SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73590; File No. SR-MIAX-2014-56)

November 13, 2014

Self-Regulatory Organizations; Miami International Securities Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Amend Exchange Rule 515A

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 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. On November 12, 2014, the Exchange filed Amendment No. 1 to the proposed rule change.[3] The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 1, 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.

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

2 17 CFR 240.19b-4.

3 In Amendment No. 1, MIAX deleted a sentence from purpose section which incorrectly described the current functionality of the Price Improvement Mechanism ("PIM") offered by the International Securities Exchange, LLC ("ISE"). See ISE Rule 723. Because the sentence was immaterial to the filing, MIAX submitted Amendment No. 1 to delete it from the filing. MIAX did not propose any other changes to the filing in Amendment No. 1.

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

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

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

1. Purpose

The Exchange proposes to amend 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.[4]

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

4 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).

Agency Order's limit price (if the order is a limit order).[5] 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.[6]

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.[7] 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

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

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

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

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.[8] 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[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 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

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

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

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[10]

(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)

<u>Example 3 – Auto-match</u>

NBBO = $1.15 - $1.25 200 x 200

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

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. 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.

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 [sic] to commence its [sic] 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

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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)[sic]. See also PHLX Rule 1080(n).

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

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

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

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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).

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.

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.

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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.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as modified by Amendment No. 1, 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.

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 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; 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

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