid (offer) price on the Simple Order Book in each of the option components and the stock-option order could otherwise be executed in full (or in a permissible ratio). If one or more Priority Customer Orders are resting at the best bid (offer) price on the Simple Order Book, at least one option component must trade at a price that is better than the corresponding bid or offer in the marketplace by at least \$0.01. The option leg(s) of a stock-option order may be executed in a \$0.01 increment, regardless of the minimum quoting increment applicable to that series.

(d) **Strategy Book.** Stock-option orders and quotes on the Strategy Book that are marketable against each other will automatically execute, subject to the condition noted in subparagraph (b) above of this Interpretation and Policy .01. Orders and quotes may be submitted by Members to trade against orders on the Strategy Book.

(e) **Stock-Option Orders in MIAX Emerald Complex Order Auctions.** Stock-option orders executed via Complex Auction shall trade in the sequence set forth in subparagraph 518(d)(5) above except that the provision regarding individual orders and quotes in the leg markets resting on the Simple Order Book prior to the initiation of a Complex Auction will not be applicable and such execution will be subject to the conditions noted above concerning the price of the option leg(s), together with all applicable securities laws.

(f) **Limit Up-Limit Down State.** When the underlying security of a stock-option order is in a limit up-limit down state as defined in Rule 530, such order will only execute if the calculated stock price is within the permissible Price Bands as determined by the SIP under the Plan to

Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time (the “LULD Plan”).

(g) **Parity Price Protection.** The System will provide parity price protection for strategies that consist of a sale (purchase) of one call and the purchase (sale) of 100 shares of the underlying stock (“Buy-Write”) or that consist of the purchase (sale) of one put and the purchase (sale) of 100 shares of the underlying stock (“Married-Put”). A Parity Spread Variance (“PSV”) value between \$0.00 and \$0.50 which will be uniform for all option classes traded on the Exchange, will be determined by the Exchange and communicated via Regulatory Circular. The PSV will be used to calculate a minimum option trading price limit that the System will prevent the option leg from trading below. For call option legs, the PSV value is added to the strike price of the option to establish a parity protected price for the strategy. For put option legs, the PSV value is subtracted from the strike price of the option to establish a parity protected price for the strategy. Married-Put and Buy-Write interest to buy (buy put and buy stock; or buy call and sell stock) that is priced below the parity protected price for the strategy will be rejected. Married-Put and Buy-Write interest to sell (sell put and sell stock; or sell call and buy stock) that is priced below the parity protected price for the strategy will be placed on the Strategy Book at the parity protected price for the strategy.

.02 – .04 No change.

.05 **Price and Other Protections.** Unless otherwise specifically set forth herein, the price and other protections contained in this Interpretation and Policy .05 apply to all complex order types set forth in Rule 518(b) above.

(a) – (c) No change.

(d) **Implied Away Best Bid or Offer (“ixABBO”) Price Protection.** The ixABBO price protection feature is a price protection mechanism under which, when in operation as requested by the submitting Member, a buy order will not be executed at a price that is higher than each other single exchange’s best displayed offer for the complex strategy, and under which a sell order will not be executed at a price that is lower than each other single exchange’s best displayed bid for the complex strategy. The ixABBO is calculated using the best net bid and offer for a complex strategy using each other exchange’s displayed best bid or offer on their simple order book. For stock-option orders, the ixABBO for a complex strategy will be calculated using the BBO for each component on each individual away options market and the NBBO for the stock component. The ixABBO price protection feature must be engaged on an order-by-order basis by the submitting Member and is not available for complex Standard quotes, complex eQuotes, cAOC orders, cPRIME Orders, cC2C Orders, and cQCC Orders.

(e) **Wide Market Conditions, SMAT Events and Halts**

(1) **Wide Market Condition.** A “wide market condition” is defined as any individual option component of a complex strategy having, at the time of evaluation, an EBBO quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4).

(i) – (iii) No change

**(2) SMAT Events**

**(i) SMAT Events During Free Trading.** If a SMAT Event exists during free trading for an option component of a complex strategy, trading in the complex strategy will be suspended. The Strategy Book will remain available for Members to enter and manage complex orders and quotes. New Complex Auctions may be initiated for incoming Complex Auction-eligible orders that meet the requirements of the URIP as described in Interpretation and Policy .03(b) of this Rule. Incoming complex orders and quotes that could otherwise be executed during the SMAT Event(s) without entering the Complex Auction process will be placed on the Strategy Book. Incoming complex orders received during a SMAT Event with a time in force of IOC will be cancelled by the System.

The System will continue to evaluate the Strategy Book. When the SMAT Event(s) no longer exist(s), the System will evaluate the Strategy Book pursuant to subparagraph (c)(5)(ii) of this Rule, and will use the process and criteria respecting the RIP as described in Interpretation and Policy .03(c) of this Rule to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

**(ii) SMAT Events During a Complex Auction.** If, at the end of the Response Time Interval, an option component of a complex strategy is in a SMAT Event, trading in the complex strategy will be suspended and all RFR Responses will be cancelled. Remaining Complex Auction-eligible orders will then be placed on the Strategy Book. When the SMAT Event(s) no longer exist(s), the System will evaluate the Strategy Book pursuant to subparagraph (c)(5)(ii) of this Rule, and will use the process and criteria respecting the RIP as described in Interpretation and Policy .03(c) of this Rule to determine whether marketable complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

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