SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85345; File No. SR-EMERALD-2019-13)

March 18, 2019

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule

19b-4 thereunder,[2] notice is hereby given that on 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 and II 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.

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

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

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.[3] MIAX Emerald commenced operations as a national securities exchange registered

under Section 6 of the Act[4] on March 1, 2019. As described more fully in MIAX Emerald's

Form 1 application,[5] 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[6]

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

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[3]   See MIAX Options Exchange Rule 518.

[4]   15 U.S.C. 78f.

[5]   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.)

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

Complex orders began trading on MIAX Options on October 24, 2016.[7] In its rule filing to establish the trading of complex orders, MIAX Options adopted rules for handling stock-option orders.[8] MIAX Options filed SR-MIAX-2018-16[9] 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 (the "legs" or "components" of the complex order),[10] 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

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[7]   See MIAX Options Regulatory Circular 2016-43, October 20, 2016.

[8]   See Securities Exchange Act Release No. 79072 (October 7, 2016), 81 FR 71131 (October 14, 2016) (SR-MIAX-2016-26).

[9]   See supra note 6.

[10]   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.

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purposes of executing a particular investment strategy. Mini-options may only be part of a complex order that includes other mini-options.[11] Only those complex orders in the classes designated by the Exchange and communicated to Members[12] 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 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.

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[11]   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).

[12]   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.

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[13] 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 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

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[13]   The "Simple Order Book" is the Exchange's regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

Book.[14] 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[15] 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.[16] 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

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[14]   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.

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

[16]   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.

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.[17] 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) [18] and Market Makers with priority quotes[19] 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 Strategy Book and Complex Auction. Stock-option orders will not be legged against the

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17   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.

18   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.

19   See Exchange Rule 517(b)(1).

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[20] 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").[21] 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

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[20]   17 CFR 242.611(a).

[21]   17 CFR 242.200.

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")[22] as discussed further below.

When the short sale price test in Rule 201 is triggered for a covered security,[23] a "trading center,"[24] 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 to the current national best bid[25] if the price of that covered security decreases by 10% or more

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[22]   17 CFR 242.201.

[23]   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).

[24]   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.

[25]   The term "national best bid" is defined in Rule 201(a)(4). 17 CFR 242.201(a)(4).

from the covered security's closing price as determined by the listing market[26] for the covered security as of the end of regular trading hours on the prior day;[27] 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.[28] 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),[29] 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"[30] without regard to whether the order is at a price that is less than or equal to the current national best bid.[31]

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

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[26]   The term "listing market" is defined in Rule 201(a)(3). 17 CFR 242.201(a)(3).

[27]   17 CFR 242.201(b)(1)(i).

[28]   17 CFR 242.201(b)(1)(ii).

[29]   17 CFR 242.201(b)(1)(iii)(B).

[30]   17 CFR 242.200(g)(2).

[31]   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).

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.[32]

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.[33]

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.

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

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[32]   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.

[33]   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."

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[34] 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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[34] 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[35] 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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[35]   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.[36] 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,[37] of Interpretation and Policy .05 to add that for stock-option

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[36]   A seller of the strategy would receive a $40.10 net credit.

[37]   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[38] 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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[38] 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.   <u>Statutory Basis</u>

The Exchange believes that its proposed rule changes are consistent with Section 6(b) of the Act[39] in general, and furthers the objectives of Section 6(b)(5) of the Act[40] 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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[39]   15 U.S.C. 78f(b).

[40]   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 (Stock Price – Strike Price = Call Option Parity Price); and the parity price of a put option can be derived by subtracting the stock price from the strike price (Strike Price – Stock Price = 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.[41] 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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[41]   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[42] and Rule 19b-4(f)(6)[43] thereunder.

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[42]   15 U.S.C. 78s(b)(3)(A).

[43]   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.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[44] normally does

not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)[45]

permits the Commission to designate a shorter time if such action is consistent with the

protection of investors and the public interest. In its filing with the Commission, the Exchange

has asked the Commission to waive the 30-day operative delay to allow MIAX Emerald to

implement the handling and trading of stock-option orders in a manner identical to that of

MIAX Options. As noted above, MIAX Emerald states that the proposed rules are identical to

rules adopted by MIAX Options.[46] In addition, MIAX Emerald notes that MIAX Emerald and

MIAX Options may have a number of Members in common, and that, where feasible, MIAX

Emerald intends to implement similar behavior to provide consistency between MIAX Options

and MIAX Emerald to avoid confusion among Members. The Commission believes that

waiving the 30-day operative delay is consistent with the protection of investors and the public

interest because it will allow MIAX Emerald to implement rules regarding the trading of stock-

option orders that are identical to rules adopted by MIAX Options, thereby reducing the

potential for confusion among market participants that are Members of both MIAX Emerald

and MIAX Options. In addition, the Commission notes that because the proposed rule change

is based on substantively identical rules of MIAX Options, the proposal raises no new

regulatory issues. Accordingly, the Commission hereby waives the operative delay and

designates the proposal operative upon filing.[47]

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[44]   17 CFR 240.19b-4(f)(6).

[45]   17 CFR 240.19b-4(f)(6)(iii).

[46]   See supra note 3, and accompanying text.

[47]   For purposes only of waiving the 30-day operative delay, the Commission has also
considered the proposed rule's impact on efficiency, competition, and capital formation.
See 15 U.S.C. 78c(f).

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. Please include File Number SR-EMERALD-2019-13 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-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 website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications

relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment 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.[48]

Eduardo A. Aleman
Deputy Secretary

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[48]   17 CFR 200.30-3(a)(12).