| OMB APPROVAL |
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| OMB Number: 3235-0045<br>Estimated average burden<br>hours per response...........38 |

*Required fields are shown with yellow backgrounds and asterisks.*



SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2014 - * 56
Amendment No. (req. for Amendments *)

Filing by Miami International Securities Exchange, LLC.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

| Initial * | Amendment * | Withdrawal | Section 19(b)(2) * | Section 19(b)(3)(A) * | Section 19(b)(3)(B) * |
|---|---|---|---|---|---|
| ☑ | ☐ | ☐ | ☐ | ☑ | ☐ |

| Pilot | Extension of Time Period for Commission Action * | Date Expires * |
|---|---|---|
| ☑ | ☐ | |

Rule

| | |
|---|---|
| ☐ 19b-4(f)(1) | ☐ 19b-4(f)(4) |
| ☐ 19b-4(f)(2) | ☐ 19b-4(f)(5) |
| ☐ 19b-4(f)(3) | ☑ 19b-4(f)(6) |

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

| Section 806(e)(1) * | Section 806(e)(2) * |
|---|---|
| ☐ | ☐ |

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

| Section 3C(b)(2) * |
|---|
| ☐ |

| Exhibit 2 Sent As Paper Document | Exhibit 3 Sent As Paper Document |
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| ☐ | ☐ |

## Description

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

Amend MIAX Rule 515A.

## 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 * | Brian |
| Last Name * | O'Neill |
| Title * | Vice President and Senior Counsel |
| E-mail * | boneill@miami-holdings.com |
| Telephone * | (609) 897-1434 |
| 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 | 10/31/2014 | Vice President and Senior Counsel |
| By | Brian O'Neill | |
| | (Name *) | |

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.

Persona Not Validated - 1399471823417,

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

| | |
|---|---|
| **Form 19b-4 Information *** <br> Add Remove View | 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 *** <br> Add Remove View | 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 *** <br> Add Remove View | 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** <br> Add Remove View <br> 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** <br> Add Remove View <br> 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** <br> Add Remove View | 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** <br> Add Remove View | 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** <br> Add Remove View | 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) Miami International Securities Exchange, LLC ("MIAX" or "Exchange"), pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] proposes to amend Exchange Rule 515A.

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 Board of Directors on December 12, 2013. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the proposed rule change.

Questions and comments on the proposed rule change may be directed to Brian O'Neill, Vice President and Senior Counsel, at (609) 897-1434.

## 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 MIAX Rule 515A regarding PRIME to allow orders of any size to initiate a PRIME Auction on MIAX at a price which is at or better than the national

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

2 17 CFR 240.19b-4.

best bid or offer ("NBBO"). The proposed change is based on recent filings of other competing exchanges.[3]

Rule 515A provides that a Member (the "Initiating Member") may initiate an Auction provided that: (i) if the Agency Order is for 50 standard option contracts or 500 mini-option contracts or more, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order); or (ii) if the Agency Order is for less than 50 standard option contracts or 500 mini-option contracts, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of (A) the NBBO price improved by a $0.01 increment; or (B) the Agency Order's limit price (if the order is a limit order).[4] In addition, to initiate the Auction for auto-match submissions, the Initiating Member must mark the Agency Order for Auction processing, and for auto-match as principal the price and size of all Auction responses up to an optional designated limit price in which case the Agency Order will be stopped at the better of the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater), $0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts), or the Agency Order's limit price.[5]

The Exchange proposes to discontinue the disparate treatment for Agency Orders less than 50 contracts or 500 mini-option contracts. As a result, all Agency Orders regardless of their size will be treated the same as Agency Orders that are 50 standard option contracts or 500 mini-option contracts or more in current Rule 515A(a)(1)(ii). Similarly, for auto-match submissions,

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3 See Securities Exchange Act Release Nos. 70654 (October 10, 2013), 78 FR 62891 (October 22, 2013) (SR-PHLX-2013-76); 72554 (July 8, 2014), 79 FR 40830 (July 14, 2014) (SR-ISE-2014-35).

4 See Exchange Rule 515A(a)(1).

5 See Exchange Rule 515A(a)(2)(i)(A).

the Exchange will discontinue the requirement that Agency Orders for less than 50 contracts or 500 mini-option contracts to be $0.01 increment or better than the NBBO in current Rule 515A(a)(2)(i)(A). As a result, for auto-match submissions, all Agency Orders regardless of their size will be stopped at the better of the NBBO or the Agency Order's limit price. The Exchange notes that the requirement will remain unchanged for both single price submissions and auto-match that if the MBBO on the same side of the market as the Agency Order represents a limit order on the Book the stop price must be at least $0.01 increment better than the booked order's limit price.[6] The Exchange notes that orders on the Book on the opposite side of the market as the Agency Order that are priced at the MBBO when the Agency Order has a stop price equal to the opposite order, will be executed in the same manner as today for orders more than 50 contracts or 500 mini-option contracts in accordance to the priority rules for PRIME in Rule 515A(a)(2)(iii). The Exchange notes that other exchanges provide the same functionality.[7] Priority rules for PRIME will remain unchanged with Priority Customers continuing to have priority at each price level in accordance with Rule 515A(a)(2)(iii). After Priority Customer interest at a given price point has been satisfied, remaining contracts will be allocated in accordance with the priority rules set forth in Rule 515A(a)(2)(iii).

The following examples show how allocations will be allocated at the conclusion of the Prime Auction with the proposed changes.

Example 1 – Single Price Submission

NBBO = $1.15 - $1.20 200 x 200
BBO = $1.15 - $1.20 100 x 100
Agency Order to buy 100 contracts with a limit price of $1.20
Initiating Member's Contra Order selling 100 contracts with a single stop price of $1.20
RFR sent identifying the option, side and size, with initiating price of $1.20

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6 See Exchange Rule 515A(a)(2)(i)(A).

7 See PHLX Rule 1080(n); ISE Rule 723.

(Auction Starts)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 5 at $1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 100 at $1.20
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 40 at $1.22
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

1. 5 contracts trade with MM1 @ $1.17
2. 40 contracts trade with the Initiating Member’s Contra Order @ $1.20 (This satisfies their 40% participation guarantee)
3. 55 contracts trade with MM4 @ $1.20

Example 2 – Single Price Submission, less than 50 contracts

NBBO = $1.15 - $1.20 200 x 200
BBO = $1.15 - $1.20 100 x 100
Agency Order to buy 30 contracts with a limit price of $1.20
Initiating Member’s Contra Order selling 30 contracts with a single stop price of $1.20
RFR sent identifying the option, side and size, with initiating price of $1.20[8]
(Auction Starts)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 5 at $1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 5 at $1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 10 at $1.20
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

1. 5 contracts trade with MM1 @ $1.17
2. 5 contracts trade with MM4 @ $1.18
3. 12 contracts trade with the Initiating Member’s Contra Order @ $1.20 (This satisfies their 40% participation guarantee)
4. 8 contracts trade with MM3 @ $1.20 (This fills the entire Agency Order)

Example 3 – Auto-match

NBBO = $1.15 - $1.25 200 x 200
BBO = $1.15 - $1.25 100 x 100
Agency Order to buy 50 contracts with a limit price of $1.25
Initiating Member’s Contra Order selling 50 contracts auto-match
RFR sent identifying the option, side and size, with initiating price of $1.25
(Auction Starts)

- @ 150 milliseconds MM2 response received, AOC eQuote to Sell 5 at $1.17

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8 The Exchange notes that under the current Rule the initiating price would have been $1.19.

- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at $1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 40 at $1.20
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

1. 5 contracts trade with MM2 @ $1.17
2. 5 contracts trade with Contra Order @ $1.17 (due to auto-match)
3. 10 contracts trade with MM4 @ $1.18
4. 10 contracts trade with Contra Order @ $1.18 (due to auto-match)
5. 8 contracts trade with Contra Order @ $1.20 (due to auto-match of 40% of the remainder of the order participation guarantee)
6. 12 contracts trade with MM3 @ $1.20 (This fills the entire Agency Order)

<u>Example 4 – Auto-match, Agency Order entered without a limit price, less than 50 contracts</u>

NBBO = $1.15 - $1.25 200 x 200
BBO = $1.15 - $1.25 100 x 100
Agency Order to buy 30 contracts without a limit price
Initiating Member's Contra Order selling 30 contracts auto-match
RFR sent identifying the option, side and size, with initiating price of $1.25[9]
(Auction Starts)

- @ 150 milliseconds MM2 response received, AOC eQuote to Sell 5 at $1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 5 at $1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 30 at $1.20
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

1. 5 contracts trade with MM2 @ $1.17
2. 5 contracts trade with Contra Order @ $1.17 (due to auto-match)
3. 5 contracts trade with MM4 @ $1.18
4. 5 contracts trade with Contra Order @ $1.18 (due to auto-match)
5. 4 contracts trade with Contra Order @ $1.20 (due to auto-match of 40% of the remainder of the order participation guarantee)
6. 6 contracts trade with MM3 @ $1.20 (This fills the entire Agency Order)

While the removal of the requirement that Agency Orders for less than 50 contracts or 500 mini-option contracts to be $0.01 increment or better than the NBBO, removes the guarantee of price improvement in a limited instance, specifically when a PRIME Order is for fewer than 50 contracts and MIAX is already present at the NBBO at the commencement of the Auction, the

[9] The Exchange notes that under the current Rule the initiating price would have been $1.24.

Exchange believes that the proposed rule change will benefit customers because it will encourage the entry of more orders into PRIME, thus it is more likely that such orders may receive price improvement. Similar price improvement mechanisms on the ISE, BOX, and PHLX do not guarantee price improvement over the NBBO today. ISE's PIM mechanism has no size differentiation and only guarantees price improvement over the ISE NBBO.[10] The BOX PIP mechanism and PHLX PIXL allow orders of any size to be stopped at the NBBO or better which also does not guarantee price improvement.[11] As noted above, the requirement will remain unchanged for both single price submissions and auto-match that if the MBBO on the same side of the market as the Agency Order represents a limit order on the Book the stop price must be at least $0.01 increment better than the booked order's limit price.[12]

The Exchange believes using the same exact allocation method, as it does today for Agency Orders of 50 contracts or 500 mini-options or greater, is a fair distribution because the Contra-side Order provides significant value to the market. The Initiating Member guarantees the Agency Order the opportunity for price improvement, and is subject to market risk while the order is exposed to other market participants. The Initiating Member may not change or cancel its order once the PRIME Auction commences. Other market participants are free to modify or cancel their quotes and orders at any time during the auction. The Exchange believes that the Initiating Member provides an important role in facilitating the price improvement opportunity for market participants.

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10 See Securities Exchange Act Release No. 72554 (July 8, 2014), 79 FR 40830 (July 14, 2014) (SR-ISE-2014-35).

11 See Securities Exchange Act Release No. 70654 (October 10, 2013), 78 FR 62891 (October 22, 2013) (SR-PHLX-2013-76).

12 See Exchange Rule 515A(a)(2)(1)(A). See also PHLX Rule 1080(n).

The Exchange believes the proposed rule change will attract new order flow that might not currently be afforded any price improvement opportunity. Moreover, the Exchange notes that other competing options exchanges currently have rules that allow it to commence its price improvement auction, at a price equal to the NBBO.[13]

The Exchange believes that because there is no rational need for volume differentiation, and as there is a competitive disadvantage to the Exchange in continuing differentiation, it is appropriate to discontinue the requirement that Agency Orders for less than 50 contracts or 500 mini-option contracts to be $0.01 increment or better than the NBBO and thereby simplify the way PRIME operates.

The Exchange proposes to adopt the proposed changes to the size requirements subject to a Pilot Program ending July 18, 2015, pursuant to which the Exchange will periodically submit reports based on the comprehensive list of the data that the Exchange represented that it will collect in order to aid the Commission in its evaluation of the PRIME that incorporates the changes proposed.[14]

b. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act[15] in general, and furthers the objectives of Section 6(b)(5) of the Act[16] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable

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13 See BOX Rules Chapter V, Section 18(e); PHLX Rule 1080(n); ISE Rule 723.

14 See Proposed Rule 515A, Interpretations and Policies .08. A comprehensive list of the data that the Exchange represented that it will collect is available in Exhibit 3 of SR-MIAX-2014-23. See also Securities Exchange Act Release Nos. 72009 (April 23, 2014), 79 FR 24032 (April 29, 2014) (SR-MIAX-2014-20); 72418 (June 18, 2014), 79 FR 35833 (June 24, 2014) (SR-MIAX-2014-23).

15 15 U.S.C. 78f(b).

16 15 U.S.C. 78f(b)(5).

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.

Specifically, the Exchange believes the proposal will result in more orders of less than 50 contracts being executed in PRIME, thus providing an increased probability of price improvement for small orders. By removing the requirement as proposed, market participants would be incentivized to introduce more customer orders to PRIME for the opportunity to receive price improvement. Furthermore, Priority Customers will continue to have priority at each price level in accordance with Rule 515A(a)(2)(iii). In particular, the Exchange believes that using the same allocation process as is used today for Agency Orders of 50 contracts or greater, is fair and equitable because of the value the Initiating Member brings to the market place. Specifically, by stopping the Agency Order at or better than the NBBO, the Initiating Member facilitates a process that protects investors and is in the public interest by providing an opportunity for price improvement. The Exchange believes the proposed rule change is appropriate in the price improvement auctions are widely recognized by market participants as invaluable, both as a tool to access liquidity, and a mechanism to help meet their best execution obligations. The proposed rule change will further the ability of market participants to carry out these strategies. Finally, as noted above, the proposed changes are a competitive response to how price improvement auctions on other exchanges currently operate and with this proposal, the Exchange will be on a more equal footing to compete with other exchanges for orders to be executed in the PRIME.

**4. <u>Self-Regulatory Organization's Statement on Burden on Competition</u>**

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's proposal to amend its rules regarding the start price of a PRIME Auction will not impose a burden on competition because it will increase the number of orders that may be executed in the PRIME and thereby receive price improvement opportunities that were not previously available to them. The PRIME Auction is designed to increase competition for order flow on the Exchange in a manner intended to be beneficial to investors seeking to effect option orders with an opportunity to access additional liquidity and receive price improvement. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. The Exchange believes that the proposed changes to the Auctions are pro-competitive by providing market participants with functionality that is similar to that of other options exchanges.

**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[17] and Rule 19b-4(f)(6)[18] 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.

The Exchange believes the proposed rule change will attract new order flow that might not currently be afforded any price improvement opportunity. As such, the proposed rule change will result in more orders being executed in the PRIME, thus providing an increased probability of price improvement for all orders, regardless of their size. With this proposed rule change, market participants would be incentivized to introduce more orders to the PRIME for the opportunity to receive price improvement. The Exchange notes that other competing options exchanges currently have rules that allow it to commence its price improvement auction, at a price equal to the NBBO. This proposed rule change will allow the Exchange to compete with those options exchanges that currently permit Agency Orders to be entered at a price proposed under this rule change. The Exchange further believes that the proposed rule change will not impose a burden on competition because it will increase the number of orders that may be executed in the PRIME and thereby receive price improvement opportunities that were not previously available to them. In addition, the proposed changes to the Auctions are pro-competitive by providing market participants with functionality that is similar to that of other options exchanges.

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[19] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)[20] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

The Exchange respectfully requests a waiver of the 30 day operative delay in order to enable market participants to benefit from the proposed changes without undue delay. Waiver of operative delay is consistent with the protection of investors and the public interest because it would enable market participants to benefit from the same price improvement opportunities that are currently available on competing options exchanges without undue delay. The proposed rule change will also improve the quality of executions on the Exchange for the benefit of all investors and the public as more orders will receive price improvement.

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.

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

The proposed rule change is based on the rules of another self-regulatory organization or of the Commission.[21] The Exchange notes that while PRIME is originally based off of CBOE's price improvement mechanism, the proposed rule change is designed to remove a requirement that still remains on CBOE. As discussed above, the proposal to remove the requirement that Agency Orders for less than 50 contracts or 500 mini-option contracts to be $0.01 increment or better than the NBBO is similar to the price improvement mechanisms on the ISE, BOX, and

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[21] See PHLX Rule 1080(n); Securities Exchange Act Release No. 70654 (October 10, 2013), 78 FR 62891 (October 22, 2013) (SR-PHLX-2013-76).

PHLX do not guarantee price improvement over the NBBO today. However, even with this change, PRIME still remains substantially similar to CBOE's price improvement mechanism.

**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 rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-MIAX-2014-56)

October __, 2014

Self-Regulatory Organizations: Notice of Filing and Immediate Effectiveness of a Proposed Rule Change by Miami International Securities Exchange LLC to Amend Exchange Rule 515A

Pursuant to the provisions of 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 October 31, 2014, Miami International Securities Exchange LLC ("MIAX" 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 515A.

The text of the proposed rule change is available on the Exchange's website at http://www.miaxoptions.com/filter/wotitle/rule_filing, at MIAX'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 MIAX Rule 515A regarding PRIME to allow orders of any size to initiate a PRIME Auction on MIAX at a price which is at or better than the national best bid or offer ("NBBO"). The proposed change is based on recent filings of other competing exchanges.[3]

Rule 515A provides that a Member (the "Initiating Member") may initiate an Auction provided that: (i) if the Agency Order is for 50 standard option contracts or 500 mini-option contracts or more, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order); or (ii) if the Agency Order is for less than 50 standard option contracts or 500 mini-option contracts, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of (A) the NBBO price improved by a \$0.01 increment; or (B) the Agency Order's limit price (if the order is a limit order).[4] In addition, to initiate the Auction for auto-match submissions, the Initiating Member must mark the Agency Order for Auction processing, and for auto-match as principal the price and size of all Auction responses up to an optional designated limit price in which case the Agency Order will be stopped at the better of the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater), \$0.01

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3 See Securities Exchange Act Release Nos. 70654 (October 10, 2013), 78 FR 62891 (October 22, 2013) (SR-PHLX-2013-76); 72554 (July 8, 2014), 79 FR 40830 (July 14, 2014) (SR-ISE-2014-35).

4 See Exchange Rule 515A(a)(1).

increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts), or the Agency Order's limit price.[5]

The Exchange proposes to discontinue the disparate treatment for Agency Orders less than 50 contracts or 500 mini-option contracts. As a result, all Agency Orders regardless of their size will be treated the same as Agency Orders that are 50 standard option contracts or 500 mini-option contracts or more in current Rule 515A(a)(1)(ii). Similarly, for auto-match submissions, the Exchange will discontinue the requirement that Agency Orders for less than 50 contracts or 500 mini-option contracts to be $0.01 increment or better than the NBBO in current Rule 515A(a)(2)(i)(A). As a result, for auto-match submissions, all Agency Orders regardless of their size will be stopped at the better of the NBBO or the Agency Order's limit price. The Exchange notes that the requirement will remain unchanged for both single price submissions and auto-match that if the MBBO on the same side of the market as the Agency Order represents a limit order on the Book the stop price must be at least $0.01 increment better than the booked order's limit price.[6] The Exchange notes that orders on the Book on the opposite side of the market as the Agency Order that are priced at the MBBO when the Agency Order has a stop price equal to the opposite order, will be executed in the same manner as today for orders more than 50 contracts or 500 mini-option contracts in accordance to the priority rules for PRIME in Rule 515A(a)(2)(iii). The Exchange notes that other exchanges provide the same functionality.[7] Priority rules for PRIME will remain unchanged with Priority Customers continuing to have priority at each price level in accordance with Rule 515A(a)(2)(iii). After Priority Customer

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5 See Exchange Rule 515A(a)(2)(i)(A).

6 See Exchange Rule 515A(a)(2)(i)(A).

7 See PHLX Rule 1080(n); ISE Rule 723.

interest at a given price point has been satisfied, remaining contracts will be allocated in accordance with the priority rules set forth in Rule 515A(a)(2)(iii).

The following examples show how allocations will be allocated at the conclusion of the Prime Auction with the proposed changes.

<u>Example 1 – Single Price Submission</u>

NBBO = $1.15 - $1.20 200 x 200
BBO = $1.15 - $1.20 100 x 100
Agency Order to buy 100 contracts with a limit price of $1.20
Initiating Member's Contra Order selling 100 contracts with a single stop price of $1.20
RFR sent identifying the option, side and size, with initiating price of $1.20[8]
(Auction Starts)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 5 at $1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 100 at $1.20
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 40 at $1.22
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

1. 5 contracts trade with MM1 @ $1.17
2. 40 contracts trade with the Initiating Member's Contra Order @ $1.20 (This satisfies their 40% participation guarantee)
3. 55 contracts trade with MM4 @ $1.20

<u>Example 2 – Single Price Submission, less than 50 contracts</u>

NBBO = $1.15 - $1.20 200 x 200
BBO = $1.15 - $1.20 100 x 100
Agency Order to buy 30 contracts with a limit price of $1.20
Initiating Member's Contra Order selling 30 contracts with a single stop price of $1.20
RFR sent identifying the option, side and size, with initiating price of $1.20[9]
(Auction Starts)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 5 at $1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 5 at $1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 10 at $1.20
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

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8 The Exchange notes that under the current Rule the initiating price would have been $1.19.

9 The Exchange notes that under the current Rule the initiating price would have been $1.24.

1. 5 contracts trade with MM1 @ $1.17
2. 5 contracts trade with MM4 @ $1.18
3. 12 contracts trade with the Initiating Member's Contra Order @ $1.20 (This satisfies their 40% participation guarantee)
4. 8 contracts trade with MM3 @ $1.20 (This fills the entire Agency Order)

<u>Example 3 – Auto-match</u>

NBBO = $1.15 - $1.25 200 x 200
BBO = $1.15 - $1.25 100 x 100
Agency Order to buy 50 contracts with a limit price of $1.25
Initiating Member's Contra Order selling 50 contracts auto-match
RFR sent identifying the option, side and size, with initiating price of $1.25
(Auction Starts)

- @ 150 milliseconds MM2 response received, AOC eQuote to Sell 5 at $1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at $1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 40 at $1.20
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

1. 5 contracts trade with MM2 @ $1.17
2. 5 contracts trade with Contra Order @ $1.17 (due to auto-match)
3. 10 contracts trade with MM4 @ $1.18
4. 10 contracts trade with Contra Order @ $1.18 (due to auto-match)
5. 8 contracts trade with Contra Order @ $1.20 (due to auto-match of 40% of the remainder of the order participation guarantee)
6. 12 contracts trade with MM3 @ $1.20 (This fills the entire Agency Order)

<u>Example 4 – Auto-match, Agency Order entered without a limit price, less than 50 contracts</u>

NBBO = $1.15 - $1.25 200 x 200
BBO = $1.15 - $1.25 100 x 100
Agency Order to buy 50 contracts without a limit price
Initiating Member's Contra Order selling 30 contracts auto-match
RFR sent identifying the option, side and size, with initiating price of $1.25
(Auction Starts)

- @ 150 milliseconds MM2 response received, AOC eQuote to Sell 5 at $1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 5 at $1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 30 at $1.20
- 500 milliseconds (Auction Ends)

Under this scenario the Agency Order would be executed as follows:

1. 5 contracts trade with MM2 @ $1.17
2. 5 contracts trade with Contra Order @ $1.17 (due to auto-match)
3. 5 contracts trade with MM4 @ $1.18
4. 5 contracts trade with Contra Order @ $1.18 (due to auto-match)

5. 4 contracts trade with Contra Order @ $1.20 (due to auto-match of 40% of the remainder of the order participation guarantee)
6. 6 contracts trade with MM3 @ $1.20 (This fills the entire Agency Order)

While the removal of the requirement that Agency Orders for less than 50 contracts or 500 mini-option contracts to be $0.01 increment or better than the NBBO, removes the guarantee of price improvement in a limited instance, specifically when a PRIME Order is for fewer than 50 contracts and MIAX is already present at the NBBO at the commencement of the Auction, the Exchange believes that the proposed rule change will benefit customers because it will encourage the entry of more orders into PRIME, thus it is more likely that such orders may receive price improvement. Similar price improvement mechanisms on the ISE, BOX, and PHLX do not guarantee price improvement over the NBBO today. ISE's PIM mechanism has no size differentiation and only guarantees price improvement over the ISE NBBO.[10] The BOX PIP mechanism and PHLX PIXL allow orders of any size to be stopped at the NBBO or better which also does not guarantee price improvement.[11] As noted above, the requirement will remain unchanged for both single price submissions and auto-match that if the MBBO on the same side of the market as the Agency Order represents a limit order on the Book the stop price must be at least $0.01 increment better than the booked order's limit price.[12]

The Exchange believes using the same exact allocation method, as it does today for Agency Orders of 50 contracts or 500 mini-options or greater, is a fair distribution because the Contra-side Order provides significant value to the market. The Initiating Member guarantees the Agency Order the opportunity for price improvement, and is subject to market risk while the

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10 See Securities Exchange Act Release No. 72554 (July 8, 2014), 79 FR 40830 (July 14, 2014) (SR-ISE-2014-35).

11 See Securities Exchange Act Release No. 70654 (October 10, 2013), 78 FR 62891 (October 22, 2013) (SR-PHLX-2013-76).

12 See Exchange Rule 515A(a)(2)(1)(A). See also PHLX Rule 1080(n).

order is exposed to other market participants. The Initiating Member may not change or cancel its order once the PRIME Auction commences. Other market participants are free to modify or cancel their quotes and orders at any time during the auction. The Exchange believes that the Initiating Member provides an important role in facilitating the price improvement opportunity for market participants.

The Exchange believes the proposed rule change will attract new order flow that might not currently be afforded any price improvement opportunity. Moreover, the Exchange notes that other competing options exchanges currently have rules that allow it to commence its price improvement auction, at a price equal to the NBBO.[13]

The Exchange believes that because there is no rational need for volume differentiation, and as there is a competitive disadvantage to the Exchange in continuing differentiation, it is appropriate to discontinue the requirement that Agency Orders for less than 50 contracts or 500 mini-option contracts to be $0.01 increment or better than the NBBO and thereby simplify the way PRIME operates.

The Exchange proposes to adopt the proposed changes to the size requirements subject to a Pilot Program ending July 18, 2015, pursuant to which the Exchange will periodically submit reports based on the comprehensive list of the data that the Exchange represented that it will collect in order to aid the Commission in its evaluation of the PRIME that incorporates the changes proposed.[14]

2. Statutory Basis

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13 See BOX Rules Chapter V, Section 18(e); PHLX Rule 1080(n); ISE Rule 723.

14 See Proposed Rule 515A, Interpretations and Policies .08. A comprehensive list of the data that the Exchange represented that it will collect is available in Exhibit 3 of SR-MIAX-2014-23. See also Securities Exchange Act Release Nos. 72009 (April 23, 2014), 79 FR 24032 (April 29, 2014) (SR-MIAX-2014-20); 72418 (June 18, 2014), 79 FR 35833 (June 24, 2014) (SR-MIAX-2014-23).

The Exchange believes that its proposed rule change is consistent with Section 6(b)[15] of the Act in general, and furthers the objectives of Section 6(b)(5)[16] of the Act 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.

Specifically, the Exchange believes the proposal will result in more orders of less than 50 contracts being executed in PRIME, thus providing an increased probability of price improvement for small orders. By removing the requirement as proposed, market participants would be incentivized to introduce more customer orders to PRIME for the opportunity to receive price improvement. Furthermore, Priority Customers will continue to have priority at each price level in accordance with Rule 515A(a)(2)(iii). In particular, the Exchange believes that using the same allocation process as is used today for Agency Orders of 50 contracts or greater, is fair and equitable because of the value the Initiating Member brings to the market place. Specifically, by stopping the Agency Order at or better than the NBBO, the Initiating Member facilitates a process that protects investors and is in the public interest by providing an opportunity for price improvement. The Exchange believes the proposed rule change is appropriate in the price improvement auctions are widely recognized by market participants as invaluable, both as a tool to access liquidity, and a mechanism to help meet their best execution obligations. The proposed rule change will further the ability of market participants to carry out these strategies. Finally, as noted above, the proposed changes are a competitive response to

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15 15 U.S.C. 78f(b).

16 15 U.S.C. 78f(b)(5).

how price improvement auctions on other exchanges currently operate and with this proposal, the Exchange will be on a more equal footing to compete with other exchanges for orders to be executed in the PRIME.

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's proposal to amend its rules regarding the start price of a PRIME Auction will not impose a burden on competition because it will increase the number of orders that may be executed in the PRIME and thereby receive price improvement opportunities that were not previously available to them. The PRIME Auction is designed to increase competition for order flow on the Exchange in a manner intended to be beneficial to investors seeking to effect option orders with an opportunity to access additional liquidity and receive price improvement. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. The Exchange believes that the proposed changes to the Auctions are pro-competitive by providing market participants with functionality that is similar to that of other options exchanges.

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[17] and Rule 19b-4(f)(6)[18] thereunder.

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-MIAX-2014-56 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.

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17 15 U.S.C. 78s(b)(3)(A).

18 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.

All submissions should refer to File Number SR-MIAX-2014-56. 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-MIAX-2014-56 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.[19]

Kevin M. O'Neill
Deputy Secretary

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[19] 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

New text is underlined;
Deleted text is in [brackets]

**MIAMI INTERNATIONAL SECURITIES EXCHANGE, LLC Rules**

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**Rule 515A. MIAX Price Improvement Mechanism ("PRIME") and PRIME Solicitation Mechanism**

(a) **Price Improvement Mechanism ("PRIME")**. PRIME is a process by which a Member may electronically submit for execution ("Auction") an order it represents as agent ("Agency Order") against principal interest, and/or an Agency Order against solicited interest.

(1) **Auction Eligibility Requirements**. A Member (the "Initiating Member") may initiate an Auction provided all of the following are met:

(i) the Agency Order is in a class designated as eligible for PRIME as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange; and

(ii) [if the Agency Order is for 50 standard option contracts or 500 mini-option contracts or more, ]the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order)[; and

(iii) if the Agency Order is for less than 50 standard option contracts or 500 mini-option contracts, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of (A) the NBBO price improved by a $0.01 increment; or (B) the Agency Order's limit price (if the order is a limit order)].

(2) **Auction Process**. Only one Auction may be ongoing at any given time in an option and Auctions in the same option may not queue or overlap in any manner. The Auction may not be cancelled and shall proceed as follows:

(i) **Auction Period and Request for Responses (RFRs)**.

(A) To initiate the Auction, the Initiating Member must mark the Agency Order for Auction processing, and specify (i) a single price at which it seeks to cross the Agency Order (with principal interest and/or a solicited order) (a "single-price submission"), including whether the Initiating Member elects to have last priority in allocation, or (ii) that it is willing to automatically match ("auto-match") as principal the price and size of all Auction responses up to an optional designated limit price in which case the Agency Order will be stopped at the better of the NBBO[ (if 50 standard option contracts or 500 mini-option contracts or greater), $0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts)], or the Agency Order's limit price. For both single price submissions and auto-match, if the MBBO on the same side of the market as the Agency Order represents a limit order on the Book, the stop price must be at least $0.01 increment better than the booked order's limit price. Once the Initiating Member has submitted an Agency Order for processing pursuant to this subparagraph, such submission may not be modified or cancelled. For both a single price submission and auto-match, the stopped price specified by the Initiating Member on the Agency Order shall be the "initiating price" for the Auction.

(B) – (H) No Change.

(ii) - (iii) No Change.

(b) No Change.

Interpretations and Policies:

.01 - .07 No Change.

.08 <u>The minimum size requirement for PRIME Auctions to start at the NBBO is subject to a Pilot Program ending July 18, 2015.</u> The Exchange will submit certain data, as [requested]<u>required</u> by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders within the PRIME, that there is significant price improvement for all orders executed through the PRIME, and that there is an active and liquid market functioning on the Exchange outside of the PRIME. Any data which is submitted to the Commission will be provided on a confidential basis.

.09 No Change.

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