

SECURITIES AND EXCHANGE COMMISSION

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Self-Regulatory Organizations: Notice of Filing of a Proposed Rule Change by Miami International Securities Exchange, LLC To Adopt New Rules To Govern the Trading of Complex Orders on the Exchange

August 18, 2016.

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 August 8, 2016, Miami International Securities Exchange LLC (“MIAX” or the “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 proposes to adopt new rules to govern the trading of complex orders on the Exchange.

The text of the proposed rule change is available on the Exchange’s Web site 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 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 adopt new rules that describe the trading of

complex orders on the Exchange. Proposed new Rule 518, Complex Orders, details the functionality of the MIAX System³ in the handling of complex orders on the Exchange. The proposed rules are based substantially on similar rules of other exchanges.⁴ The Exchange believes that the similarity of its proposed complex order rules to those of other exchanges will allow the Exchange’s proposed complex order functionality to fit seamlessly into the greater options marketplace and benefit market participants who are already familiar with similar functionality offered on other exchanges.

Additionally, the Exchange is proposing to amend Exchange Rule 516, Order Types Defined, to add a cross-reference to Rule 518 stating that complex order types are defined in Rule 518 and that, specifically, derived orders (as discussed below) are defined in Rule 518(a)(9). The Exchange is also proposing to amend Exchange Rules 519A, Risk Protection Monitor, to include complex orders in the rule; 521, Nullification and Adjustment of Options Transactions Including Obvious Errors, to establish the process for handling complex order obvious errors, and 605, Market Maker Orders, to add certain complex orders to the enumerated orders in which Exchange Market Makers may place orders on the Exchange, as described below.

Definitions

Proposed Rule 518(a) provides definitions of terms that apply to the trading of complex orders, and such terms are used throughout this proposed rule change.

The term “ABBO” means the best bid(s) or offer(s) disseminated by other Eligible Exchanges (defined in Rule 1400(f))⁵ and calculated by the

³ The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

⁴ See, e.g., Chicago Board Options Exchange, Inc. (“CBOE”) Rule 6.53(C)[sic]; International Securities Exchange LLC (“ISE”) Rule 722; NYSE MKT Rule 980NY; BOX Options Exchange LLC (“BOX”) Rule 7240; NASDAQ OMX PHLX LLC (“PHLX”) Rule 1098; NYSEArca Rule 6.91.

⁵ “Eligible Exchange” means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Act that: (1) Is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (2) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (3) if the national securities exchange is not a party to the Options Order Protection and Locked/Crossed Markets Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection. See Exchange Rule 1400(f).

Exchange based on market information received by the Exchange from OPRA.

The Complex National Best Bid or Offer (“cNBBO”) is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy. For stock-option orders (described below), the cNBBO for a complex strategy will be calculated using the NBBO in the individual option component(s) and the NBBO in the stock component.

A “Complex Auction” is an auction of a complex order as set forth in proposed Rule 518(d), described below.

A “Complex Auction-eligible order” is an order that meets the requirements of proposed Rule 518(d)(1), as described below.

A “complex order” is any order involving the concurrent purchase and/or sale of two or more different options in the same underlying security (the “legs” or “components” of the complex order),⁶ for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purposes of executing a particular investment strategy. Mini-options may only be part of a complex order that includes other mini-options.⁷ Only those complex orders in the classes designated by the Exchange and communicated to Members via Regulatory Circular with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis and communicated to Members via Regulatory Circular, are eligible for processing.

A complex order can also be a “stock-option order” as described further, and subject to the limitations set forth, in proposed Interpretations and Policies .01 of proposed 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

⁶ 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.

⁷ 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).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.⁸

The term “complex strategy” means a particular combination of components and their ratios to one another. New complex strategies can be created as the result of the receipt of a complex order, or by the Exchange for a complex strategy that is not currently in the System. The Exchange may limit the number of new complex strategies that may be in the System at a particular time and will communicate this limitation to Members via Regulatory Circular.

A “complex quote” is a Market Maker complex Standard quote or complex eQuote for a complex strategy as set forth in Interpretations and Policies .02 of proposed Rule 518, described below.

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

A “derived order” is an Exchange-generated limit order on the Simple Order Book that represents either the bid or offer of one component of a complex order resting on the Strategy Book that is comprised of orders to buy or sell an equal quantity (with a one-to-one ratio) of two option components.⁹

⁸ This is substantially similar to the definition of a stock-option order on other exchanges. See, e.g., CBOE Rule 6.53C(a)(2) and PHLX Rule 1098.

⁹ The Exchange notes that a derived order is the equivalent of a similar order type on other exchanges. See, e.g., PHLX Rule 1098(f)(iii)(C) (Legging Orders). Like a MIAX derived order, a Legging Order on PHLX may be generated for one leg of a Complex Order at a price: (i) That matches or improves upon the best PHLX displayed bid or offer; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on PHLX. The PHLX rule governs situations in which a Legging Order will not be created; the proposed MIAX rule states that a derived order will not be displayed at a price that locks or crosses the best bid or offer of another exchange, and that a derived order will not be created at a price increment less than the minimum established by MIAX Rule 510, whereas the PHLX rule states that Legging Orders may be generated and executed in an increment other than the minimum increment for that series and will be

This order type is also used on other exchanges in the trading of complex orders. Derived orders will not be routed outside of the Exchange regardless of the price(s) disseminated by away markets. The Exchange will determine on a class-by-class basis to make available derived orders and communicate such determination to Members via a Regulatory Circular. The purpose of this provision is to carefully manage the number of derived orders being generated so that they do not negatively impact system capacity and performance. Derived orders are firm orders (i.e., if executed, firm for the disseminated price and size) that are included in the MBBO (as defined below).¹⁰

A derived order may be automatically generated for one or more legs of a complex order at a price that matches or improves upon the best displayed bid or offer in the affected series on the Simple Order Book and at a price at which the net price of the complex order on the Strategy Book can be achieved when the other component(s) of the complex order is (are) executed against the best displayed bid or offer on the Simple Order Book. A derived order will not be displayed at a price that locks or crosses the best bid or offer of another exchange (the “ABBO”).¹¹ In such a circumstance, the System will display the derived order on the Simple Order Book at a price that is one Minimum Price Variation (“MPV”)¹² away from the current opposite side best bid or offer of such other exchange, and rank the derived order on the Simple Order Book according to its actual price. A derived order will not be created at a price increment less than the minimum established by Rule 510.

Example—Derived order adjusted so as not to lock (cross) the ABBO

ranked on the order book at its generated price and displayed at a price that is rounded to the nearest minimum increment for that series. The rules also differ slightly in the manner and circumstances in which derived or Legging Orders may be removed from the Simple Order Book. See *infra* note 19.

¹⁰ The derived order type is also firm on other exchanges. See, e.g., ISE Rule 715(k), which states that “Legging” orders are firm orders that are included in the ISE’s displayed best bid or offer. See also, e.g., BOX Rule 7240(c), which states that a “Legging Order” is a firm order that is included in the BBO if it is equal to, or better than, the existing BBO.

¹¹ This is similar to the rules of another exchange. BOX rules state that a “Legging Order” that would lock or cross opposite side NBBO will be ranked on the BOX Book at the locking price and displayed at one minimum trading increment below the current NBO (for bids) or one minimum trading increment above the current NBB (for offers) for the applicable series (“display-price sliding”). See BOX Rule 7240(c)(2)(i).

¹² For a complete description of MPVs, see Exchange Rule 510.

MIAX—Mar 50 Put 1.00 (10)—1.20 (20)
MIAX—Mar 55 Call 1.00 (10)—1.20 (20)
ABBO—Mar 50 Put 1.00 (10)—1.05 (10)
ABBO—Mar 55 Call 1.00 (10)—1.20 (10)

The Exchange receives a Priority Customer buy order to purchase 1 Mar 50 put and purchase 1 Mar 55 call for a 2.25 debit, 10 times. The order is not designated as Complex Auction-on-Arrival (cAOA) and will not initiate an auction upon arrival even if it equals or improves the Upon Receipt Improvement Percentage (“URIP,” as defined in proposed Rule 518, Interpretations and Policies .04[sic](b)). The icMBBO¹³ is 2.00 debit bid, 10 times at 2.40 credit offer, 20 times. The dcMBBO is 2.00 debit bid, 10 times at 2.40 credit offer, 20 times. The URIP Percentage is 60% of the bid ask spread or 0.24.

There is no offsetting complex order to sell and the complex order cannot leg into the Simple Order Market because the icMBBO offer for the complex order on the MIAX Simple Order Book is offered at 2.40.

A derived order to buy the Mar 50 put for 1.05 (calculated by determining the component price that achieves the net price (2.25 debit) that can execute against the best displayed price on the Simple Order Book), 10 times would lock the ABO if displayed at \$1.05 and therefore be in violation, so the derived order will instead be created at 1.05 and displayed at 1.00, one MPV inside of the ABO, in this case joining the MIAX’s best bid for the Mar 50 put of 1.00; while managed at a non-displayed price on the Simple Order Book to buy at 1.05:

Mar 50 Put 1.00 (20) (10 derived order displayed at 1.00 and booked at 1.05)—1.20 (20)

Mar 55 Call 1.00 (10)—1.20 (20)

The new icMBBO is 2.05 debit bid, 10 times at 2.40 credit offer, 20 times

If a marketable order to sell Mar 50 put 1 or more times is received, it will execute against the derived order to buy the Mar 50 put at the non-displayed price for 1.05 1 or more times and the

¹³ The Implied Complex MIAX Best Bid or Offer (“icMBBO”) is a calculation that uses the best [sic] price from the Simple Order Book for each component of a complex strategy including displayed and non-displayed trading interest. For stock-option orders, the icMBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book in the individual option component(s), and the NBBO in the stock component. See proposed Rule 518(a)(11), described below.

System will automatically execute the other leg of the complex order against the Simple Order Book offer for the Mar 55 call at 1.20 for the same quantity. As a result, the net price of 2.25 is achieved for the complex order (buy the Mar 50 put for 1.05 and buy Mar 55 call for 1.20 = 2.25 net price).

A derived order will be handled in the same manner as other orders on the Simple Order Book except as otherwise provided in proposed Rule 518, and will be executed only after all other executable orders (including orders subject to the managed interest process as described below) and quotes at the same price are executed in full. When a derived order is executed, the other component of the complex order on the Strategy Book will be automatically executed against the best bid or offer on the Exchange.¹⁴ The Exchange believes that a derived order, created for the execution of a complex order, should not be afforded priority over resting orders and quotes on the Simple Order Book, and therefore has determined to protect the priority on the Simple Order Book of such resting orders and quotes.

Example—*Derived order is last in priority on the Simple Order Book*
 MIAx—Mar 50 Call 2.00 (10)—2.10 (60)
 MIAx—Mar 55 Call 1.00 (20)—1.10 (80)

The Exchange receives a Priority Customer complex order to buy 1 Mar 50 call and sell 1 Mar 55 call for a 1.00 debit, 5 times. The order is not designated as cAOA and will not initiate a Complex Auction upon arrival even if it equals or improves the URIP. There is no Customer interest resting on the Strategy Book.

The icMBBO is 0.90 debit bid, 10 times at 1.10 credit offer, 20 times
 The dcMBBO is 0.90 debit bid, 10 times at 1.10 credit offer, 20 times
 The URIP Percentage is 60% of the bid ask spread or 0.12

There is no offsetting complex order to sell and the complex order cannot leg into the Simple Order Market because the icMBBO offer for the complex order on the MIAx Simple Order Book is offered at 1.10. A derived order to buy the Mar 50 call for 2.00, 5 times may be automatically generated by the System without violating protected quotations at away markets for either leg. The derived buy order will join the MBB for the March 50 call and will not change the MIAx's icMBBO price.

Mar 50 Call 2.00 (15 total, 5 from derived order)—2.10 (60)

The new icMBBO is 0.90 debit bid, 15 times at 1.10 credit offer, 20 times
 If a marketable order to sell Mar 50 call 15 times or more is received, it will execute first against the order on the Simple Order Book and then against the derived order to buy the Mar 50 call for 2.00 5 times and the System will automatically execute the other leg of the complex order against the Simple Order Book bid for the Mar 55 call at 1.00 5 times. As a result, the net price of 1.00 is achieved for the complex order (buy the Mar 50 call for 2.00 and sell the Mar 55 call at 1.00 = 1.00 net price).

A derived order is automatically removed from the Simple Order Book if (i) the displayed price of the derived order is no longer at the displayed best bid or offer on the Simple Order Book, (ii) execution of the derived order would no longer achieve the net price of the complex order on the Strategy Book when the other component of the complex order is executed against the best bid or offer on the Simple Order Book, (iii) the complex order is executed in full, (iv) the complex order is cancelled, or (v) any component of the complex order resting on the Strategy Book that is used to generate the derived order is subject to a Simple Market Auction or Timer ("SMAT") Event,¹⁵ a wide market condition,¹⁶ or a halt¹⁷ (each as described below).¹⁸ This is similar to the functionality regarding derived order equivalents on other exchanges.¹⁹

¹⁵ A SMAT Event is defined as any of the following: A PRIME Auction (pursuant to Exchange Rule 515A); a Route Timer (pursuant to Exchange Rule 529); or a liquidity refresh pause (pursuant to Exchange Rule 515(c)(2)). See proposed Rule 518(a)(16).

¹⁶ A "wide-market condition" is defined as any individual component of a complex strategy having, at the time of evaluation, an MBBO quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4). See proposed Rule 518, Interpretations and Policies .05(e).

¹⁷ See Exchange Rule 504.

¹⁸ See proposed Rule 518(a)(9).

¹⁹ Respecting the removal of derived orders from the Simple Order Book, PHLX Rule 1098(f)(iii)(C) lists additional scenarios under which a PHLX "legging" Order on PHLX is automatically removed from the regular order book: (i) If the price of the legging Order is no longer at the Exchange's displayed best bid or offer on the regular limit order book, (ii) if execution of the legging Order would no longer achieve the net price of the Complex Order when the other leg is executed against the Exchange's best displayed bid or offer on the regular limit order book (other than another legging Order), (iii) if the Complex Order is executed in full or in part (this differs from proposed Rule 518(a)(9)(vi)(C), which states that a derived order will be removed if executed in full), (iv) if the Complex Order is cancelled or modified (proposed Rule 518(a)(9)(vi)(D) states that the derived order will be removed if cancelled but not if modified). Similarly, a legging order on ISE is automatically removed from the regular limit order book if: (i) The

Example—*Derived order is cancelled when a component of a complex order is subject to a SMAT Event*²⁰
 MIAx—Mar 50 Put 1.00 (10)—1.20 (20)
 MIAx—Mar 55 Call 1.00 (10)—1.20 (20)
 ABBO—Mar 50 Put 1.05 (10)—1.20 (10)
 ABBO—Mar 55 Call 1.00 (10)—1.20 (10)

The Exchange receives a Priority Customer complex order to buy 1 Mar 50 put and purchase 1 Mar 55 call for a 2.25 debit, 10 times. The order is not designated as cAOA and will not initiate an auction upon arrival even if it equals or improves the URIP.

The icMBBO is 2.00 debit bid, 10 times at 2.40 credit offer, 20 times
 The dcMBBO is 2.00 debit bid, 10 times at 2.40 credit offer, 20 times
 The URIP Percentage is 60% of the bid ask spread or 0.24

There is no offsetting complex order to sell and the complex order cannot leg into the Simple Order Market because the icMBBO offer for the complex order on the MIAx Simple Order Book is offered at 2.40.

Derived orders to buy the Mar 50 put for 1.05, 10 times and the Mar 55 call for 1.05, 10 times may be automatically generated by the System without violating protected quotations at away markets for either leg, improving the MIAx's best bid for each of the Mar 50 put and the Mar 55 call to 1.05:

Mar 50 Put 1.05 (10) (Derived order)—1.20 (20)
 Mar 55 Call 1.05 (10) (Derived order)—1.20 (20)

price of the legging order is no longer at the displayed best bid or offer on the regular limit order book, (ii) execution of the legging order would no longer achieve the net price of the complex order when the other leg is executed against the best displayed bid or offer on the regular limit order book, (iii) the complex order is executed in full or in part (again unlike proposed Rule 518(a)(9)(vi)(C) which only include a derived order executed in full) against another complex order on the complex order book, or (iv) the complex order is cancelled or modified (unlike Rule 518(a)(9)(vi)(C)[sic] which does not include a provision for modification). See also, ISE Rule 715(k), which states that a legging order is automatically removed from the regular limit order book if: (i) The price of the legging order is no longer at the displayed best bid or offer on the regular limit order book, (ii) execution of the legging order would no longer achieve the net price of the complex order when the other leg is executed against the best displayed bid or offer on the regular limit order book, (iii) the complex order is executed in full or in part against another complex order on the complex order book, or (iv) the complex order is cancelled or modified. See also, BOX Rule 7240(c) respecting BOX "legging" Orders.

²⁰ This example describes a PRIME Auction in any one of the components used to generate the derived order. The example could apply to such a component that is subject to any SMAT Event.

¹⁴ See Note 11.

If in the Simple Order Book, a PRIME Auction (or other SMAT Event) were to start in either the Mar 50 put or the Mar 55 call, the System will automatically cancel the derived order to buy the Mar 50 put while simultaneously cancelling the derived order to buy the Mar 55 call.

Example—*Derived order is created resulting in the execution of a complex order and simultaneous cancellation of the other unneeded derived order.*

MIAX—Mar 50 Put 1.00 (10)—1.20 (20)
 MIAX—Mar 55 Call 1.00 (10)—1.20 (20)
 ABBO—Mar 50 Put 1.05 (10)—1.20 (10)
 ABBO—Mar 55 Call 1.00 (10)—1.20 (10)

The Exchange receives a Priority Customer complex order to buy 1 Mar 50 put and buy 1 Mar 55 call for a 2.25 debit, 10 times. The order is not designated as cAOA and will not initiate an auction upon arrival even if it equals or improves the URIP.

The icMBBO is 2.00 debit bid, 10 times at 2.40 credit offer, 20 times
 The dcMBBO is 2.00 debit bid, 10 times at 2.40 credit offer, 20 times
 The URIP Percentage is 60% of the bid ask spread or 0.24

There is no offsetting complex order to sell and the complex order cannot leg into the Simple Order Market because the icMBBO offer for the complex order on the MIAX Simple Order Book is offered at 2.40.

Derived orders to buy the Mar 50 put for 1.05, 10 times and the Mar 55 call for 1.05, 10 times may be automatically generated by the System without violating protected quotations at away markets for either leg, improving the MIAX's best bid for each of the Mar 50 put and the Mar 55 call to 1.05:

Mar 50 Put 1.05 (10) (derived order)—1.20 (20)
 Mar 55 Call 1.05 (10) (derived order)—1.20 (20)

The new icMBBO is 2.10 debit bid, 10 times at 2.40 credit offer, 20 times. If a marketable order to sell Mar 50 put 10 times or more is received, it will execute against the derived order to buy the Mar 50 put for 1.05 10 times and the System will automatically execute the other leg of the complex order against the Simple Order Book offer for the Mar 55 call at 1.20 while simultaneously cancelling the now unneeded derived order to buy the Mar 55 call for 1.05. As a result, the net price of 2.25 is achieved for the complex order (buy the Mar 50 put for 1.05 and buy Mar 55 call for 1.20 = 2.25 net price).

Finally, proposed Rule 518(a)(9)(vii) provides that a derived order that is locked (*i.e.*, if the opposite side MBBO locks the derived order) will be

executed if the execution price is at the NBBO.

The Exchange believes that derived orders will significantly enhance the Strategy Book by enabling greater interaction of multi-legged orders with the Simple Order Book. This functionality should tighten spreads on the MIAX Simple Order Book, resulting in better executions for complex orders and for regular orders.

The term “free trading” means trading that occurs during a trading session other than: (i) At the opening or re-opening for trading following a halt, or (ii) during the Complex Auction Process (as described below and in proposed Rule 518(d)).

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

Certain Market Maker complex Standard quotes and complex eQuotes (as defined below) will qualify as “Market Maker Priority Interest for Complex” on the Strategy Book (as defined below) if the criteria described herein have been met.²¹ For purposes of the proposed Rule, Market Maker Priority Interest for Complex is established at the beginning of a Complex Auction (as described in proposed Rule 518(d) below), or at the time of execution in free trading.

If complex Standard quoting is engaged for a complex strategy,²² a

²¹ Market Maker complex quotes may be entered as either complex Standard quotes or complex eQuotes. A complex eQuote is either a Complex Auction or Cancel eQuote (“cAOC eQuote”) or an “Immediate or Cancel eQuote” (“cIOC eQuote”) A cAOC eQuote is an eQuote submitted by a Market Maker that is used to provide liquidity during a specific Complex Auction with a time in force that corresponds with the duration of the Complex Auction. A cIOC eQuote is a complex eQuote with a time-in-force of IOC that may be matched with another complex quote or complex order for an execution to occur in whole or in part upon receipt into the System. cIOC eQuotes will not: (i) Be executed against individual orders and quotes resting on the Simple Order Book; (ii) be eligible to initiate a Complex Auction or join a Complex Auction in progress; or (iii) rest on the Strategy Book. Any portion of a cIOC eQuote that is not executed will be immediately cancelled. See proposed Rule 518, Interpretations and Policies .02.

²² Complex Standard quoting will be engaged by the Exchange for complex strategies on a strategy-by-strategy basis. The strategies for which complex Standard quoting is engaged will be communicated

Market Maker complex Standard quote or complex eQuote will qualify as Market Maker Priority Interest for Complex if the Market Maker has a complex Standard quote in the complex strategy that equals or improves the dcMBBO on the opposite side from the incoming complex order or quote at the time of evaluation (a “Complex priority quote”).²³ The Exchange’s proposal to adopt Market Maker Priority Interest for Complex in the Strategy Book is substantially based upon principles and rules currently operative on the Exchange respecting the Simple Order Book.²⁴ While the priority and trade allocation method for the Strategy Book, described below, distinguishes among Market Maker Priority Interest and Market Maker non-Priority Interest,²⁵ the proposed rules concerning complex priority are not novel, and have simply emerged from the priority rules already in existence on the Exchange.

The term “MBBO” means the best bid or offer on the Simple Order Book (as defined below) on the Exchange, and the term “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from the appropriate Securities Information Processor (“SIP”).²⁶

The “Simple Order Book” is the Exchange’s regular electronic book of orders and quotes.

A Simple Market Auction or Timer (“SMAT”) Event is defined as a PRIME

to Members via Regulatory Circular. See proposed Rule 518, Interpretations and Policies .02. Among the criteria used in determining the classes for which complex Standard quoting will be engaged are average daily volume in the class, number of expiration months and strike prices in the class, number of strike prices at or near the money in the class, and input from Members. This differs slightly from ISE, which states merely that market makers may enter quotes for complex order strategies on the complex order book in their appointed options classes. See ISE Rule 722, Supplementary Material .03.

²³ The Exchange notes that, unlike the continuous quoting requirements in the simple order market, there are no continuous quoting requirements respecting complex orders. This is similar to ISE, where market makers are not required to enter quotes on the complex order book. Quotes for complex orders are not subject to any quotation requirements that are applicable to market maker quotes in the regular market for individual options series or classes. See ISE Rule 722, Supplementary Material .03.

²⁴ The Exchange currently follows the established hierarchy that generally affords priority to Priority Customer Orders, then to Market Makers with priority quotes, followed by Professional Interest at the same price. See Exchange Rule 514.

²⁵ See proposed Rule 518(c)(3)(ii).

²⁶ 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).

Auction (pursuant to Rule 515A);²⁷ a Route Timer (pursuant to Rule 529);²⁸ or a liquidity refresh pause (pursuant to Rule 515(c)(2)).²⁹ Complex orders and quotes will be handled during a SMAT Event as described in proposed Interpretations and Policies .05(e)(2) of proposed Rule 518, as discussed below.

The “Strategy Book” is the Exchange’s electronic book of complex orders and complex quotes.³⁰

Types of Complex Orders

Proposed Rule 518(b), Types of Complex Orders, describes the various types and specific times-in-force for complex orders handled by the System.

As an initial matter, proposed Rule 518(b)(1) states that the Exchange will issue a Regulatory Circular listing which complex order types, among the complex order types set forth in the proposed Rule, are available for use on the Exchange. Additional Regulatory Circulars will be issued as additional complex order types, among those complex order types set forth in the proposed Rule, become available for use on the Exchange. Regulatory Circulars will also be issued when a complex order type that had been in usage on the

²⁷ The MIAx Price Improvement Mechanism (“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. See Exchange Rule 515A.

²⁸ The Exchange may automatically route orders to other exchanges under certain circumstances (“Routing Services”). In connection with such services, one of two Route Mechanisms, Immediate Routing or the Route Timer, will be used when a Public Customer order is received and/or reevaluated that is both routable and marketable against the opposite side ABBO upon receipt and the Exchange’s disseminated market is not equal to the opposite side ABBO, or is equal to the opposite side ABBO and of insufficient size to satisfy the order. For those initiating Public Customer orders that are routable, but do not meet the additional criteria for Immediate Routing, the System will implement a Route Timer not to exceed one second (the duration of the Timer will be announced to Members through a Regulatory Circular), in order to allow Market Makers and other participants an opportunity to interact with the initiating order. See Exchange Rule 529.

²⁹ The System will pause the market for a time period not to exceed one second to allow additional orders or quotes refreshing the liquidity at the MBBO to be received (“liquidity refresh pause”) when at the time of receipt or reevaluation of the initiating order by the System: (A) Either the initiating order is a limit order whose limit price crosses the NBBO or the initiating order is a market order, and the limit order or market order could only be partially executed; (B) a Market Maker quote was all or part of the MBBO when the MBBO is alone at the NBBO; and (C) and the Market Maker quote was exhausted. See Exchange Rule 515(c)(2).

³⁰ This definition is consistent with that of another options exchange. See BOX Rule 7240(a)(6). The BOX rule differs from proposed Rule 518(a)(16), which defines the Strategy Book, in that BOX refers to the book as the “Complex Order Book” and also refers to the BOX Trading Host.

Exchange will no longer be available for use. This is substantially similar to, and based upon, the manner in which the Exchange determines the available order types in the Simple Order Book.³¹ The purpose of this provision is to enable the Exchange to modify the complex order types that are available on the Exchange as market conditions change. The Exchange believes that this enhances its ability to remain competitive as markets and market conditions change and evolve.

Among the complex order types that may be submitted are limit orders, market orders, Good ‘til Cancelled (“GTC”) orders, or day limit orders as each such term is defined in Rule 516,³² or Complex Auction-on-Arrival (“cAOA”) orders, Complex Auction-or-Cancel (“cAOC”) orders, or Complex Immediate-or-Cancel (“cIOC”) orders, as such terms are defined below.

Complex orders will be considered ineligible to initiate a Complex Auction upon receipt unless designated as Complex Auction-on-Arrival (“cAOA”) orders.³³ Proposed Rule 518(b)(2)(i) defines a cAOA order as a complex order designated to be placed into a Complex Auction upon receipt or upon evaluation. Complex orders that are not designated as cAOA will, by default, not initiate a Complex Auction upon arrival, but except as described herein will be eligible to participate in a Complex Auction that is in progress when such complex order arrives or if placed on the Strategy Book may participate in or may initiate a Complex Auction, following evaluation conducted by the System (as described below). Complex orders that are designated as cIOC or

³¹ See Exchange Rule 516.

³² For a complete description of these order types, see Exchange Rule 516. The Exchange is not proposing to offer fill-or-kill complex orders, as currently offered on other exchanges. The Exchange does not believe that a fill-or-kill order is a critical order type for effective complex order trading. See e.g., CBOE Rule 6.53C(b), which differs slightly from proposed Rule 518(b) in that the CBOE rule states that orders may also be entered as fill-or-kill or as all-or-none (the Exchange does not accept all-or-none orders); and BOX Rule 7240(b)(4)(i), which differs slightly from proposed Rule 518(b) in that the BOX rule states that orders may also be entered as fill-or-kill or as “Session” orders.

³³ The Exchange believes that this gives market participants extra flexibility to control the handling and execution of their complex orders by the System by giving them the additional ability to determine not to have their complex order initiate a Complex Auction by electing not to designate it as a cAOA order. This differs slightly from CBOE Rule 6.53[sic](d)(ii)(B), which requires CBOE Trading Permit Holders to affirmatively request, on an order-by-order basis, that a COA-eligible order with two legs not be placed into a CBOE Complex Order Auction (a “do-not-COA” request). The MIAx System considers an order not designated as cAOA to be ineligible to initiate an auction by default.

cAOC are not eligible for cAOA designation, and their evaluation will not result in the initiation of a Complex Auction either upon arrival or if eligible when resting on the Strategy Book.

A complex order may also be submitted as a cAOC order. A cAOC order is a complex limit order used to provide liquidity during a specific Complex Auction with a time in force that corresponds with that event. cAOC orders are not displayed to any market participant, and are not eligible for trading outside of the event.

Additionally, a complex order may be submitted as a Complex Immediate-or-Cancel or “cIOC” order, which is a complex order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

Trading of Complex Orders and Quotes

Proposed 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 Book.³⁴ The rule also states that complex orders will be subject to all other Exchange Rules that pertain to orders generally, unless otherwise provided in proposed Rule 518.

Proposed Rule 518(c)(1) provides that bids and offers on complex orders and quotes may be expressed in \$0.01 increments, and the component(s) of a complex order may be executed in \$0.01 increments, regardless of the minimum increments otherwise applicable to individual components of the complex order,³⁵ and that if any component of a complex strategy would be executed at a price that is equal to a Priority Customer bid or offer on the Simple Order Book, at least one other component of the complex strategy must

³⁴ See Proposed 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.

³⁵ See Proposed Rule 518(c)(1). See also ISE Rule 722(b)(1), which is slightly distinguished from proposed Rule 518(c)(1) because it states that bids and offers on complex orders may be expressed in any decimal price, and the leg(s) of a complex order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual legs of the order.

trade at a price that is better than the corresponding MBBO.³⁶

Additionally, respecting execution pricing, proposed Rule 518(c)(1)(iii) states generally that a complex order will not be executed at a net price that would cause any component of the complex strategy to be executed: (A) At a price of zero; or (B) ahead of a Priority Customer order on the Simple Order Book without improving the MBBO of at least one component of the complex strategy. The Exchange will never trade through Priority Customer orders, thus protecting the priority that is established in the Simple Order Book.

Execution of Complex Orders and Quotes

Proposed Rule 518(c)(2) describes the process of the opening of the Strategy Book (and reopening after a halt) for trading, prices at which executions may occur on the Exchange for complex strategies, execution of complex orders against the individual components or “legs” on the Simple Order Book, the automatic generation of derived orders, and the process of evaluation that is conducted by the System on an ongoing basis respecting complex orders.

Proposed Rule 518(c)(2)(i) states that complex orders and quotes do not participate in the opening process for the individual option legs conducted pursuant to Rule 503.³⁷ At the beginning of each trading session, and upon reopening after a halt, once all components of a complex strategy are open, an initial evaluation will be conducted in order to determine whether a complex order is a Complex Auction-eligible order, using the process and criteria described in Interpretations and Policies .03(a) of proposed Rule 518 regarding the Initial Improvement Percentage (“IIP”). The IIP is used to calculate a percentage of the dcMBBO

³⁶ See Proposed Rule 518(c)(1)(ii). 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.

³⁷ This is similar to the opening of complex orders on other exchanges. Complex Orders on PHLX will not open for trading until each option component of a Complex Order Strategy has opened or reopened following a trading halt. See PHLX Rules 1098(d)(i) and (ii). Similarly, complex orders on NYSE MKT do not participate in the opening Auction Process for individual component option series legs conducted pursuant to Rule 952NY. The NYSE MKT Complex Matching Engine will not process an Electronic Complex Order until all of the individual component option series that make up a complex order strategy have opened. See NYSE MKT Rule 980NY(c)(i)(A).

bid/ask differential at or within which the System will determine to initiate a Complex Auction when the Strategy Book opens for trading.³⁸ If a Complex Auction-eligible order is priced equal to, or improves, the IIP value and is also priced equal to, or improves, other complex orders and/or quotes resting at the top of the Strategy Book, the complex order will be eligible to initiate a Complex Auction.

The purpose of this provision is to ensure that a complex order will not initiate a Complex Auction if it does not improve the current complex bid or offer by at least a defined percentage (*i.e.*, the IIP) where it is not reasonable to anticipate that it would generate a meaningful number of RFR Responses such that there would be improvement of the complex order’s limit price. Promoting the orderly initiation of a Complex Auction is essential to maintaining a fair and orderly market for complex orders; otherwise, the initiation of Complex Auctions that are unlikely to result in price improvement might result in a disproportionate amount of quote and message activity that could affect the orderliness of the market. The Exchange believes that the use of the IIP in this manner ensures that a Complex Auction will be conducted when there is a meaningful opportunity for price improvement, and accordingly will benefit participants and investors that submit complex orders to the Exchange by limiting unnecessary activity on the Exchange.

The System will also evaluate the eligibility of complex orders and quotes (as applicable) to participate in the managed interest process for complex orders as set forth in proposed Rule 518(c)(4) and described below; if they are eligible for full or partial execution against a complex order or quote resting on the Strategy Book or through Legging with the Simple Order Book as set forth in proposed Rule 518(c)(2)(iii) and described below; whether the complex order or quote should be cancelled; and whether all or any remaining portion of the complex order or quote should be placed on the Strategy Book. This evaluation process is ongoing and is designed to handle complex orders in

³⁸ Similarly, as discussed more fully below, the System will also calculate an Upon Receipt Improvement Percentage (“URIP”) value to determine whether a complex order is priced equal to, or improves, the URIP value upon receipt when the complex strategy is open for trading, and a Re-evaluation Improvement Percentage (“RIP”) value, to determine whether a complex order resting at the top of the Strategy Book is priced equal to, or improves, the RIP value. If so, in either case, the complex order will be Complex Auction-eligible. See Proposed Rule 518, Interpretations and Policies .03(b) and (c).

the most efficient manner possible as market conditions change. The various outcomes are determined at the time of evaluation based on then-existing market conditions, which are continually evolving and require such evaluation for determination of the System’s handling of complex orders.

The Strategy Book will open for trading, or reopen for trading after a halt, with a Complex Auction if it is determined that one of the following conditions is present: (A) A complex order with no matching interest on the Strategy Book equals or improves the IIP, (B) matching interest exists at a price that is equal to or through the IIP, or (C) a size imbalance exists where the price at which the maximum quantity that can trade is equal to or through the IIP. If the Strategy Book contains matched interest or a size imbalance exists where the price at which the maximum quantity can trade is not equal to or through the IIP, the Strategy Book will open for trading with a trade and a Complex Auction will not be initiated. The remaining portion of any complex order for which there is a size imbalance will be placed on the Strategy Book. If the Strategy Book contains no matching interest or interest equal to or through the IIP, the complex strategy will open without a trade and a Complex Auction will not be initiated.

Proposed Rule 518(c)(2)(ii) describes the manner in which the System determines the price of execution of complex orders and quotes. Incoming complex orders and quotes will be executed by the System in accordance with the provisions below, and will not be executed at prices inferior to the icMBBO or at a price that is equal to the icMBBO when there is a Priority Customer Order (as defined in Rule 100)³⁹ at the best icMBBO price. Complex orders will never be executed at a price that is outside of the individual component prices on the Simple Order Book. Furthermore, the net price of a complex order executed against another complex order on the Strategy Book will never be inferior to the price that would be available if the complex order legged into the Simple Order Book. The purpose of this provision is to prevent a component of a complex order from being executed at a price that is inferior to the best-priced contra-side orders or quotes on the

³⁹ The term “Priority Customer” means a person or entity that (i) is not a broker or dealer in securities and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial accounts(s). The term “Priority Customer Order” means an order for the account of a Priority Customer. See Exchange Rule 100.

Simple Order Book (on which the icMBBO is based) and to prevent a component of a complex order from being executed at a price that compromises the priority already established by a Priority Customer on the Simple Order Book. The Exchange believes that such priority should be protected and that such protection should be extended to the execution of complex orders on the Strategy Book.⁴⁰

Incoming complex orders that could not be executed because the executions would be priced (A) outside of the icMBBO, or (B) equal to or through the icMBBO due to a Priority Customer Order at the best icMBBO price, will be cancelled if such complex orders are not eligible to be placed on the Strategy Book. Complex orders and quotes will be executed without consideration of any prices for the complex strategy that might be available on other exchanges trading the same options contracts provided, however, that such complex order price may be subject to the Implied Exchange Away Best Bid or Offer (“ixABBO”) Protection set forth in Interpretations and Policies .05(d) proposed Rule 518.⁴¹

Proposed Rule 518(c)(2)(iii) describes the Legging process through which complex orders, under certain circumstances, are executed against the individual components of a complex strategy on the Simple Order Book. 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

⁴⁰ Other exchanges protect Priority and Public Customer priority. ISE Priority Customer Orders on the Exchange shall have priority over Professional Orders and market maker quotes at the same price in the same options series. See ISE Rule 713(c). See also, CBOE Rule 6.45A(a)(i)(1), which states that CBOE Public customer orders in the electronic book have priority, and NYSE MKT Rule 964NY(b)(2)(A), which provides that bids and offers in the Consolidated Book for Customer accounts have first priority over other bids or offers at the same price.

⁴¹ The ixABBO price protection feature is a price protection mechanism under which, when in operation as requested by the submitting Member, a buy order will not be executed at a price that is higher than each other single exchange’s best offer, and under which a sell order will not be executed at a price that is lower than each other single exchange’s best bid for the complex strategy. The ixABBO is calculated using the best net bid and offer for a complex strategy using each other exchange’s displayed best bid or offer on their version of the Simple Order Book. For stock-option orders, the ixABBO for a complex strategy will be calculated using the BBO for each component on each individual away options market and the NBBO for the stock component. The ixABBO price protection feature must be engaged on an order-by-order basis by the submitting Member and is not available for complex Standard quotes, complex eQuotes, or cAOC orders. The Exchange believes that these limitations on the execution price provide a price protection option for Members that choose to place the ixABBO protection in operation.

communicated to Members via Regulatory Circular) may be automatically executed against bids and offers on the Simple Order Book for the individual legs of the complex order (“Legging”), provided the complex order can be executed in full or in a permissible ratio by such bids and offers, and provided that the execution price of each component is not executed at a price that is outside of the NBBO.⁴²

Legging is not available for cAOC orders, complex Standard quotes, complex eQuotes, or stock-option orders. The benefit of Legging against the individual components of a complex order or quote on the Simple Order Book is that complex orders can access the full liquidity of the Exchange’s Simple Order Book, thus enhancing the possibility of executions at the best available prices on the Exchange.

Notwithstanding the foregoing, the Exchange is proposing to establish, in proposed Rule 518(c)(2)(iii), that complex orders that could otherwise be eligible for Legging will only be permitted to trade against other complex orders in the Strategy Book in certain situations.

Specifically, proposed Rule 518(c)(2)(iii) would provide that complex orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other complex orders on the Strategy Book and will not be permitted to leg into the Simple Order Book. Similarly, proposed Rule 518(c)(2)(iii) would impose a similar restriction by stating that complex orders with three option legs where all legs are buying or all legs are selling may only trade against other complex orders on the Strategy Book (regardless of whether the option leg is a call or a put).⁴³ The

⁴² See proposed Rule 518(c)(2)(iii). This is similar to CBOE Rule 6.53C(c)(ii)(1), which states that complex order in the COB will automatically execute against individual orders or quotes residing in the EBook provided the complex order can be executed in full (or in a permissible ratio) by the orders and quotes in EBook; see also BOX Rule 7240(b)(3)(ii) providing that Complex Orders will be automatically executed against bids and offers on the BOX Book for the individual legs of the Complex Order to the extent that the Complex Order can be executed in full or in a permissible ratio by such bids and offers. Legging is not available on the Exchange for cAOC orders, complex Standard quotes, complex eQuotes, or stock-option orders.

⁴³ This is substantially similar to ISE Rules 722(b)(3)(ii)(A) and (B), which state that Complex orders with 2 option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other complex orders in the complex order book. The trading system will not generate legging orders for these complex orders, and complex orders with 3 or 4 option legs where all legs are buying or all

System will not generate derived orders for these complex orders.

Currently, Market Makers in the Simple Order Book are protected from undue risk of executions by way of the Aggregate Risk Manager (“ARM”) ⁴⁴ by limiting the number of contracts they execute in an option class on the Exchange within a specified time period (a “specified time period”). ARM automatically cancels and removes the Market Maker’s Standard quotes from the Exchange’s disseminated quotation in all series of a particular option class when it has determined that a Market Maker has traded a number of contracts equal to or above a percentage of their quotations (the “Allowable Engagement Percentage” or “AEP”) during the specified time period. The purpose of ARM is to allow Market Makers to provide liquidity across potentially hundreds of options series without executing the full cumulative size of all such quotes before being given adequate opportunity to adjust the price and/or size of their quotes.

All of a Market Maker’s quotes in each option class are considered firm until such time as the AEP threshold has been equaled or exceeded and the Market Maker’s quotes are removed by ARM in all series of that option class.⁴⁵ Thus the Legging of complex orders presents higher risk to Market Makers as compared to simple orders being entered in multiple series of an options class in the simple market, as it can result in Market Makers exceeding their established AEP by a greater number of contracts. Although Market Makers can limit their risk through the use of ARM, the Market Maker’s quotes are not removed until after a trade is executed. As a result, because of the way complex orders leg into the regular market as a single transaction, Market Makers may end up trading more than the cumulative AEP they have established, and are therefore exposed to greater risk. The Exchange believes that Market Makers may be compelled to change their quoting and trading behavior to account for this additional risk by widening their quotes and reducing the size associated with their quotes, which

legs are selling may only trade against other complex orders in the complex order book. See also, Securities Exchange Act Release No. 73023 (September 9, 2014), 79 FR 55033 (September 15, 2014)(SR-ISE-2014-10). This differs slightly from the Exchange’s proposal because the Exchange’s proposal applies to complex orders with two option legs in the same manner as the ISE rule, but applies to complex orders with three option legs (instead of three or four legs) where all legs are buying or all legs are selling, regardless of whether the option leg is a call or a put.

⁴⁴ See Exchange Rule 612.

⁴⁵ See Exchange Rule 612(c).

would diminish the Exchange's quality of markets and the quality of the markets in general.

The purpose of the limitations in proposed Rule 518(c)(2)(iii) is to minimize the impact of Legging on single leg Market Makers by limiting a potential source of unintended Market Maker risk when certain types of complex orders leg into the Simple Order Book. The Exchange believes that the proposed limitation on the availability of Legging to (i) complex orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts, and (ii) complex orders with three option legs where all legs are buying or all legs are selling regardless of whether the option leg is a call or a put, should serve to reduce the risk of Market Makers trading above their risk tolerance levels.

Proposed Rule 518(c)(2)(iv) states that derived orders, as described above, may be automatically generated on behalf of complex orders so that they are represented at the best bid or offer on the Exchange for the individual legs, and shall be executed as provided in proposed Rule 518(a)(9), described above.

Proposed Rule 518(c)(2)(v) sets forth the process for evaluation of complex orders and quotes, and the Strategy Book, on a regular basis and for various conditions and events that result in the System's particular handling and execution of complex orders and quotes in response to such regular evaluation, conditions and events. The System will evaluate complex orders and quotes initially once all components of the complex strategy are open as set forth in proposed Rule 518(c)(2)(i) as described above, upon receipt as set forth in proposed Rule 518(c)(5)(i) as described below, and continually as set forth in proposed Rule 518(c)(5)(ii) as described below.⁴⁶

The purpose of the evaluation process for complex orders and quotes is to determine (A) their eligibility to initiate, or to participate in, a Complex Auction as described in proposed Rule 518(d)(1) below; (B) their eligibility to participate in the managed interest process as described in proposed Rule 518(c)(4) below; (C) whether a derived order should be generated or cancelled; (D) if

they are eligible for full or partial execution against a complex order or quote resting on the Strategy Book or through Legging with the Simple Order Book (as described in proposed Rule 518(c)(2)(iii) above); (E) whether the complex order or quote should be cancelled; and (F) whether the complex order or quote or any remaining portion thereof should be placed or remain on the Strategy Book.

The Exchange notes that, while the rules of other exchanges do not include descriptions of the evaluation process with the same level of detail and specificity as the rules concerning the evaluation process in proposed Rule 518, such a process occurs on trading systems on other exchanges. For example, the CBOE system evaluates its book in a similar manner to the proposed evaluation of the Strategy Book when determining how to execute complex orders.⁴⁷ PHLX evaluates the opening price and whether or not a trade can take place.⁴⁸ ISE evaluates

⁴⁷ A similar evaluation takes place in that a complex order in the CBOE Complex Order Book will automatically execute against individual orders or quotes residing in the EBook (simple orders) provided the complex order can be executed in full (or in a permissible ratio) by the orders and quotes in EBook; complex orders in the COB that are marketable against each other will automatically execute. See CBOE Rules 6.53[sic](c)(ii)(1) and (2).

⁴⁸ Upon expiration of the Complex Order Opening Process Timer, the PHLX system will conduct a COOP Evaluation to determine, for a Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none (which will be executed if possible) unless the maximum number of contracts can only trade without including all-or-none orders. The PHLX will open the Complex Order Strategy at that price, executing marketable trading interest, in the following order: first, to non-broker-dealer customers in time priority; next to Phlx electronic market makers on a pro rata basis; and then to all other participants on a pro rata basis. The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK. If at the end of the COOP Timer the System determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO exist in the System, all Complex Orders received during the COOP Timer will be placed on the CBOOK. If at the end of the COOP Timer the System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the System, the System will do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the

price limits for complex orders and quotes both on ISE and on away exchanges, outside of which they will either not be executed or will be rejected outright before entering the ISE system.⁴⁹ The evaluation process is thus not a novel or unique concept; the Exchange is simply codifying it so that Members will know precisely how their complex orders are evaluated and handled by the System. The Exchange believes that this transparency provides Members with the necessary details concerning the manner in which the Strategy Book and their complex orders are evaluated.

The continual and event-triggered evaluation process ensures that the System is monitoring and assessing the Strategy Book for incoming complex orders and quotes, and changes in market conditions or events that cause complex orders to become due for execution or Complex Auction-eligible, and conditions or events that result in the cancellation of complex orders on the Strategy Book. This ensures the integrity of the Exchange's System in handling complex orders and results in a fair and orderly market for complex orders on MIAX.

Complex Order Priority

Proposed Rule 518(c)(3) describes how the system will establish priority for complex orders. The proposed complex order priority structure is based generally on the same approach

midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed at the net price without trading through residual interest or the cPBBO or without trading at the cPBBO where there is non-broker-dealer customer interest at the best bid or offer for any leg, consistent with Rule 1098(c)(iii). See PHLX Rule 1098(d)(ii)(C).

⁴⁹ ISE evaluates, among other things, prices at which complex orders are eligible or ineligible for execution. The legs of a complex order may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the ISE System will not permit any leg of a complex order to trade through the NBBO for the series by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class or series basis. A Member can also include an instruction on a complex order entered on the complex order book that each leg of the complex order is to be executed only at a price that is equal to or better than the national best bid or offer for the options series or any stock component, as applicable. The ISE System evaluates complex orders for rejection. ISE will reject any complex order strategy where all legs are to buy if it is entered at a price that is less than the minimum price, which is calculated as the sum of the ratio on each leg of the complex order multiplied by \$0.01 per leg (e.g., an order to buy 2 calls and buy 1 put would have a minimum price of \$0.03). See ISE Rule 722, Supplementary Material .07.

⁴⁶ Other exchanges' systems conduct evaluations as well. For example, PHLX conducts an opening "COOP Evaluation" to determine, for a Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none (which will be executed if possible) unless the maximum number of contracts can only trade without including all-or-none orders. See, e.g., PHLX Rule 1098(d)(ii)(C).

and structure currently effective on MIAX respecting priority of orders and quotes in the simple market as established in Exchange Rule 514.⁵⁰ A complex order may be executed at a net credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such net credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a \$0.01 increment.⁵¹ Under the circumstances described above, if a stock-option order has one option leg, such option leg has priority over bids and offers established in the marketplace by Professional Interest (as defined in Rule 100)⁵² and Market Makers with priority quotes⁵³ 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 proposed Rule 518(c)(3)(i).

Regarding execution and allocation of complex orders, proposed Rule 518(c)(3)(ii) establishes that complex orders will be automatically executed against bids and offers on the Strategy Book in price priority. Bids and offers at the same price on the Strategy Book will be executed pursuant to the following priority rules: (A) Priority Customer complex orders resting on the Strategy Book will have first priority to trade against a complex order. Priority Customer complex orders resting on the Strategy Book will be allocated in price time priority; (B) Market Maker Priority Interest for Complex will collectively have second priority. Market Maker Priority Interest for Complex will be

allocated on a pro-rata basis as defined in Rule 514(c)(2); (C) Market Maker non-Priority Interest for Complex will collectively have third priority. Market Maker non-Priority Interest for Complex will be allocated on a pro-rata basis as defined in Rule 514(c)(2); (D) Non-Market Maker Professional Interest orders resting on the Strategy Book will collectively have fourth priority. Non-Market Maker Professional Interest orders will be allocated on a pro-rata basis as defined in Rule 514(c)(2).⁵⁴

Managed Interest Process for Complex Orders

In order to ensure that complex orders (which are non-routable) receive the best executions on the Exchange, proposed Rule 518(c)(4), sets forth the price(s) at which complex orders will be placed on the Strategy Book. The managed interest process is initiated when a complex order that is eligible to be placed on the Strategy Book cannot be executed against either the Strategy Book or the Simple Order Book (with the individual legs) at the complex order's net price, and is intended to ensure that a complex order to be managed does not result in a locked or crossed market on the Exchange. Once initiated, the managed interest process for complex orders will be based upon the icMBBO.⁵⁵

Under the managed interest process, a complex order that is resting on the Strategy Book and is either a complex market order as described in proposed Rule 518(c)(6) and discussed below, or has a limit price that locks or crosses the current opposite side icMBBO when the icMBBO is the best price, may be subject to the managed interest process

for complex orders as discussed herein. Complex Standard quotes are not eligible for inclusion in the managed interest process. An unexecuted complex Standard quote with a limit price that would otherwise be managed to the icMBBO will be cancelled. If the order is not a Complex Auction-eligible order as defined in proposed Rule 518(d)(1) and described below, the System will first determine if the inbound complex order can be matched against other complex orders and/or quotes resting on the Strategy Book at a price that is at or inside the icMBBO (provided there are no Priority Customer orders on the Simple Order Book at that price). Second, the System will determine if the inbound complex order can be executed by Legging against individual orders and quotes resting on the Simple Order Book at the icMBBO. A complex order subject to the managed interest process will never be executed at a price that is through the individual component prices on the Simple Order Book. Furthermore, the net price of a complex order subject to the managed interest process that is executed against another complex order on the Strategy Book will never be inferior to the price that would be available if the complex order legged into the Simple Order Book. When the opposite side icMBBO includes a Priority Customer Order, the System will book and display such booked complex order on the Strategy Book at a price (the "book and display price") that is \$0.01 away from the current opposite side icMBBO.

Example—*Complex order managed interest when Priority Customer Interest at the icMBBO is Present*
 MIAX—LMM quote Mar 50 Call 6.00–6.50 (10x10)
 MIAX—LMM quote Mar 55 Call 2.00–2.30 (10x10)
 MIAX Priority Customer order Mar 55 Call 2.10 bid (1)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and sell 2 Mar 55 Calls for a 2.30 debit, 100 times. The cAOA instruction is not present on this order, so the order will not initiate an auction upon arrival regardless of its relationship to the Improvement Percentage.

icMBBO is 1.40 debit bid at 2.30 credit offer

Since the Mar 55 call is 2.10 bid for only one contract (the MIAX Priority Customer order), the complex order cannot be legged against the Simple Order Book at a 2.30 debit as a 2.30 debit would require selling two March 55 Calls at 2.10 while buying one March 50 Call at 6.50. Since there is Priority

⁵⁰ 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.

⁵¹ See Proposed 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.

⁵² 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.

⁵³ See Exchange Rule 517(b)(1).

⁵⁴ In contrast, PHLX rules state that an incoming marketable Complex Order that does not trigger a COLA Timer will execute first against quotes or orders on the limit order book for the individual components of the order (whereas, under the instant proposal, outside of a Complex Auction the Exchange will first execute bids and offers at the same price on the Strategy Book), second, against non-broker-dealer customer Complex Orders and non-market maker broker-dealer Complex Orders resting in the CBOOK in price priority and, at the same price, against (i) non-broker-dealer customer Complex Orders in the order in which they were received; (ii) SQTs, RSQTs, non-SQT ROTs, specialists and non-PHLX market makers on another exchange on a size pro rata basis (whereas, under the instant proposal, the Exchange does not bundle all Market Makers in the same priority tier, and instead distinguishes between Market Maker Priority Interest, which is executed and allocated on a pro rata basis before Market Maker non-Priority Interest, which is thereafter executed and allocated on a pro rata basis); and (iii) non-market-maker broker-dealer Complex Orders on a size pro rata basis. See PHLX Rule 1098(f)(iii).

⁵⁵ A complex order for which the ixABBO protection is engaged will be managed to the ixABBO as described below and in proposed Rule 518, Interpretations and Policies .05(d).

Customer interest on one leg of the complex order on the Simple Order Book, the inbound complex order cannot trade at this price by matching with other complex liquidity. Thus, the order is managed for display purposes at a price one penny inside of the opposite side icMBBO, 2.29 and is available to trade with other complex liquidity at 2.29. Since there is no managed interest on the Simple Order Book, the icMBBO is equal to the dcMBBO in this case and remains 1.40 debit bid at 2.30 credit offer. The combination of the Simple Order Book and the Strategy Book will be a one penny wide market of 2.29 debit bid at 2.30 credit offer. If additional interest were to arrive on the Mar 55 Call 2.10 bid, the inbound complex order would be re-evaluated and would in this example become eligible to leg with the Priority Customer interest on the Simple Order Book at the 2.30 credit offer.

When the opposite side icMBBO does not include a Priority Customer Order and is not available for execution in the ratio of such complex order, or cannot be executed through Legging with the Simple Order Book, the System will place such complex order on the Strategy Book and display such booked complex order at a book and display price that will lock the current opposite side icMBBO because it is a price at which another complex order or quote can trade.

Example—Complex Market order managed interest when Priority Customer Interest at the icMBBO is Present

MIAX—LMM quote Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM quote Mar 55 Call 2.00–2.30 (10x10)

MIAX Priority Customer order Mar 55 Call 2.10 bid (1)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and sell 2 Mar 55 Calls for a market debit, 100 times. The cAOA instruction is not present on this order, so the order will not initiate an auction upon arrival regardless of its relationship to the IIP.

The icMBBO is 1.40 debit bid at 2.30 credit offer

The dcMBBO is 1.40 debit bid at 2.30 credit offer

Since the Mar 55 call is 2.10 bid for only one contract (the MIAX Priority Customer order), the complex order cannot be legged against the Simple Order Book at a 2.30 debit (the complex market order's assigned dcMBBO price), because a 2.30 debit would require selling two March 55 Calls at 2.10 while buying one March 50 Call at 6.50. Since

there is Priority Customer interest on one leg of the complex order on the Simple Order Book, the inbound complex order cannot trade at this price by matching with other complex liquidity. Thus, the complex order is managed for display purposes at a price one penny inside of the opposite side icMBBO, 2.29 and is available to trade with other complex liquidity at 2.29. Since there is no managed interest on the Simple Order Book, the icMBBO is equal to the dcMBBO in this case and remains 1.40 debit bid at 2.30 credit offer. The combination of the Simple Order Book and the Strategy Book will be a one penny wide market of 2.29 debit bid at 2.30 credit offer.

If additional interest were to arrive on the Mar 55 Call 2.10 bid, the resting complex order would be re-evaluated and would in this example become eligible to leg with the icMBBO or dcMBBO since they are equal, which includes Priority Customer interest on the Simple Order Book at the 2.30 credit offer.

Example—Complex order managed interest when the ratio to allow Legging does not exist, and there is no Priority Customer Interest

MIAX—LMM quote Mar 50 call 6.00–6.50 (10x10)

MIAX—LMM quote Mar 55 call 2.00–2.30 (10x10)

MIAX Professional order Mar 55 Call 2.10 bid (1)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 call and sell 2 Mar 55 calls for a 2.30 debit, 100 times. The icMBBO is 1.40 debit bid at 2.30 credit offer

The cAOA instruction is not present on this complex order, so the complex order will not initiate an auction upon arrival regardless of its relationship to the URIP.

Since the Mar 55 call is 2.10 bid for only one contract (the MIAX Professional order), the complex order cannot be legged against the Simple Order Book at a 2.30 debit, as a 2.30 debit would require selling two March 55 Calls at 2.10 while buying one March 50 Call at 6.50. Although the inbound complex order cannot trade at this time because there is insufficient interest to buy the March 55 Call, there is no Priority Customer interest on either side of the 2.30 credit offer and therefore the order will be able to trade at that price when sufficient interest exists. Thus, the order is managed for display purposes at a price locking the opposite side icMBBO 2.30 and is available to trade against other complex interest at 2.30. Since there is no managed interest on

the Simple Order Book, the icMBBO is equal to the dcMBBO and remains 1.40 debit bid at 2.30 credit offer. The combination of the Simple Order Book and the Strategy Book will be a locked market of 2.30 debit bid at 2.30 credit offer.

Example—Complex Market order managed interest when the ratio to allow Legging does not exist, and there is no Priority Customer Interest

MIAX—LMM quote Mar 50 call 6.00–6.50 (10x10)

MIAX—LMM quote Mar 55 call 2.00–2.30 (10x10)

MIAX Professional order Mar 55 Call 2.10 bid (1)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 call and sell 2 Mar 55 calls for a market debit, 100 times. The icMBBO is 1.40 debit bid at 2.30 credit offer
The dcMBBO is 1.40 debit bid at 2.30 credit offer

The cAOA instruction is not present on this order, so the order will not initiate an auction upon arrival regardless of its relationship to the URIP. Since the Mar 55 call is 2.10 bid for only one contract (the MIAX Professional order), the complex order cannot be legged against the Simple Order Book at a 2.30 debit (the complex market order's assigned dcMBBO price), as a 2.30 debit would require selling two March 55 Calls at 2.10 while buying one March 50 Call at 6.50. Although the inbound complex order cannot trade at this time because there is insufficient interest to buy the March 55 Call, there is no Priority Customer interest on either side of the 2.30 credit offer and therefore the order will be able to trade at that price when sufficient interest exists. Thus, the complex order is managed for display purposes at a price locking the opposite side icMBBO which is equal to the dcMBBO at 2.30 and is available to trade against other complex interest at 2.30. Since there is no managed interest on the Simple Order Book, the icMBBO is equal to the dcMBBO and remains 1.40 debit bid at 2.30 credit offer. The combination of the Simple Order Book and the Strategy Book will be a locked market of 2.30 debit bid at 2.30 credit offer.

Should the icMBBO change, the complex order's book and display price will continuously re-price to the new icMBBO until (A) the complex order has been executed in its entirety; (B) if not executed, the complex order has been placed on the Strategy Book at prices up to and including its limit price or, in the case of a complex market order, at the

new icMBBO; (C) the complex order has been partially executed and remaining unexecuted contracts have been placed on the Strategy Book at prices up to and including their limit price or, in the case of a complex market order, at the new icMBBO; or (D) the complex order or any remaining portion of the complex order is cancelled. If the Exchange receives a new complex order or quote for the complex strategy on the opposite side of the market from the managed complex order that can be executed, the System will immediately execute the remaining contracts from the managed complex order to the extent possible at the complex order's current book and display price, provided that the execution price is not outside of the current icMBBO. If unexecuted contracts remain from the complex order on the Strategy Book, the complex order's size will be revised and disseminated to reflect the complex order's remaining contracts at its current managed book and display price.

The purpose of using the calculated icMBBO is to enable the System to determine a valid trading price range for complex strategies and to protect orders resting on the Simple Order Book by ensuring that they are executed when entitled. Additionally, the managed interest process is designed to ensure that the System will not execute any component of a complex order at a price that would trade through an order on the Simple Order Book or that would disrupt the established priority of Priority Customer interest resting on the Simple Order Book.⁵⁶ The Exchange believes that this is reasonable because it prevents the components of a complex order from trading at a price that is inferior to a price at which the individual components may be traded on MIAX and it maintains the priority for Priority Customers resting on the Simple Order Book.

Evaluation Process

Proposed Rule 518(c)(5) describes how and when the System determines to execute or otherwise handle complex orders in the System. As stated above, the System will evaluate complex orders and quotes and the Strategy Book on a regular basis and to respond to the existence of various conditions and/or events that trigger an evaluation. Evaluation results in the various manners of handling and executing complex orders and quotes as described herein. The System will evaluate complex orders and quotes initially once all components of the complex

strategy are open as set forth in proposed Rule 518(c)(2)(i) as described above, upon receipt as set forth in proposed Rule 518(c)(5)(i) as described below, and continually as set forth in proposed Rule(c)(5)(ii) as described below.

Proposed Rule 518(c)(5)(i) describes the evaluation process that occurs upon receipt of complex orders and quotes once a complex strategy is open for trading. After a complex strategy is open for trading, all new complex orders and quotes that are received for the complex strategy are evaluated upon arrival. The System will determine if such complex orders are Complex Auction-eligible orders, using the process and criteria regarding the Upon Receipt Improvement Percentage ("URIP") as described below.⁵⁷ The System will also evaluate (A) whether such complex orders or quotes are eligible for full or partial execution against a complex order or quote resting on the Strategy Book; (B) whether such complex orders or quotes are eligible for full or partial execution through Legging with the Simple Order Book (as described in proposed Rule 518(c)(2)(iii) and discussed above); (C) whether all or any remaining portion of a complex order or quote should be placed on the Strategy Book; (D) whether a derived order should be generated or cancelled; (E) the eligibility of such complex orders and quotes (as applicable) to participate in the managed interest process as described above;⁵⁸ and (F) whether such complex orders should be cancelled.

Proposed Rule 518(c)(5)(ii) describes the System's ongoing regular evaluation of the Strategy Book. The System will continue to evaluate complex orders and quotes on the Strategy Book to determine if such complex orders are Complex Auction-eligible orders, using the process and criteria described in Proposed Rule 518, Interpretations and Policies .03(c) regarding the Re-evaluation Improvement Percentage ("RIP") described below. The System will also continue, on a regular basis, to evaluate the factors listed in (A)–(F) above.

The System will also continue to evaluate whether there is a SMAT Event as defined above, a wide market condition (as described in Proposed Rule 518, Interpretations and Policies .05(e)(1) and discussed below), a halt (as described in proposed Rule 518, Interpretations and Policies .05(e)(3) and discussed below) affecting any

component of a complex strategy. Complex orders and quotes will be handled during such events in the manner set forth in proposed Rule 518, Interpretations and Policies .05(e), as discussed below.

Proposed Rule 518(c)(5)(iii) states that if the System determines that a complex order is a Complex Auction-eligible order (described below), such complex order will be submitted into the Complex Auction process as described in proposed Rule 518(d) and discussed below.

Proposed Rule 518(c)(5)(iv) describes the handling of orders that are determined not to be Complex Auction-eligible. If the System determines that a complex order is not a Complex Auction-eligible order, such complex order may be, as applicable, immediately matched and executed against a complex order or quote resting on the Strategy Book; executed against the individual components of the complex order on the Simple Order Book through Legging (as described in proposed Rule 518(c)(2)(iii) above; placed on the Strategy Book and managed pursuant to the managed interest process as described in proposed Rule 518(c)(4) and discussed above; or cancelled by the System if the time-in-force (*i.e.*, IOC) of the complex order does not allow it to rest on the Strategy Book.

The Exchange is proposing to establish complex orders that may be submitted as market orders. Proposed Rule 518(c)(6) states that complex orders may be submitted as market orders and may be designated as cAOA. The proposed rule distinguishes between complex market orders designated as cAOA and those that are not so designated.

Proposed Rule 518(c)(6)(i) states that complex market orders designated as cAOA may initiate a Complex Auction upon arrival or join a Complex Auction in progress. The Complex Auction process is set forth in proposed Rule 518(d) and discussed below. Proposed Rule 518(c)(6)(ii), Complex Market Orders not Designated as cAOA, states that complex market orders not designated as cAOA will trade immediately with any contra-side complex orders or quotes, or against the individual legs, up to and including the dcMBBO, and may be subject to the managed interest process, and the Evaluation Process, each as described above.

Complex Auction Process

Proposed Rule 518(d), Complex Auction Process, describes the process for determining if a complex order is

⁵⁶ For a complete description of priority in the Simple Order Book, see Exchange Rule 514.

⁵⁷ See proposed Rule 518, Interpretations and Policies .03(b).

⁵⁸ See proposed Rule 518(c)(4).

eligible to begin a Complex Auction, and to participate in a Complex Auction that is in progress. Certain option classes, as determined by the Exchange and communicated to Members via Regulatory Circular, will be eligible to participate in a Complex Auction (an “eligible class”). Upon evaluation as described above, the Exchange may determine to automatically submit a Complex Auction-eligible order (defined below) into a Complex Auction (as described below). Upon entry into the System or upon evaluation of a complex order resting at the top of the Strategy Book, Complex Auction-eligible orders may be subject to an automated request for responses (“RFR”), as described below.

Proposed Rule 518(d)(1) defines and describes the handling of a Complex Auction-eligible order. A “Complex Auction-eligible order” means a complex order that, as determined by the Exchange, is eligible to initiate or join a Complex Auction based upon the order’s marketability (*i.e.*, if the price of such order is equal to or within a specific range of the current dcMBBO) as established by the Exchange, number of components, and 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 as established by the Exchange and communicated to Members via Regulatory Circular).⁵⁹ Exchange Market Makers have an obligation to provide liquidity on the Exchange, and the Exchange believes that it is not appropriate for Exchange Market Makers to submit orders intended to initiate Complex Auctions, and instead that they should provide liquidity via RFR Responses (described below) during the Response Time Interval (described below). Other exchanges also have limited auction eligibility for complex orders based on order origin type.⁶⁰

In order to initiate a Complex Auction upon receipt, a Complex Auction-eligible order must be designated as cAOA and must meet the criteria described in proposed Rule 518, Interpretations and Policies .03(b) regarding the URIP as described below. A complex order not designated as

cAOA (*i.e.*, a complex order considered by default to be “do not auction on arrival” by the System) may (i) join a Complex Auction in progress at the time of receipt; (ii) become a Complex Auction-eligible order after resting on the Strategy Book and may then automatically join a Complex Auction then in effect for the complex strategy; or (iii) initiate a Complex Auction if it meets the criteria described in proposed Rule 518, Interpretations and Policies .03(a) regarding the IIP or .03(c) regarding the RIP.

A complex order not designated as cAOA will still have execution opportunities. A complex order not designated as cAOA is deemed to be “do not auction on arrival” by the System by default. Such a complex order will still have the opportunity to execute upon entry into the System without initiating a Complex Auction. For example, such an order may execute automatically upon entry into the System by matching with complex orders and/or quotes resting on the Strategy Book at a price that is at or inside the icMBBO, or via Legging against the Simple Order Book to the extent they are marketable. Additionally, such an order on the opposite side of, and marketable against, a Complex Auction-eligible order may trade against the Complex Auction-eligible order if the System receives the order while a Complex Auction ongoing.⁶¹

Complex orders processed through a Complex Auction may be executed without consideration to prices of the same complex interest that might be available on other exchanges.

Proposed Rule 518(d)(2) describes the circumstances under which a Complex Auction is begun. Upon receipt of a Complex Auction-eligible order or upon an evaluation by the System indicating that there is a Complex Auction-eligible order resting on the Strategy Book, the Exchange may begin the Complex Auction process by sending an RFR message. The RFR message will be sent to all subscribers to the Exchange’s data feeds that deliver RFR messages. The RFR message will identify the complex strategy, the price, quantity of matched

complex quotes and/or orders at that price, imbalance quantity, and side of the market of the Complex Auction-eligible order. The inclusion of the quantity of matched complex quotes and/or orders at the price included in the RFR message is intended to inform participants considering submitting an RFR Response of the number of contracts for which there is matched interest, and the purpose of including the imbalance quantity in the RFR message is to inform such participants of the number of contracts that do not have matched interest. The Exchange believes that this level of detail should provide such participants with specific information about a Complex Auction in which they may decide to participate. The sum of the matched interest quantity and the imbalance quantity is equal to the size of the initiating Complex Auction-eligible order that is being auctioned.⁶² The price included in the RFR message will be the limit order price, unless that price is through the opposite side dcMBBO or the Complex Auction is initiated by a complex market order, in which case such price will be the dcMBBO.

The Exchange may determine to limit the frequency of Complex Auctions for a complex strategy (*i.e.*, establish a minimum time period between Complex Auctions initiated for complex orders in that strategy resting on the Strategy Book). The duration of such limitation will be established on an Exchange-wide basis and communicated to Members via Regulatory Circular.⁶³ The Exchange will not change the duration of the minimum time period on an intraday basis during any trading session. The purpose of this limitation is to safeguard the integrity of the System and to ensure an orderly market on the Exchange. The Exchange believes that it is possible that there could be multiple Complex Auctions commencing and in progress at any particular time, and that without such a limitation the Exchange could be inundated with Complex Auctions and that an unusually large number of simultaneous Complex Auctions could be disruptive to the orderly function of the System. Despite this limitation respecting orders resting on the Strategy Book, however, a new

⁵⁹ See also NYSE MKT Rule 980NY(e)(1), which lists Customers, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange.

⁶⁰ See *id.* See also, *e.g.*, CBOE Regulatory Circular RG14-143 (October 14, 2014), limiting Complex Order Auction (“COA”) eligibility to non-broker-dealer public customer orders and professional customer orders.

⁶¹ A MIAX complex order not designated as cAOA will not be considered a Complex Auction-eligible order by default. The Exchange believes that this gives market participants extra flexibility to control the handling and execution of their complex orders by the System by giving them the ability to determine affirmatively to have their complex order initiate a Complex Auction by way of the cAOA designation. In contrast, CBOE Rule 6.53C (d)(ii)(B) expressly states that Trading Permit Holders may request on an order by order basis that an incoming COA eligible order with two legs *not* COA (a “do not COA” request).

⁶² See also NYSE MKT Rule 980NY(e)(2), which differs slightly because it includes size, but does not include an imbalance quantity or matched quantity, but states similarly that RFR messages will identify the component series and side of the market of the order and any contingencies.

⁶³ The frequency of auctions for complex orders is also limited on another exchange. See, *e.g.*, CBOE Rule 6.53C, Interpretations and Policies .04, which states that CBOE may also determine on a class-by-class and strategy basis to limit the frequency of COAs initiated for complex orders resting in COB.

complex order received by the System during such limitation that ordinarily triggers a Complex Auction will still trigger a Complex Auction upon receipt.

Proposed Rule 518(d)(3) defines the amount of time within which participants may respond to an RFR message. The term "Response Time Interval" means the period of time during which responses to the RFR may be entered. The Exchange will determine the duration of the Response Time Interval, which shall not exceed 500 milliseconds, and will communicate it to Members via Regulatory Circular.⁶⁴

Proposed Rule 518(d)(4) states that Members may submit a response to the RFR message (an "RFR Response") during the Response Time Interval. RFR Responses may be submitted in \$0.01 increments. RFR Responses must be a cAOC order or a cAOC eQuote⁶⁵ (discussed below), and may be submitted on either side of the market. RFR Responses represent non-firm interest that can be modified or withdrawn at any time prior to the end of the Response Time Interval. At the end of the Response Time Interval, RFR Responses are firm (*i.e.*, guaranteed at the RFR price and size). All RFR Responses and other complex orders and quotes on the opposite side of the Complex Auction-eligible order are also firm with respect to other incoming Complex Auction-eligible orders that are received during the Response Time Interval. Any RFR Responses not

⁶⁴ Unlike other exchanges, the Exchange is not proposing a minimum Response Time Interval (*see* NYSEArca Rule 6.91, which establishes a minimum Response Time Interval of 500 milliseconds and a maximum of 1 second), and is limiting the Response Time Interval to a maximum of 500 milliseconds, whereas other exchanges have a maximum Response Time Interval of 100 milliseconds (*see* BOX Rule 7245(f)(1)) and others have a Response Time Interval of up to 3 seconds (*see* CBOE Rule 6.53C(d)(iii)(2)). The Exchange believes that 500 milliseconds is a reasonable amount of time within which participants can respond to an RFR message.

⁶⁵ A "Complex Auction or Cancel eQuote" or "cAOC eQuote" is an eQuote submitted by a Market Maker that is used to provide liquidity during a specific Complex Auction with a time in force that corresponds with the duration of the Complex Auction. *See* proposed Rule 518, Interpretations and Policies .02(c)(2)[sic]. cAOC eQuotes are not displayed to any market participant, are not included in the MBBO and therefore are not eligible for trading outside of the event (in this case the Complex Auction). A cAOC eQuote does not automatically cancel or replace the Market Maker's previous Standard quote or eQuote. *See* Exchange Rule 517(a)(2)(ii). The Exchange notes that any orders or quotes received by the System during the Complex Auction that are not cAOC orders or cAOC eQuotes will be treated as unrelated trading interest. In addition, the Exchange notes that a cAOC order or a cAOC eQuote could trade at a price inferior to the away market if it is a part of an exempt transaction. *See* Exchange Rule 1402.

executed in full will expire at the end of the Complex Auction.⁶⁶

Proposed Rule 518(d)(5) describes how Complex Auction-eligible orders are handled following the Response Time Interval.

At the end of the Response Time Interval, Complex Auction-eligible orders (and other complex orders and quotes) may be executed in whole or in part. Complex Auction-eligible orders will be executed against the best priced contra side interest, and any unexecuted portion of a Complex Auction-eligible order remaining at the end of the Response Time Interval will either be evaluated to determine if it may initiate another Complex Auction, or placed on the Strategy Book and ranked pursuant to proposed Rule 518(c)(3) as discussed above.

The Complex Auction will terminate at the end of the Response Time Interval without trading when any individual component of a complex strategy in the Complex Auction process is subject to a wide market condition as described in proposed Rule 518, Interpretations and Policies .05(e)(1), or to a SMAT Event as described in proposed Rule 518(a)(16) and proposed Interpretations and Policies .05(e)(2), or immediately without trading if any individual component or underlying security of a complex strategy in the Complex Auction process is subject to a halt as described in proposed Rule 518, Interpretations and Policies .05(e)(3). Upon the conclusion of these condition(s) or process(es), an affected complex order will be evaluated and may initiate a new Complex Auction if such complex order is determined to be a Complex Auction-eligible order.

Example—Complex Auction termination without trading due to a SMAT Event (a PRIME Auction) followed by a new Evaluation upon resolution of the PRIME Auction.

MIAx—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAx—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 call and sell 1 Mar 55 call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

⁶⁶ This differs slightly from, but has the same effect as, the language in CBOE Rule 6.53C(d)(vii), which states that any RFR Responses not accepted in whole or in a permissible ratio will expire at the end of the Response Time Interval.

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48

Since the order price exceeds the URIP requirement ($2.70 + 0.48 = 3.18$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side, and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 to buy 1000 contracts. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.10 credit sell of 1000 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.00 credit sell of 500 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.20 credit sell of 500 arrives
- @ 250 milliseconds MM4 response, cAOC eQuote @ 3.10 credit sell of 250 arrives
- @ 350 milliseconds BD2 submits an unrelated complex order @ 2.70 credit sell of 200 arrives and joins the Complex Auction
- @ 400 milliseconds a PRIME Auction begins in either the Mar 50 Call or the Mar 55 Call

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends,⁶⁷ the Complex Auction ends without a trade, because one component is in a PRIME Auction. All RFR Responses, cAOC orders and eQuotes are cancelled. The unrelated complex order to sell @ 2.70 credit is placed on the Strategy Book. If at the conclusion of the SMAT Event (PRIME Auction), the initiating Customer buy complex order to purchase 1 Mar 50 call and sell 1 Mar 55 call for a 3.20 debit is resting on the Complex book and available upon the next evaluation following the PRIME Auction an evaluation and a new Complex Auction can be initiated. Upon evaluation the initiating Customer complex order to buy 1000 @ 3.20 is now crossing the BD2 complex order to sell 200 @ 2.70. Because there is an imbalance the best price of the imbalance is used to determine if the

⁶⁷ The Exchange will determine the duration of the Response Time Interval, which shall not exceed 500 milliseconds, and will communicate it to Members via Regulatory Circular. *See* proposed Rule 518(d)(3). All examples in this proposal assume a 500 millisecond Response Time Interval unless otherwise indicated.

imbalance price equals or improves the Re-evaluation Improvement Percentage (RIP).

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48

Since the best order price on the imbalance side exceeds the RIP requirement ($2.70 + 0.48 = 3.18$) to initiate a new Complex Auction, an RFR message is broadcast to all subscribers showing the price, quantity of matched complex quotes and/or orders at that price, the imbalance quantity, and side and a 500 millisecond Response Time Interval is started.

The System starts the auction at the best imbalance price, in this case the Initiating Priority Customer price bidding 3.20 to buy 1000 strategies. In addition to the existing crossed interest of BD2 complex order to sell 200 @ 2.70 credit, the following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.20 credit sell of 400 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 200 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.15 credit sell of 200 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case a single price of 3.20 satisfies the maximum quantity of 1000 and becomes the final auction price.

- Trade 1,000 at \$3.20
- Customer buys 400 from BD1
- Customer buys 200 from BD2
- Customer buys 200 from MM1
- Customer buys 200 from MM3

Complex Auction Pricing

Proposed Rule 518(d)(6) describes the manner in which the System prices and executes complex orders and quotes at the conclusion of the Response Time Interval.

The proposed Rule initially states the broader pricing policy and functionality of all trading of complex orders in the System (whether a trade is executed in the Complex Auction process or in free trading). Specifically, a complex

strategy will not be executed at a net price that would cause any component of the complex strategy to be executed: (A) At a price of zero; or (B) ahead of a Priority Customer order on the Simple Order Book without improving the MBBO on at least one component of the complex strategy by at least \$.01.

At the conclusion of the Response Time Interval, using \$.01 inside the current icMBBO as the boundary (the “boundary”), the System will calculate the price where the maximum quantity of contracts can trade and also determine whether there is an imbalance. The purpose of using a boundary of \$.01 inside the icMBBO as the Complex Auction price in this situation is to protect the Simple Order Book and to ensure that executions following the Response Time Interval are not blocked by a bid or offer on the Simple Order Book on the opposite side of the market for a component of a Complex strategy that will not satisfy the requisite ratio for the complex order.

Example—Complex Auction takes place \$.01 inside of the icMBBO to avoid a situation where nothing can trade and the incoming order cannot be satisfied at the Complex Auction price.

MIAX—LMM Mar 50 Call 0.99–1.05 (10x10)

MIAX—LMM Mar 55 Call 0.80–0.95 (10x10)

MIAX Priority Customer order to buy a Mar 50 Call for 1.00 (2)

The Exchange receives an initiating Priority Customer complex order to sell 3 Mar 50 calls and buy 2 Mar 55 calls at a 1.10 credit, 100 times. The cAOA instruction is present on this complex order, so the complex order will initiate a Complex Auction upon arrival if it equals or improves the URIP.

The icMBBO is 1.10 debit at 1.55 credit
The dcMBBO is 1.10 debit at 1.55 credit
The URIP Percentage is 60% of the bid/ask spread or 0.27

Since the initiating Priority Customer order price exceeds the URIP requirement ($1.55 - 0.27 = 1.28$) to initiate a Complex Auction upon arrival, an RFR is broadcast showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side and a 500 millisecond Response Time Interval is started.

The System starts the Complex Auction at the initiating Priority Customer price offering to sell 100 strategies at 1.11. The following responses are received:

- @ 50 milliseconds MM1 response, cAOC eQuote to buy 100 @ 1.10 debit arrives

- @ 150 milliseconds MM4 response, cAOC eQuote to buy 50 @ 1.11 debit arrives

- @ 500 milliseconds the Response Time Interval expires, the Complex Auction ends and the trade is allocated against initiating Priority Customer using the single best price at which the greatest quantity can trade in the following manner:
 1. 50 trade vs. MM4 @ 1.11
 2. Nothing can trade at 1.10 due to the presence of Priority Customer interest in the March 50 Call on the Simple Order Book at 1.00 in insufficient quantity to meet the ratio required by the Priority Customer order.

Therefore, the 1.10 cAOC response by MM1 expires untraded at the end of the Complex Auction and the balance of the initiating Priority Customer complex order to sell is placed on the Strategy Book at a managed and displayed price of 1.11

The Exchange begins Complex Auctions at a price that is \$.01 inside of the icMBBO to protect the integrity of the Simple Order Book and to eliminate the possibility of beginning a Complex Auction at a price at which the order cannot execute.

No Imbalance at End of Response Time Interval

If there is no imbalance, and a single price satisfies the maximum quantity criteria, that single price is used as the Complex Auction price. If two or more prices satisfy the maximum quantity criteria, the System will calculate the midpoint of the lowest and highest price points that satisfy the maximum quantity criteria, such midpoint price is used as the Complex Auction price. For orders with ixABBO Price Protection, as described above, (“price protection”), the midpoint pricing will use the price protection range selected by the Member at the end of the Complex Auction. If the midpoint price is not in a \$.01 increment, the System will round toward the midpoint of the dcMBBO to the nearest \$.01. If the midpoint of the highest and lowest prices is also the midpoint of the dcMBBO and is not in a \$.01 increment, the System will round the price up to the next \$.01 increment.

Example—Complex Auction Pricing when there is no imbalance and the maximum quantity at a single price is used as the Complex Auction price

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to

purchase 1 Mar 50 call and Sell 1 Mar 55 call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48 ($60\% \times 0.80 = 0.48$)

Since the order price exceeds the URIP requirement ($2.70 + 0.48 = 3.18$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 to buy 1000 strategies. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.20 credit sell of 500 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 250 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.15 credit sell of 250 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case a single price of 3.20 satisfies the maximum quantity of 1000 and becomes the final auction price.

- Trade 1,000 at \$3.20
- Customer buys 500 from BD1
- Customer buys 250 from MM1
- Customer buys 250 from MM3

Example—Complex Auction Pricing when there is no imbalance and the maximum quantity at two or more prices is used as the Complex Auction price.

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and Sell 1 Mar 55 Call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48 ($60\% \times 0.80 = 0.48$). Since the order price exceeds the URIP requirement ($2.70 + 0.48 = 3.18$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 to buy 1000 strategies. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.10 credit sell of 500 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 250 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.10 credit sell of 250 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case the maximum quantity of 1000 can trade at or within the prices of 3.10 and 3.20. To find the final trade price the process will continue by taking the midpoint between the highest and lowest price points that satisfy the maximum quantity, in this case is 3.15.

- Trade 1,000 at \$3.15
- Customer buys 500 from BD1
- Customer buys 250 from MM1
- Customer buys 250 from MM3

Example—Complex Auction Pricing when there is no imbalance and the maximum quantity at two or more prices is used as the Complex Auction price. If the midpoint price is not in a \$0.01 increment, the System will round toward the midpoint of the dcMBBO to the nearest \$0.01.

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and Sell 1 Mar 55 Call for a 3.19 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

Midpoint of dcMBBO is the difference between the bid and offer divided by 2 added to the dcMBB or subtracted from the dcMBO:

- $2.70 + ((350 - 2.70) * .5) = 3.10$ or
- $3.50 - ((3.50 - 2.70) * .5) = 3.10$

The URIP Percentage is 60% of the bid/ask spread or 0.48 ($60\% \times 0.80 = 0.48$)

Since the order price exceeds the URIP requirement ($2.70 + 0.48 = 3.18$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.19 to buy 1000 strategies. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.10 credit sell of 500 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 250 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.10 credit sell of 250 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case the maximum quantity of 1000 can trade at or within the prices of 3.10 and 3.19. To find the final trade price the process will continue by taking the midpoint between the highest and lowest price points that satisfy the maximum quantity, in this case is $2.70 + ((3.19 - 3.10) * .5) = 3.145$. Because the midpoint price is not 0.01 increment the trade price is rounded toward 3.10 the midpoint price of the dcMBBO to the nearest 0.01.

- Trade 1,000 at \$3.14
- Customer buys 500 from BD1
- Customer buys 250 from MM1
- Customer buys 250 from MM3

Example—Complex Auction Pricing when there is no imbalance and the maximum quantity at two or more prices is used as the Complex Auction price. If the midpoint of the highest and lowest prices is also the midpoint of the dcMBBO and is not in a \$0.01 increment, the System will round the price up to the next \$0.01 increment.

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.01–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and Sell 1 Mar 55 Call for a 3.18 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.49 credit offer

The dcMBBO is 2.70 debit bid at 3.49 credit offer

Midpoint of dcMBBO is the difference between the bid and offer times 0.5 added to the dcMBB or subtracted from the dcMBO:

- $2.70 + ((3.49 - 2.70) * 0.5) = 3.095$ or
- $3.49 - ((3.49 - 2.70) * 0.5) = 3.095$

The URIP Percentage is 60% of the bid/ask spread or 0.47 ($60\% \times 0.79 = 0.47$)

Since the order price exceeds the URIP requirement ($2.70 + 0.47 = 3.17$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.18 to buy 1000 strategies. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.01 credit sell of 500 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.00 credit sell of 250 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.00 credit sell of 250 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case the maximum quantity of 1000 can trade at or within the prices of 3.01 and 3.18. To find the final trade price the process will continue by taking the midpoint between the highest and lowest price points that satisfy the maximum quantity, in this case is $3.01 + ((3.18 - 3.01) * .5) = 3.095$. Because the midpoint of the highest and lowest price is also the midpoint of the dcMBBO and is not 0.01 increment the trade price is rounded up to the next 0.01 increment.

- Trade 1,000 at \$3.10
- Customer buys 500 from BD1
- Customer buys 250 from MM1
- Customer buys 250 from MM3

Size Imbalance at End of Response Time Interval

If there is a size imbalance, and if a single price satisfies the maximum quantity criteria, that single price is used as the Complex Auction price. If two or more prices satisfy the maximum quantity criteria, the System will price the execution at the price on the opposite side of the size imbalance that meets the maximum quantity criteria, while also respecting limit prices and the pricing boundaries which include the price protection boundary of \$0.01 inside of the icMBBO and the price protection range (if any) selected by the Members whose interest makes up the order imbalance.

Example—Complex Auction Pricing when there is an imbalance and the maximum quantity at two or more prices are used as the Complex Auction price

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and Sell 1 Mar 55 Call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48 ($60\% \times 0.80 = 0.48$)

Since the order price exceeds the URIP requirement ($2.70 + 0.48 = 3.18$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 to buy 1000 strategies. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.15 credit sell of 500 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 200 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.15 credit sell of 200 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the

Complex Auction price determination will find the maximum quantity that can trade. In this case the maximum quantity of 900 can trade at or within the prices of 3.15 and 3.20. Because there is more quantity to buy than to sell, this creates an imbalance therefore the final trade price does not use the midpoint and instead will be at the price on the opposite side of the size imbalance, in this case 3.20. After the Auction process has terminated, the remaining bid for a size of 100 will be placed on the Strategy Book at its limit price of 3.20.

- Trade 900 at \$3.20
- Customer buys 500 from BD1
- Customer buys 200 from MM1
- Customer buys 200 from MM3
- Post \$3.20 bid for 100

If, after trading the maximum quantity at the execution price, Complex Auction interest remains with a managed price that locks or crosses the opposite side icMBBO, the System will execute the individual legs of eligible remaining Complex Auction eligible orders and quotes against orders and quotes resting on the Simple Order Book that were present prior to the beginning of the Complex Auction at the icMBBO if available in the proper ratio and at or within the NBBO of each component of the complex order.

After executing the imbalance side interest to the extent possible at the icMBBO, and if Priority Customer interest at the icMBBO that is not in the proper ratio remains, the System will place such remaining imbalance side interest on the Strategy Book and manage such interest pursuant to proposed Rule 518(c)(4). If no Priority Customer interest at the icMBBO remains, the System will execute Complex Auction interest with any available complex orders, complex Standard quotes or complex eQuotes priced at the icMBBO, and then with any orders or quotes on the Simple Order Book at the icMBBO that were received or modified after the beginning of the Response Time Interval.

If after trading the maximum quantity at the initial icMBBO all interest at the initial icMBBO has been executed, including through Legging with the Simple Order Book (as described in proposed Rule 518(c)(2)(iii) above), and Complex Auction interest remains with a managed price that crosses the exhausted icMBBO or dcMBBO (if the next opposite side icMBBO is also the dcMBBO), or locks or crosses the next opposite side icMBBO or dcMBBO (if the next opposite side icMBBO is also the dcMBBO), the System will repeat the process for a size imbalance

described in proposed Rule 518(d)(6)(i)(B)(1)–(3) above. At each icMBBO price level the System will repeat this process at the end of the Response Time Interval until reaching the dcMBBO price. If the Complex Auction price is equal to or crosses the dcMBBO and the dcMBBO is exhausted, the System will place any remaining Complex Auction interest on the Strategy Book and manage the interest that is eligible to rest on the Strategy Book pursuant to subparagraph (c)(4) to the exhausted dcMBBO price, cancel Complex Auction interest, including remaining complex order cAOC interest, that is not eligible to rest on the Strategy Book, and cancel any complex Standard quotes that are locking or crossing the exhausted dcMBBO price. The System will then immediately initiate a re-evaluation of the remaining interest from the Complex Auction and may initiate a new Complex Auction without regard to the RIP.

Example—Remaining Complex Auction interest after trading the maximum quantity, that locks or crosses the opposite side icMBBO will leg against interest resting on the Simple Order Book

ABBO—Mar 50 Call 6.20–6.30
 MIAX—LMM Mar 50 Call 6.00–6.20
 (10x100) managed offer
 MIAX—LMM Mar 50 Call 6.00–6.30
 (10x100) displayed offer
 MIAX—LMM Mar 55 Call 3.00–3.30
 (100x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and Sell 1 Mar 55 Call for a 3.40 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.20 credit offer
 The dcMBBO is 2.70 debit bid at 3.30 credit offer
 The URIP Percentage is 60% of the bid/ask spread or 0.36 ($60\% \times 0.60 = 0.36$)

Since the order price exceeds the URIP requirement ($2.70 + 0.36 = 3.06$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at the Complex Auction price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started. The System starts the auction at the Initiating Priority Customer price bidding 3.30 to buy 1000 strategies. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.15 credit sell of 500 arrives

- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 200 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.15 credit sell of 200 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case the maximum quantity of 900 can trade at or within the prices of 3.15 and 0.01 inside the icMBBO, which results in a boundary price of 3.19. Because there is more quantity to buy than to sell, this creates an imbalance therefore the final trade price does not use the midpoint and instead will be at the price on the opposite side of the size imbalance, in this case 3.19.

The remaining balance of 100 to buy at 3.40 will execute by Legging against interest resting on the Simple Order Book at the icMBBO price of \$3.20 buy 100 of the LMM Mar 50 Call at 6.20 and sell 100 of the LMM Mar 55 Call at 3.00 for a net debit of 3.20.

- Trade 900 at \$3.19
- Customer buys 500 from BD1
- Customer buys 200 from MM1
- Customer buys 200 from MM3
- Leg the balance against the \$3.20 icMBBO
- Customer buys 100 of the Mar 50 Call at 6.20 from the LMM
- Customer sells 100 of the Mar 55 Call at 3.00 to the LMM

If the trading described above was not at the dcMBBO, the System will follow the same procedure at the dcMBBO. If after trading the maximum quantity at the dcMBBO, interest at the dcMBBO remains, the System will place any remaining Complex Auction interest on the Strategy Book and manage the interest that is eligible to rest on the Strategy Book pursuant to proposed Rule 518(c)(4), and cancel Complex Auction interest, including remaining complex order cAOC interest, that is not eligible to rest on the Strategy Book.

Example—Complex Auction interest trades the maximum quantity at the initial icMBBO, and additional remaining interest locks or crosses the next opposite side icMBBO or dcMBBO (if the next opposite side icMBBO is also the dcMBBO) the system will repeat the process for a size imbalance

MIAX—LMM Mar 50 Call 6.00–6.20
 (10x10) managed offer
 MIAX—LMM Mar 50 Call 6.00–6.30
 (10x100) displayed offer
 MIAX—LMM Mar 55 Call 3.00–3.30

(100x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 Call and Sell 1 Mar 55 Call for a 3.40 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.20 credit offer
 The dcMBBO is 2.70 debit bid at 3.30 credit offer
 The URIP Percentage is 60% of the bid/ask spread or 0.36 ($60\% \times 0.60 = 0.36$)

Since the order price exceeds the URIP requirement ($2.70 + 0.36 = 3.06$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.30 (the opposite side dcMBBO) to buy 1000 strategies. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.15 credit sell of 500 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 200 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.15 credit sell of 200 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case the maximum quantity of 900 can trade at or within the prices of 3.15 and 0.01 inside the icMBBO, which results in a boundary price of 3.19. Because there is more quantity to buy than to sell, this creates an imbalance therefore the final trade price does not use the midpoint and instead will be at the price on the opposite side of the size imbalance, in this case 3.19.

The remaining balance of 100 to buy at 3.40 will execute by Legging against interest resting on the Simple Order Book at the icMBBO that was present prior to the beginning of the Complex Auction. The complex order will in this case buy 10 of the LMM Mar 50 Call at 6.20 and sell 10 of the LMM Mar 55 Call at 3.00 for a net debit of 3.20 fully executing the initial icMBBO. With all interest at the initial icMBBO of 3.20 credit executed, Complex Auction

interest remains to buy 90 at 3.40, and will follow the process for a size imbalance as described above and trade at the next icMBBO or in this case the dcMBBO since the next opposite side icMBBO is also the dcMBBO. The complex order will execute against by Legging interest resting on the Simple Order Book at the dcMBBO, in this case buy 90 of the LMM Mar 50 calls at 6.30 and sell 90 of the LMM Mar 55 calls at 3.00 for a net debit of 3.30.

- Trade 900 at \$3.19
- Customer buys 500 from BD1
- Customer buys 200 from MM1
- Customer buys 200 from MM3
- Leg 10 against the \$3.20 icMBBO
- Customer buys 10 of the Mar 50 calls at 6.20 from the LMM
- Customer sells 10 of the Mar 55 calls at 3.00 to the LMM
- Leg 90 against the \$3.30 dcMBBO
- Customer buys 90 of the Mar 50 calls at 6.30 from the LMM
- Customer sells 90 of the Mar 55 calls at 3.00 to the LMM

Example—When the icMBBO is also the dcMBBO, remaining Complex Auction interest that locks or crosses the opposite side dcMBBO will leg against interest resting on the Simple Order Book exhausting interest at the dcMBBO and then will be evaluated

MIAx—LMM Mar 50 call 6.00–6.20 (10x10)

MIAx—LMM Mar 55 call 3.00–3.30 (1000x10)

The Exchange receives an Initiating Customer complex order to buy 1 Mar 50 call and Sell 1 Mar 55 call for a 3.30 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.20 credit offer

The dcMBBO is 2.70 debit bid at 3.20 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.30 (60% x 0.50 = 0.30)

Since the order price exceeds the URIP requirement (2.70+0.30=3.00) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 (the opposite side dcMBBO) to buy 1000 contracts. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.15 credit sell of 500 arrives

- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 200 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.15 credit sell of 200 arrives
- @ 225 milliseconds MM2 complex Standard quote bidding @ 3.20 debit buy of 200 arrives
- @ 400 milliseconds MM2 response, cAOC eQuote @ 3.40 credit sell of 200 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the Complex Auction price determination will find the maximum quantity that can trade. In this case the maximum quantity of 900 can trade at or within the prices of 3.15 and 0.01 inside of the icMBBO, which results in a buy imbalance. Because there is more quantity to buy than to sell, this creates an imbalance therefore the final trade price does not use the midpoint and instead will be at the price on the opposite side of the size imbalance, in this case 3.19.

A portion of the remaining balance of 100 to buy at 3.30 will execute by Legging against interest resting on the Simple Order Book at the combined icMBBO/dcMBBO that was present prior to the beginning of the Complex Auction. The complex order will in this case buy 10 of the LMM Mar 50 Call at 6.20 and sell 10 of the LMM Mar 55 Call at 3.00 for a net debit of 3.20, exhausting the dcMBBO.

Once the dcMBBO has been exhausted and Auction interest remains, all unexecuted cAOC eQuotes or orders and any unexecuted complex Standard quotes that are locking or crossing the exhausted dcMBBO price are cancelled. This results in the cancellation of MM2's 3.40 credit cAOC response and MM2's 3.20 debit complex Standard quote bid.

Since the dcMBBO has been exhausted, the remaining balance of 90 contracts from the Initiating Priority Customer order will then be placed on the Strategy Book at the exhausted dcMBBO price.

The new Simple Market quotes after exhausting the original icMBBO/dcMBBO are:

MIAx—LMM Mar 50 Call 6.10–6.40 (10x10)

MIAx—LMM Mar 55 Call 2.90–3.00 (10x10)

The icMBBO is 3.10 debit bid at 3.50 credit offer

The dcMBBO is 3.10 debit bid at 3.50 credit offer

The RIP Percentage is 60% of the bid/ask spread or 0.24

Regardless of the fact that the order's limit price does not meet or exceed the RIP requirement (3.10+0.24=3.34) to initiate an Auction upon reevaluation, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the Auction at the Initiating Priority Customer's limit price bidding 3.30 to buy 90 contracts. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.25 credit sell of 100 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.30 credit sell of 100 arrives

The Complex Auction process will continue until the Response Time Interval ends. When the 500 millisecond Response Time Interval ends, the maximum quantity of 90 contracts will trade at 3.25[sic]

If all interest at the dcMBBO has been exhausted and Auction orders with a managed or limit price that locks or crosses the exhausted dcMBBO price remain, the System will place any remaining Complex Auction interest on the Strategy Book and manage the interest that is eligible to rest on the Strategy Book pursuant to proposed Rule 518(c)(4) to the exhausted dcMBBO price, cancel Complex Auction interest (including remaining complex order cAOC interest) that is not eligible to rest on the Strategy Book, and cancel any complex Standard quotes that are locking or crossing the exhausted dcMBBO price. The System will then immediately initiate a reevaluation of the remaining interest from the Complex Auction and may initiate a new Complex Auction without regard to the RIP.

The System will place any eligible remaining non-marketable Complex Auction orders and quotes on the Strategy Book, cancel any remaining Complex Auction interest that is not eligible to rest on the Strategy Book, and cancel complex Standard quotes that would otherwise require management because of their price as described in proposed Rule 518(c)(4) above if placed on the Strategy Book.

Trade Allocation Following the Complex Auction

Proposed Rule 518(d)(7) describes the allocation of complex orders and quotes that are executed in a Complex Auction. Once the Complex Auction is complete

(at the end of the Response Time Interval), such orders and quotes will be allocated first in price priority based on their original limit price, and thereafter as stated herein.

Individual orders and quotes in the leg markets resting on the Simple Order Book prior to the initiation of a Complex Auction and that have remained unchanged during the Auction have first priority, provided the complex order can be executed in full (or in a permissible ratio) against orders and quotes on the Simple Order Book, provided that the prices of the components on the Simple Order Book are at or within the NBBO for each component. Orders and/or quotes resting on the Simple Order Book that execute against a complex order will be allocated pursuant to Rule 514(c). The Exchange believes that unchanged orders and quotes resting on the Simple Order Book should retain their established priority when Legging against a complex order.

Priority Customer complex orders resting on the Strategy Book before, or that are received during, the Response Time Interval, and Priority Customer RFR Responses, collectively have second priority and will be allocated in price-time priority. This is consistent with the handling of Priority Customers on other exchanges⁶⁸ and on the MIAX Simple Order Book⁶⁹

Market Maker Priority Interest for Complex and RFR Responses from Market Makers with Priority Interest for

Complex collectively have third priority and will be allocated on a pro-rata basis as defined in Rule 514(c)(2).

Market Maker non-Priority Interest for Complex and RFR Responses from Market Makers with non-Priority Interest for Complex collectively have fourth priority and will be allocated on a pro-rata basis as defined in Rule 514(c)(2).

Non-Market Maker Professional Interest complex orders resting on the Strategy Book, non-Market Maker Professional Interest complex orders placed on the Strategy Book during the Response Time Interval, and non-Market Maker Professional Interest RFR Responses will collectively have fifth priority and will be allocated on a pro-rata basis as defined in Rule 514(c)(2).

Finally, individual orders and quotes in the leg markets that are received or changed during the Complex Auction will collectively have sixth priority and will be allocated pursuant to Rule 514(c)(2).⁷⁰

The following examples illustrate the manner in which complex orders and quotes are allocated at the conclusion of the Complex Auction.⁷¹

Example—Priority Customer has priority over other responding participants

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 call and Sell 1 Mar 55 call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate a Complex Auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48

⁷⁰ This differs slightly from the execution of orders on other exchanges. ISE may designate on a class basis whether bids and offers at the same price on the complex order book will be executed either in time priority; pursuant to ISE Rule 713(e) regarding priority in the ISE simple order book, or pro-rata based on size. See ISE Rule 722(b)(3)(i). Additionally, CBOE establishes priority for the Complex Order Book based upon the rules of trading priority otherwise applicable to incoming electronic orders in the individual component legs or another electronic matching algorithm in the CBOE rules. See CBOE Rule 6.53C(e)(ii)(2).

⁷¹ The Exchange notes that in all examples in the filing, a Market Maker response should be considered from a Market Maker that does not have a priority quote, unless the example specifically states that the response is from a Market Maker with a priority quote.

Since the initiating order price exceeds the URIP requirement ($2.70+0.48=3.18$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 to buy 1000 contracts. The following responses are received:

- @ 50 milliseconds MM1 response, cAOC eQuote @ 3.10 credit sell of 2000 arrives
- @ 150 milliseconds MM4 response, cAOC eQuote @ 3.00 credit sell of 500 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.20 credit sell of 500 arrives
- @ 250 milliseconds Priority Customer response, cAOC Order @ 3.10 credit sell of 250 arrives
- @ 500 milliseconds the Response Time Interval ends, the Complex Auction ends and the trade is allocated against the initiating Priority Customer using the single best price at which the greatest quantity can trade in the following manner:
 1. 500 trade vs. MM4 @ 3.10 (MM4 achieved price priority by offering at 3.00)
 2. 250 trade vs. the Priority Customer response @ 3.10 (The Priority Customer has priority over the MM1 offering at the same price)
 3. 250 trade vs. MM1 @ 3.10

Example—Market Maker with priority quotes has priority over Market Makers without priority quotes

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 call and Sell 1 Mar 55 call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48

Since the order price exceeds the URIP requirement ($2.70+0.48=3.18$) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing price, the quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and

⁶⁸ Similarly, on PHLX, after attempting to trade with the PHLX simple limit order book for the individual components, customer marketable Complex Orders on the PHLX CBOOK (their equivalent of the Strategy Book) have priority over non-public customer Complex Orders. See PHLX Rule 1098(e)(vi). CBOE also affords priority to public customer complex orders after attempting to trade the complex order against the individual components, followed by non-public customer orders resting in the CBOE Complex Order Book. See CBOE Rule 6.53C(d)(v). This is slightly distinguished from the MIAX System which seeks first to match complex orders resting on the Strategy Book.

⁶⁹ When the Priority Customer Overlay is in effect, the highest bid and lowest offer shall have priority except that Priority Customer Orders shall have priority over Professional Interest and all Market Maker interest at the same price. If there are two or more Priority Customer Orders for the same options series at the same price, priority shall be afforded to such Priority Customer Orders in the sequence in which they are received by the System. See Exchange Rule 514(d)(1). Other exchanges have similar allocation models for the simple market. For example, ISE Priority Customer Orders have priority over Professional Orders and market maker quotes at the same price in the same options series. See ISE Rule 713(c). Similarly, on CBOE, Public customer orders in the electronic book have priority. See CBOE Rule 6.45A(a)(i)(A)(1). PHLX allocates contracts to non-public customers only after public customer market and marketable limit orders have been executed. See PHLX Rule 1014(g)(vii).

a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 to buy 1000 contracts. The following responses are received:

- @ 50 milliseconds MM1 non-priority response, cAOC eQuote @ 3.10 credit sell of 2000 arrives
- @ 150 milliseconds MM4 non-priority response, cAOC eQuote @ 3.00 credit sell of 500 arrives
- @ 200 milliseconds MM3 non-priority response, cAOC eQuote @ 3.20 credit sell of 500 arrives
- @ 250 milliseconds MM5 with priority quotes response, cAOC eQuote @ 3.10 credit sell of 500 arrives
- @ 500 milliseconds the Response Time Interval ends, the Complex Auction ends and the trade is allocated against the initiating Priority Customer using the single best price at which the greatest quantity can trade in the following manner:
 1. 500 trade vs. MM4 @ 3.10 (MM4 has price priority over the other MMs)
 2. 500 trade vs. MM5 @ 3.10 (MM5 has price priority over MM3 and has priority by virtue of priority quoting over MM1)

Example—*Professional Interest starts Auction, joined by Priority Customer Interest to show Priority Customer allocation priority*

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an initiating broker-dealer complex order to buy 1 Mar 50 call and Sell 1 Mar 55 call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP. The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48

Since the order price exceeds the URIP requirement (2.70+0.48=3.18) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing the price, quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval begins.

The System starts the auction at the initiating broker dealer price bidding 3.20 to buy 1000 contracts. The following responses are received:

- @ 50 milliseconds Priority Customer #1 unrelated order buy 750 @ 3.20 debit arrives
- @ 150 milliseconds Priority Customer #2 unrelated order buy 500 @ 3.20 debit arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.20 credit sell of 500 arrives
- @ 250 milliseconds Priority Customer #3 response, cAOC Order @ 3.20 credit sell of 500 arrives
- @ 500 milliseconds the Response Time Interval ends, the auction ends and the trade (including unrelated interest from Priority Customer #s 1 and 2) is allocated against Initiating Customer using the single best price at which the greatest quantity can trade in the following manner:
 1. 500 trade Priority Customer #1 buys (Priority Customer #1 has origin type priority over the Broker-Dealer and time priority over Priority Customer #2). Priority Customer #3 sells @ 3.20 (Priority Customer #3 has priority over MM3 offering at the same price).
 2. 250 trade Priority Customer #1 buys (Priority Customer #1 has origin type priority over the Broker-Dealer and time priority over Priority Customer #2). MM3 sells @ 3.20 (MM3 is now alone at 3.20 since Priority Customer #3 is filled).
 3. 250 trade Priority Customer #2 (which is an unrelated order) buys (Priority Customer #2 has origin type priority over the Broker-Dealer). MM3 sells @ 3.20, and the balance of 250 is placed on the Strategy Book.

Processing of Unrelated Complex Orders

The Complex Auction is designed to work effectively with the Strategy Book and is designed to maintain priority of all resting quotes and orders and any RFR Responses received before the end of the Response Time Interval. Proposed Rule 518(d)(8) describes the manner in which the System handles incoming unrelated complex orders and quotes that are eligible to join a Complex Auction and are received during the Response Time Interval for a Complex Auction-eligible order. Such incoming unrelated complex orders and quotes will simply join the Complex Auction, will be ranked by price, and will be allocated as described above.⁷²

⁷² The Exchange proposes to include eligible unrelated incoming complex orders and quotes in the Complex Auction Process. This is similar to another exchange. Specifically, PHLX incoming Complex Orders that were received during the COLA Timer (equivalent to the MIAX Response Time Interval) for the same Complex Order Strategy as the COLA-eligible order that are on the same side of the market will join the COLA. See PHLX Rule 1098(e)(viii)(B). Incoming PHLX Complex Orders on the opposite side of the market from the COLA-

The ability for unrelated marketable orders to join and be executed in a Complex Auction enhances the liquidity in the Complex Auction and thus increases opportunities for execution of complex orders and quotes on both sides of the market, all to the benefit of investors and to the marketplace as a whole.

Example—*Arrival of an unrelated marketable complex order on the opposite side.*

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Customer buy complex order to purchase 1 Mar 50 call and Sell 1 Mar 55 call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48

Since the order price exceeds the URIP requirement (2.70+0.48=3.18) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing the price, quantity of matched complex quotes and/or orders at that price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the initiating Priority Customer price bidding 3.20 to buy 1000 contracts. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.10 credit sell of 1000 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.00 credit sell of 500 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.20 credit sell of 500 arrives

eligible order will join the COLA or be executed after the COLA under various circumstances described in the rule. Other exchanges permit certain orders to join a complex auction under limited circumstances, and other unrelated complex orders will terminate the auction process. For example, on CBOE incoming complex orders that are received prior to the expiration of the Response Time Interval for the original COA that are on the opposite side of the market and are marketable against the starting price of the original COA-eligible order will cause the original COA to end. Incoming COA-eligible orders are on the same side of the market, at the same price or worse than the original COA-eligible order and better than or equal to the starting price will join the original COA. See CBOE Rule 6.53C(d)(viii). NYSE MKT distinguishes the processing of unrelated complex orders by side of market. See NYSE MKT Rule 980NY(c)(sic)(8).

- @ 250 milliseconds MM4 response, cAOC eQuote @ 3.10 credit sell of 250 arrives
- @ 350 milliseconds BD2 submits an unrelated complex order @ 2.70 credit sell of 200 arrives
- @ 500 milliseconds the Response Time Interval ends, the Complex Auction ends and the trade is allocated against the initiating Priority Customer using the single best price at which the greatest quantity can trade in the following manner:

1. 200 trade vs. unrelated complex order @ 3.10 (BD2 achieved price priority by offering at 2.70)
2. 500 trade vs. MM1 @ 3.10 (MM1 achieved price priority by over the other responses by offering at 3.00)
3. 250 trade vs. MM4 @ 3.10 (MM4 achieved price priority over MM3 by offering at 3.10 and origin type priority over BD1)
4. 50 trade vs. BD1 @ 3.10 (BD1 achieved price priority over MM3 by offering at 3.10)

Example—Arrival of unrelated

marketable complex order on the same side

MIAX—LMM Mar 50 Call 6.00–6.50 (10x10)

MIAX—LMM Mar 55 Call 3.00–3.30 (10x10)

The Exchange receives an Initiating Priority Customer buy complex order to purchase 1 Mar 50 call and Sell 1 Mar 55 call for a 3.20 debit, 1000 times. The cAOA instruction is present on this order, so the order will initiate an auction upon arrival if it equals or improves the URIP.

The icMBBO is 2.70 debit bid at 3.50 credit offer

The dcMBBO is 2.70 debit bid at 3.50 credit offer

The URIP Percentage is 60% of the bid/ask spread or 0.48

Since the order price exceeds the URIP requirement (2.70+0.48=3.18) to initiate an auction upon arrival, an RFR is broadcast to all subscribers showing the price, quantity of matched complex quotes and/or orders at the Exchange's disseminated price, imbalance quantity, and side is sent and a 500 millisecond Response Time Interval is started.

The System starts the auction at the Initiating Priority Customer price bidding 3.20 to buy 1000 contracts. The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order @ 3.10 credit sell of 1000 arrives
- @ 150 milliseconds MM1 response, cAOC eQuote @ 3.00 credit sell of 500 arrives
- @ 200 milliseconds MM3 response, cAOC eQuote @ 3.20 credit sell of 500 arrives

- @ 250 milliseconds MM4 response, cAOC eQuote @ 3.10 credit sell of 250 arrives
- @ 350 milliseconds BD2 submits an unrelated complex order @ 3.20 debit buy of 200 arrives
- @ 500 milliseconds the Response Time Interval ends, the Complex Auction ends and the trade is allocated against the initiating Broker-Dealer using the single best price at which the greatest quantity can trade in the following manner:

1. Initiating Priority Customer buys 500 vs. MM1 @ 3.10 (The Priority Customer initiating order has origin type priority over BD2. MM1 achieved price priority over other responses by offering at 3.00)
2. Initiating Priority Customer buys 250 vs. MM4 @ 3.10 (The Priority Customer initiating order has origin type priority over BD2. MM4 achieved price priority over MM3 by offering at 3.10 and origin type priority over BD1)
3. Initiating Priority Customer buys 250 vs. BD1 @ 3.10 (The Priority Customer initiating order has origin type priority over BD2. BD1 achieved price priority over MM3)
4. BD2 buys 200 vs BD1 @ 3.10 (The Priority Customer initiating order is filled. BD1 achieved price priority over MM3)

Proposed Rule 518(d)(9) states that a complex order not designated as cAOA will either be (i) executed in full at a single price or at multiple prices up to its limit price, with remaining contracts placed on the Strategy Book; (ii) executed until the order exhausts the opposite side dcMBBO, at which time the order will be placed on the Strategy Book and evaluated for Complex Auction eligibility; or (iii) cancelled.

Proposed Rules 518(d)(10), (11) and (12) each describe the effect(s) of certain market conditions on the Complex Auction. Proposed Rule 518[sic](10) provides that a change in the best bid or offer of the leg markets will not affect the processing of the Complex Auction. Any such changed bid or offer will be included in the evaluation at the end of the Response Time Interval.

Proposed Rule 518(d)(11) states that if the underlying security of a Complex Auction-eligible order that is a market order enters a Limit State or Straddle State, as defined in Rule 530 the Complex Auction will end upon such underlying security's entering of the Limit or Straddle State if such market order is the only trading interest remaining on that side of the Complex Auction, in which case the remaining portion of such market order will be

cancelled. If there are orders and/or quotes other than such market order on that side of the Complex Auction, such market order will be cancelled and the Complex Auction will continue. Any remaining complex orders and/or quotes that joined the Complex Auction will continue to be processed according to proposed Rule 518(d) as discussed above.

Proposed Rule 518(d)(12), states that if, during a Complex Auction, the underlying security and/or any component of a Complex Auction-eligible order is subject to a wide market condition, a SMAT Event or a trading halt, the Complex Auction will be handled as set forth in proposed Rule 518, Interpretations and Policies .05(e) as described in detail below.

The Exchange believes that the provisions regarding the Complex Auction provide a framework that will enable the efficient trading of complex orders in a manner that is similar to other options exchanges as stated above, and in some ways enhances the processing of unrelated complex orders that join the Complex Auction process seamlessly. Further, this clarity in the operation of the Complex Auction and its consistency with other exchanges will help promote a fair and orderly options market. As described above, the Complex Auction is designed to work in concert with the Strategy Book and with a priority of allocation that will be similar to the allocation of simple orders and quotes on MIAX. If orders are received by the Exchange during the Response Time Interval, such orders will be eligible to participate in the Complex Auction, subject to the process above. If orders received are not executed in the Complex Auction, the time stamps they received will be used to determine time priority for their execution outside of the auction.

Interpretations and Policies

The Exchange also proposes several Interpretations and Policies to proposed Rule 518.

Stock-Option Orders

Proposed Interpretations and Policies .01 Special Provisions Applicable to Stock-Option Orders provides additional detail regarding the trading and regulation of stock-option orders on the Exchange. The Exchange will determine when stock-option orders will be made available for trading in the System and communicate such determination to Members via Regulatory Circular.

As set forth in proposed Rule 518, Interpretations and Policies .01(a), stock-option orders may be executed

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

Members may only submit stock-option orders if such orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS⁷³ 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 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.

Proposed Rule 518, Interpretations and Policies .01(b) sets forth the process by which stock-option orders, including inbound and those resting on the Strategy Book, will be handled. 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”).⁷⁴ Rule 200 requires all broker-dealers to mark sell orders of equity securities as “long,” “short,” or “short exempt.” Accordingly, Members submitting stock-option orders must mark the underlying security component (including ETF) “long,” “short,” or “short exempt” in compliance with Rule 200. If the stock-option order is not so marked, the order will be rejected by the System. Likewise, any underlying security component of a stock-option order sent by the Exchange to the Exchange-designated broker-dealer shall be marked “long,” “short,” or “short exempt” in the same manner in which it was received by the Exchange from the submitting Member.

If the stock-option order is properly marked, the System will determine whether the stock-option order is Complex Auction-eligible. If the stock-option order is Complex Auction-eligible, the System will initiate the Complex Auction Process described in paragraph (d) of this Rule. Any stock-option order executed utilizing the Complex Auction Process will comply with the requirements of Rule 201 of Regulation SHO under the Act (“Rule 201”)⁷⁵ as discussed further below.

When the short sale price test in Rule 201 is triggered for a covered security,⁷⁶ a “trading center,”⁷⁷ 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 bid⁷⁸ if the price of that covered security decreases by 10% or more from the covered security’s closing price as determined by the listing market⁷⁹ for the covered security as of the end of regular trading hours on the prior day;⁸⁰ 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.⁸¹ 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),⁸² 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”⁸³ without regard to whether the order is at a price that is less than or equal to the current national best bid.⁸⁴

If the stock-option order is not Complex Auction-eligible, the System will determine if it is eligible to be executed against another inbound stock-option order or another stock-option order resting on the Strategy Book. If eligible, the System will route both sides of the matched underlying security component of the stock-option order as a Qualified Contingent Trade (“QCT”) to an Exchange-designated broker-dealer for execution on a stock trading venue. The stock trading venue will then either successfully execute the QCT or cancel it back to the Exchange-designated broker-dealer, which in turn will either report the execution of the QCT or cancel it back to the Exchange. While the Exchange is a trading center pursuant to Rule 201, the Exchange will neither execute nor display the underlying security component of a stock-option order. Instead, the execution or display of the underlying security component of a stock-option order will occur on a trading center other than the Exchange, such as an Exchange-designated broker-dealer or other stock trading venue.

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

The execution price of the underlying security component must be also within the high-low range for the day in the underlying security at the time the

⁷³ 17 CFR 242.201.

⁷⁶ 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).

⁷⁷ 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.

⁷⁸ The term “national best bid” is defined in Rule 201(a)(4). 17 CFR 242.201(a)(4).

⁷⁹ The term “listing market” is defined in Rule 201(a)(3). 17 CFR 242.201(a)(3).

⁸⁰ 17 CFR 242.201(b)(1)(i).

⁸¹ 17 CFR 242.201(b)(1)(ii).

⁸² 17 CFR 242.201(b)(1)(iii)(B).

⁸³ 17 CFR 242.200(g)(2).

⁸⁴ 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).

⁷³ 17 CFR 242.611(a).

⁷⁴ 17 CFR 242.200.

stock-option order is processed and within a certain price from the current market, which the Exchange will establish and communicate to Members via Regulatory Circular. If the underlying security component price is not within these parameters, the stock-option order is not executable.

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.

As set forth in proposed Rule 518, Interpretations and Policies .01(c) regarding the option component of a stock-option order, 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.⁸⁵

Proposed Rule 518, Interpretations and Policies .01(d) provides 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.⁸⁶

Proposed Rule 518, Interpretations and Policies .01(e) provides that stock-

⁸⁵ 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.

⁸⁶ 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. MIAAX does not have an "N-second group timer."

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.

Proposed Rule 518, Interpretations and Policies .01(f) provides that the underlying security of a stock-option order is in a limit up-limit down state as defined in Rule 530, such order will only execute if the calculated stock price is within the permissible Price Bands as determined by SIPs⁸⁷ 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").

Market Maker Complex Quotes

Proposed Rule 518, Interpretations and Policies .02 describes the manner in which the Exchange will determine to allow Market Maker quotes in complex strategies.⁸⁸ Market Maker complex quotes may be entered as either complex Standard quotes or complex eQuotes, as defined in proposed Rule 518, Interpretations and Policies .02(a).⁸⁹

The Exchange will determine, on a class-by-class basis, the complex strategies in which Market Makers may submit complex Standard quotes, and will notify Members of such determination via Regulatory Circular. Market Makers may submit complex eQuotes in their appointed options classes.

A "Complex Auction or Cancel eQuote" or "cAOC eQuote" is an eQuote submitted by a Market Maker that is used to provide liquidity during a specific Complex Auction with a time in force that corresponds with the duration of the Complex Auction. cAOC eQuotes will not: (i) Be executed against individual orders and quotes resting on the Simple Order Book; (ii) be eligible to initiate a Complex Auction, but may join a Complex Auction in progress; (iii)

⁸⁷ See *supra* note 26.

⁸⁸ ISE permits market maker complex quotes. See *supra* note 23.

⁸⁹ A complex Standard quote is defined as a complex quote submitted by a Market Maker that cancels and replaces the Market Maker's previous complex Standard quote for that side of the strategy, if any. A complex eQuote is defined as a complex quote submitted by a Market Maker with a specific time in force that does not automatically cancel and replace the Market Maker's previous complex Standard quote or complex eQuote.

rest on the Strategy Book; or (iv) be displayed.

A "Complex Immediate or Cancel eQuote" or "cIOC eQuote" is a complex eQuote with a time-in-force of IOC that may be matched with another complex quote or complex order for an execution to occur in whole or in part upon receipt into the System.⁹⁰ cIOC eQuotes will not: (i) Be executed against individual orders and quotes resting on the Simple Order Book; (ii) be eligible to initiate a Complex Auction or join a Complex Auction in progress; (iii) rest on the Strategy Book; or (iv) be displayed. Any portion of a cIOC eQuote that is not executed will be immediately cancelled.

Market Maker complex quotes are executed in the same manner as complex orders but will not be executed against bids and offers on the Simple Order Book via Legging as described in proposed Rule 518(c)(2)(iii). Market Maker complex Standard quotes may rest on the Strategy Book and are not subject to the managed interest process described in proposed Rule 518(c)(4). An unexecuted complex Standard quote with a limit price that would otherwise be managed to the icMBBO will be cancelled.

Market Makers are not required to enter complex quotes on the Strategy Book. Quotes for complex strategies are not subject to any quoting requirements that are applicable to Market Maker quotes in the simple market for individual options series or classes. Volume executed in complex strategies is not taken into consideration when determining whether Market Makers are meeting quotation obligations applicable to Market Maker quotes in the simple market for individual options.⁹¹

⁹⁰ This is based on the Exchange's current IOC eQuotes in the simple market. See Exchange Rule 517(a)(ii)[sic](iv).

⁹¹ See Proposed Rule 518, Interpretations and Policies .02. This is substantially similar to complex quoting functionality currently operative on another exchange. Specifically, ISE market makers may enter quotes for complex order strategies on the complex order book in their appointed options classes. Market Maker quotes for complex order strategies are executed in the same manner as orders as provided in other ISE rules but will not be automatically executed against bids and offers on the Exchange for the individual legs. Just as with the proposed MIAAX rules, ISE market makers are not required to enter quotes on the complex order book. Quotes for complex orders are not subject to any quotation requirements that are applicable to ISE market maker quotes in the regular market for individual options series or classes, nor is any volume executed in complex orders taken into consideration when determining whether ISE market makers are meeting quotation obligations applicable to market maker quotes in the regular market for individual options series. See ISE Rule 722, Commentary [sic] .03.

Improvement Percentages

Proposed Rule 518, Interpretations and Policies .03 establishes the method by which the Exchange will determine whether complex order interest is qualified to initiate a Complex Auction. Such qualification is contingent on three categories of “improvement percentages” that are used to determine the complex order’s marketability at the time of the System’s evaluation.⁹²

For complex orders received prior to the opening of all individual components of a complex strategy, the System will calculate an IIP value, which is a defined percentage of the current dcMBBO bid/ask differential once all of the components of the complex strategy have opened. Such percentage will be defined by the Exchange and communicated to Members via Regulatory Circular. If a Complex Auction-eligible order is priced equal to or improves the IIP value and is also priced equal to, or improves, other complex orders and/or quotes resting at the top of the Strategy Book, the complex order will be eligible to initiate a Complex Auction.

Example—Initial Improvement Percentage (IIP)

Option quotes immediately after entering free trading are as follows
 MIAx—LMM quote Mar 50 Call 6.00–6.50 (10x10)
 MIAx—LMM quote Mar 55 Call 2.00–2.30 (10x10)
 The strategy is buy 1 Mar 50 calls and sell 2 Mar 55 calls
 The dcMBBO is 1.40 debit bid at 2.50 credit offer
 The IIP has been set by the Exchange at 60%
 The bid/ask spread is 1.10 wide (2.50 – 1.40 = 1.10)
 The IIP value is $1.10 * 60\% = 0.66$

Buy orders received before the strategy components are all open must be bid at

a level that equals or crosses a 2.06 (1.40+0.66) debit in order to initiate a Complex Auction when the components enter free trading.

Sell orders received before the strategy components are all open must be offered at a level that equals or crosses a 1.84 (2.50–0.66) credit in order to initiate a Complex Auction when the components enter free trading.

Upon receipt of a complex order when the complex strategy is open, the System will calculate an Upon Receipt Improvement Percentage (“URIP”) value, which is a defined percentage of the current dcMBBO bid/ask differential. Such percentage will be defined by the Exchange and communicated to Members via Regulatory Circular. If a Complex Auction-eligible order is priced equal to or improves the URIP value and is also priced to improve other complex orders and/or quotes resting at the top of the Strategy Book, the complex order will be eligible to initiate a Complex Auction.

Example—Upon Receipt Improvement Percentage (URIP)

Option quotes upon arrival of a cAOA designated complex order
 MIAx—LMM quote Mar 50 Call 6.00–6.50 (10x10)
 MIAx—LMM quote Mar 55 Call 2.00–2.30 (10x10)
 The strategy is buy 1 Mar 50 call and sell 2 Mar 55 calls
 The dcMBBO is 1.40 debit bid at 2.50 credit offer
 The URIP has been set by the Exchange at 60%
 The bid/ask spread is 1.10 wide (2.50 – 1.40 = 1.10)
 The URIP value is $1.10 * 60\% = 0.66$
 Buy orders designated as cAOA must be bid at a level that equals or crosses a 2.06 (1.40+0.66) debit in order to initiate a Complex Auction upon receipt.

Sell orders designated as cAOA must be offered at a level that equals or crosses a 1.84 (2.50–0.66) credit in order to initiate an Auction upon receipt.

Upon evaluation of a complex order resting at the top of the Strategy Book, the System will calculate a Re-Evaluation Improvement Percentage (“RIP”) value, which is a defined percentage of the current dcMBBO bid/ask differential. Such percentage will be defined by the Exchange and communicated to Members via Regulatory Circular. If a complex order resting at the top of the Strategy Book is priced equal to, or improves, the RIP value, the complex order will be eligible to initiate a Complex Auction.

Example—Re-Evaluation Improvement Percentage (RIP)

Option quotes upon re-evaluation
 MIAx—LMM Mar 50 Call 6.00–6.50 (10x10)
 MIAx—LMM Mar 55 Call 2.00–2.30 (10x10)
 The strategy is Buy 1 Mar 50 call and Sell 2 Mar 55 calls
 The dcMBBO is 1.40 debit bid at 2.50 credit offer
 The RIP has been set by the Exchange at 70%
 The bid/ask spread is 1.10 wide (2.50 – 1.40 = 1.10)
 The RIP value is $1.10 * 70\% = 0.77$

Buy orders must be bid at a level that equals or crosses a 2.17 (1.40+0.77) debit in order to initiate a Complex Auction upon re-evaluation.

Sell orders must be offered at a level that equals or crosses a 1.73 (2.50–0.77) credit in order to initiate a Complex Auction upon re-evaluation.

Proposed Rule 518, Interpretations and Policies .04 is a regulatory provision that prohibits the dissemination of information related to Complex Auction-eligible orders by the submitting Member to third parties. Such conduct will be deemed conduct inconsistent with just and equitable principles of trade as described in Exchange Rule 301.

Price and Other Protections

Proposed Interpretations and Policies .05 establishes Price Protection standards that are intended to ensure that certain types of complex strategies will not be executed outside of a preset standard minimum and/or maximum price limit.

First, the proposal establishes a price protection program for Vertical Spreads and Calendar Spreads by establishing a Vertical Spread Variance (“VSV”) and Calendar Spread Variance (“CSV”). VSV will apply only to Vertical Spreads, and CSV will apply only to Calendar Spreads.⁹³

⁹³ A “Vertical Spread” is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have the same expiration but different strike prices. See proposed Rule 518, Interpretations and Policies .05(a). The proposed MIAx VSV and CSV price protections are substantially similar to the price protections that are currently operative on other exchanges. For example, the PHLX Strategy Price Protection (“SPP”) is a feature of the System that prevents certain Complex Order Strategies from trading at prices outside of pre-set standard limits. The PHLX SPP for Vertical and Time (Calendar) spreads is virtually the same as the proposed MIAx VSV and CSV price protections, except that the PHLX rule refers to a “Time Spread” instead of a “Calendar Spread.” ISE’s Vertical and Calendar Spread price protections differ slightly in that the ISE system will (i) prevent the execution of a vertical spread order at a price that is less than zero; (ii) reject a vertical spread order when entered with a net price

⁹² This is similar to the manner in which other exchanges determine a complex order’s eligibility to initiate an auction for complex orders. CBOE rules state that a “COA-eligible order” means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order’s marketability (defined as a number of ticks away from the current market). See CBOE Rule 6.53C(d)(2). Respecting complex orders resting on the CBOE Complex Order Book (“COB”), for each class where COA is activated, CBOE may also determine to activate COA for complex orders resting in COB. For such classes, any non-marketable order resting at the top of the COB may be automatically subject to COA if the order is within a number of ticks away from the current derived net market. See CBOE Rule 6.53C, Interpretations and Policies .04. This differs from proposed Rule 518, Interpretations and Policies .03, which would make such a determination based upon the percentage by which a complex order (a potential Complex Auction-eligible order) improves the market at the time of evaluation.

The VSV establishes minimum and maximum trading price limits for Vertical Spreads. The maximum possible trading price limit of the VSV is the difference between the two component strike prices plus a pre-set value. For example, a Vertical Spread consisting of the purchase of one January 30 call and the sale of one January 35 call would have a maximum trading price limit of \$5.00 plus a pre-set value. The minimum possible trading price limit of a Vertical Spread is always zero minus a pre-set value. The pre-set value will be uniform for all option classes traded on the Exchange as determined by the Exchange and communicated to Members via Regulatory Circular.

A "Calendar Spread" is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price. The CSV establishes a minimum trading price limit for Calendar Spreads. The CSV establishes a minimum trading price limit for Calendar Spreads. The maximum possible value of a Calendar Spread is unlimited, thus there is no maximum price protection for Calendar Spreads. The minimum possible trading price limit of a Calendar Spread is zero minus a pre-set value. The pre-set value will be uniform for all option classes traded on the Exchange as determined by the Exchange and communicated to Members via Regulatory Circular.

If the execution price of a complex order would be outside of the limits established in the VSV or the CSV, such complex order will be placed on the Strategy Book and will be managed to the appropriate trading price limit as described in proposed Rule 518(c)(4) above. Orders to buy below the minimum trading price limit and orders to sell above the maximum trading price limit (in the case of Vertical Spreads) will be rejected by the System.

Another feature in the System that is designed to protect investors from executions that are outside of the price on any individual market is the Implied

greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) (iii) prevent the execution of a vertical spread order at a price that is greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) when entered as a market order to buy; (iv) reject a calendar spread order (*i.e.*, an order to buy a call (put) option with a longer expiration and to sell another call (put) option with a shorter expiration in the same security at the same strike price) when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a calendar spread order at a price that is less than zero (minus a pre-set value) when entered as a market order to sell. See ISE Rule 722, Supplementary Material .07(c).

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

Example—*Complex order with ixABBO Protection Requested*

MIAX—quote Mar 50 Call 6.00–6.50 (10x10)

MIAX—quote Mar 55 Call 2.00–2.30 (10x10)

GEM Mar 50 Call 6.00–6.50 (10x10)

GEM Mar 55 Call 2.00–2.10 (10x10)

BOX Mar 50 Call 6.00–6.50 (10x10)

BOX Mar 55 Call 2.10–2.30 (10x10)

The Exchange receives an Initiating Customer order to buy 1 Mar 50 call and sell 2 Mar 55 calls for a 2.50 debit × 100, with ixABBO protection requested.

The icMBBO is 1.40 debit bid at 2.50 credit offer

The ixABBO is 1.80 debit bid (GEM) at 2.30 credit offer (BOX)

The cAOC instruction is not present on this order, so the order will not initiate an auction upon arrival regardless of its relationship to the Improvement Percentage. The ABO Price Protection instruction which instructs the Exchange to apply ixABBO protection is present, so the Exchange will protect the order to the best bid for the strategy or best offer for the strategy available from any single exchange's protected quotation in the Simple Order Market, including the MIAX. Since the ixABBO protection has been selected, the inbound order cannot be legged against the Strategy Book for a 2.50 debit (the strategy is offered at 2.30 on BOX). In order to display the order at its maximum tradable price, the inbound order is managed on the Strategy Book and displayed at its protected limit of 2.30 debit bid. While the MIAX icMBBO

remains 1.40 debit bid at 2.50 credit offer, the combination of the Simple Order Book and the Strategy Book becomes 2.30 debit bid at 2.50 credit offer.

The BOX then updates their protected Simple Order Market quotation while all other Simple Market quotations remain the same:

BOX Mar 50 Call 6.00–6.50 (10x10)

BOX Mar 55 Call 2.20–2.40 (10x10)

The ixABBO is now 1.80 debit (GEM) at 2.10 credit (BOX)

The MIAX System will now re-evaluate the order and will apply the new ixABBO protection. The order will now be managed on the Strategy Book and displayed at its protected limit of 2.10 debit bid. While the MIAX icMBBO remains 1.40 debit bid at 2.50 credit offer, the combination of the Simple Order Book and the Strategy Book becomes 2.10 debit bid at 2.50 credit offer. The BOX again updates their protected Simple Order Market quotation while all other Simple Market quotations remain the same:

BOX Mar 50 Call 6.00–6.50 (10x10)

BOX Mar 55 Call 2.10–2.30 (10x10)

The ixABBO is now 1.80 debit bid (GEM) at 2.30 credit offer (BOX)

The MIAX System will now re-evaluate the order and will apply the new ixABBO protection. The order will now be managed on the Strategy Book and displayed at its protected limit of 2.30 debit bid. While the MIAX icMBBO remains 1.40 debit bid at 2.50 credit offer, the combination of the Simple Order Book and the Strategy Book once again becomes 2.30 debit bid at 2.50 credit offer.

Wide Market Conditions, SMAT Events and Halts

The Exchange is proposing to establish rules for additional investor protections when external market events occur that affect complex orders and quotes on the Exchange. These external events and additional investor protections, and the manner in which the System responds to them, are defined and specified in proposed Rule 518, Interpretations and Policies .05(e). First, a "wide market condition" is defined as any individual component of a complex strategy having, at the time of evaluation, an MBBO quote width that is wider than the permissible valid quote width as defined in Rule 603(b)(4).⁹⁴

⁹⁴ A Market Maker on the Exchange is expected to price option contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer ("bid/ask differentials") following the opening rotation in an equity option contract. The Exchange

Proposed Rule 518, Interpretations and Policies .05(e)(1)(i), describes how the System functions when there is a wide market condition during free trading (*i.e.*, when there is not a Complex Auction in progress). Specifically, if a wide market condition exists for a component of a complex strategy, trading in the complex strategy will be suspended. The Strategy Book will remain available for Members to enter and manage complex orders and quotes. New Complex Auctions will not be initiated and incoming Complex Auction-eligible orders that could have otherwise caused an auction to begin will be placed on the Strategy Book. Incoming complex orders with a time in force of IOC will be cancelled.

The System will continue to evaluate the Strategy Book. If a wide market condition exists for a component of a complex strategy at the time of evaluation, complex orders or quotes that could have otherwise been executed will not be executed until the wide market condition no longer exists. When the wide market condition no longer exists, the System will again evaluate the Strategy Book and will use the process and criteria respecting the RIP as described in proposed Interpretations and Policies .03(c) to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Proposed Rule 518, Interpretations and Policies .05(e)(1)(ii), describes how the System functions when there is a wide market condition during a Complex Auction. If, at the expiration of the Response Time Interval, a wide market condition exists for a component of a complex strategy in the Complex Auction, trading in the complex strategy will be suspended, and any RFR Responses will be cancelled. Remaining Complex Auction-eligible orders will then be placed on the Strategy Book. When the wide market condition no longer exists, the System will evaluate the Strategy Book pursuant to proposed Rule 518(c)(5)(ii), and will use the process and criteria respecting the RIP as described in proposed Interpretations and Policies .03(c) to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

The purpose of the rule and functionality concerning a wide market

may establish differences other than the bid/ask differentials described above for one or more option series or classes. See Exchange Rules 603(b)(4)(i) and (ii).

condition is to limit the trading of complex orders when one or more of the components of a complex strategy are wider than the defined valid width in the simple market⁹⁵ as this has the potential to create unnaturally wide spreads in the complex strategy, which in turn could result in a less than optimal execution price. The Exchange believes that the rule and functionality are essential in protecting customers submitting complex orders from extreme market conditions in the simple market respecting the components of such complex orders.

Proposed Rule 518, Interpretations and Policies .05(e)(2) sets forth the functionality of the System if a Simple Market Auction or Timer (“SMAT”) Event (defined above as a PRIME Auction, a Route Timer, or a liquidity refresh pause)⁹⁶ exists for a component of a complex strategy.

If a SMAT Event exists during free trading for a component of a complex strategy, trading in the complex strategy will be suspended. The Strategy Book will remain available for Members to enter and manage complex orders and quotes. New Complex Auctions may be initiated for incoming Complex Auction-eligible orders that meet the requirements of the URIP (as described in proposed Rule 518, Interpretations and Policies .03(b) above). Incoming complex orders and quotes that could otherwise be executed during the SMAT Event(s) without entering the Complex Auction process will be placed on the Strategy Book. Incoming complex orders received during a SMAT Event with a time in force of IOC will be cancelled by the System.

The System will continue to evaluate the Strategy Book. When the SMAT Event(s) no longer exist(s), the System will evaluate the Strategy Book, and will use the process and criteria respecting the RIP to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Proposed Rule 518, Interpretations and Policies .05(e)(2)(ii) describes what happens when a SMAT Event occurs during a Complex Auction. If, at the end of the Response Time Interval, a component of a complex strategy is in a SMAT Event, trading in the complex strategy will be suspended and all RFR Responses will be cancelled. Remaining Complex Auction-eligible orders will then be placed on the Strategy Book. When the SMAT Event(s) no longer exist(s), the System will evaluate the

Strategy Book pursuant to proposed Rule 518(c)(5)(ii), and will use the process and criteria respecting the RIP as described in Interpretations and Policies .03(c) of this Rule to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

SMAT Events represent temporary interruptions of free trading in one or more components of a complex strategy. The temporary suspension of trading in complex orders during a SMAT event is intended to enhance continuity, trade-through protection, and orderliness in the simple markets and to protect complex order components from being executed at prices that could be better following a SMAT Event or a wide market condition. Once a SMAT Event is concluded or resolved, the System will evaluate the Strategy Book as described above to provide the previously suspended complex orders with more opportunities to be executed.

Halts

Proposed Rule 518, Interpretations and Policies .05(e)(3) describes the System’s functionality when there is a halt in trading for the underlying security or a component of a complex order. If a trading halt exists for the underlying security or a component of a complex strategy, trading in the complex strategy will be suspended.

The Strategy Book will remain available for members to enter and manage complex orders and quotes. Incoming complex orders and quotes that could otherwise be executed or initiate a Complex Auction in the absence of a halt will be placed on the Strategy Book. This is similar to functionality that is currently operative on another exchange.⁹⁷ Incoming complex orders and quotes with a time in force of IOC will be cancelled.

When trading in the halted component(s) and/or underlying security of the complex order resumes, the System will evaluate the Strategy Book as described in proposed Rule 518(c)(2)(i), and will use the process and criteria respecting the RIP as described in proposed Rule 518, Interpretations and Policies .03(a) to determine whether complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Proposed Interpretations and Policies .05(e)(3)(ii) describes what happens

⁹⁷ See, e.g., PHLX Rule 1098(c)(ii)(C), which states that complex orders will not trade on the PHLX system during a trading halt for any options component of the Complex Order.

⁹⁵ *Id.*

⁹⁶ See proposed Rule 518(a)(16).

when there is a halt during a Complex Auction. Unlike during a wide market condition or a SMAT Event, where a Complex Auction will end without trading at the end of the Response Time Interval, if during a Complex Auction any component or the underlying security of a Complex Auction-eligible order is halted, the Complex Auction will end early without trading⁹⁸ and all RFR Responses will be cancelled. Remaining complex orders will be placed on the Strategy Book if eligible, or cancelled. When trading in the halted component(s) and/or underlying security of the complex order resumes, the System will evaluate the Strategy Book pursuant to proposed Rule 518(c)(2)(i) above, and will use the process and criteria respecting the IIP as described in Interpretations and Policies .03(a) of this Rule to determine whether marketable complex order interest exists to initiate a Complex Auction, or whether to commence trading in the complex strategy without a Complex Auction.

Another investor protection proposed by the Exchange is described in Interpretations and Policies .06 of proposed Rule 518, the MIA Order Monitor for Complex Orders (“cMOM”).⁹⁹

cMOM defines a price range outside of which a complex limit order will not be accepted by the System. cMOM is a number defined by the Exchange and communicated to Members via Regulatory Circular. The default price range for cMOM will be greater than or equal to a price through the cNBBO for the complex strategy to be determined by the Exchange and communicated to Members via Regulatory Circular. Such price will not be greater than \$2.50. A complex limit order to sell will not be accepted at a price that is lower than the cNBBO bid, and a complex limit order to buy will not be accepted at a price that is higher than the cNBBO offer, by more than cMOM. A complex limit order that is priced through this range will be rejected.

cMOM includes complex order size protections, open complex order protection, and open complex contract protection. Respecting complex order size protections, the System will prevent certain complex orders from

executing or being placed on the Strategy Book if the size of the complex order exceeds the complex order size protection designated by the Member. If the maximum size of complex orders is not designated by the Member, the Exchange will set a maximum size of complex orders on behalf of the Member by default. Members may designate the complex order size protection on a firm wide basis. The default maximum size for complex orders will be determined by the Exchange and announced to Members via Regulatory Circular.

Under the open complex order protection, the System will reject any complex orders that exceed the maximum number of open complex orders held in the System on behalf of a particular Member, as designated by the Member. Members may designate the open complex order protection on a firm wide basis. If the maximum number of open complex orders is not designated by the Member, the Exchange will set a maximum number of open complex orders on behalf of the Member by default. The default maximum number of open complex orders will be determined by the Exchange and announced to Members via Regulatory Circular.

Open complex contract protection provides that the System will reject any complex orders that exceed the maximum number of open complex contracts represented by complex orders held in the System on behalf of a particular Member, as designated by the Member. Members may designate the open complex contract protection on a firm wide basis. If the maximum number of open complex contracts is not designated by the Member, the Exchange will set a maximum number of open complex contracts on behalf of the Member by default. The default maximum number of open complex contracts will be determined by the Exchange and announced to Members via Regulatory Circular.

The cMOM protections will be available for complex orders as determined by the Exchange and communicated to Members via Regulatory Circular.

The Exchange is also proposing to amend Exchange Rule 519A to state that complex orders will participate in the Risk Protection Monitor. The Risk Protection Monitor maintains a counting program (“counting program”) for each participating Member that will count the number of orders entered and the number of contracts traded via an order entered by a Member on the Exchange within a specified time period that has been established by the Member, and will reject orders that exceed a Member-

designated “Allowable Order Rate” and an “Allowable Contract Execution Rate.”¹⁰⁰

Obvious and Catastrophic Errors

The Exchange proposes to adopt Rule 521(c)(5) to address the manner in which obvious errors in complex order transactions will be handled in situations where one or more components of a complex order is eligible to be adjusted or nullified pursuant to Exchange Rule 521(c)(4).¹⁰¹

Specifically, if a complex order executes against another complex order on the Strategy Book and one or more components of the transaction is deemed eligible to be adjusted or nullified, the entire trade (all components) will be nullified, unless both parties agree to adjust the transaction to a different price within thirty (30) minutes of being notified by the Exchange of the decision to nullify the transaction. Additionally, if a complex order executes against orders or quotes on the Simple Order Book, each component of the complex order will be reviewed and handled independently in accordance with Exchange Rule 521.¹⁰²

The Exchange also proposes a minor change to Exchange Rule 605, Market Maker Orders, to codify in Rule 605(a) that, in addition to the other order types specified in the rule, Market Makers may place complex orders in option classes to which they are appointed respecting cAOC complex orders.

Because of the technology changes associated with this rule proposal, the Exchange will announce the implementation date of the proposal in a Regulatory Circular to be published no later than 90 days after the publication of the approval order in the **Federal Register**. The implementation date will be no later than 90 days following publication of the Regulatory Circular

¹⁰⁰ For a complete description of the Risk Protection Monitor, see Securities Exchange Act Release No. 74496 (March 13, 2015), 80 FR 14421 (March 19, 2015) (SR-MIA-2015-03).

¹⁰¹ Exchange Rule 521(c)(4) describes the actions to be taken by the Exchange when a transaction resulting from an obvious error (as defined elsewhere in Rule 521) has occurred, depending upon who the parties to the transaction are.

¹⁰² This differs slightly from rules on other exchanges. For example, ISE rules provide that if both parties to a trade that is one component of a complex order execution are parties to all of the trades that together comprise the execution of a complex order at a single net debit or credit, then if one of those component trades can be nullified under ISE rules, all component trades that were part of the same complex order shall be nullified as well. See ISE Rule 720, Commentary [sic] .04. PHLX rules also include this provision. See PHLX Rule 1092, Commentary .01. This differs slightly from the rules of other exchanges.

⁹⁸ This is the only circumstance under which a Complex Auction on MIA would end early. In all other circumstances described in proposed Rule 518 that would disrupt trading during a Complex Auction, the Complex Auction will end after the Response Time Interval without trading.

⁹⁹ cMOM is substantially similar to the Exchange’s MIA Order Monitor (“MOM”) protection for the Simple Order Book. See Exchange Rule 519.

announcing publication of the approval order in the **Federal Register**.

2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act¹⁰³ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁰⁴ 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 in particular that its proposal regarding executions of complex orders against the Simple Order Book is consistent with the Act and furthers the objectives of Section 6(b)(5) of the Act¹⁰⁵ because it provides greater liquidity to the marketplace as a whole by fostering the interaction between the components of complex orders on the Strategy Book and the Simple Order Book. This should enhance the opportunity for executions of both complex orders and simple orders.

The Exchange believes the proposed rule change will result in more efficient trading and reduce the risk that complex orders fail to execute for investors by providing additional opportunities to fill complex orders, and that the changes are consistent with the Act. The Exchange believes that increased interaction, where possible, on a continuous and real-time basis of the bids and offers on each component of a complex strategy with the bids and offers on the corresponding complex strategy and vice versa, through derived orders and Legging, will benefit market participants and investors. The proposed rule change will allow complex orders to interact with interest on the MIAX Simple Order Book and, conversely, allow interest on the MIAX Simple Order Book to interact with complex orders in an efficient and orderly manner.

The Exchange also believes the interaction of orders will benefit investors by increasing the opportunity for complex orders to receive execution, while also enhancing execution quality for orders on the MIAX Simple Order Book. Generally, the options industry rules for the execution of complex orders provide that two complex orders

may execute against one another if the execution prices of the component legs result in a net price that is better than the best customer limit order available for the individual component legs. This permits an exchange, when executing two complex orders against one another, to execute each component leg on the market's best bid or offer so long as the execution does not trade ahead of customer interest.

The Exchange believes it is reasonable to permit complex orders that are subject of this rule change to leg into the Simple Order Book. The proposed rule concerning Legging will facilitate the execution of more complex orders, and will thus benefit investors and the general public because complex orders will have a greater chance of execution when they are allowed to leg into the simple market and thereby increase the execution rate for these orders, thus providing market participants with an increased opportunity to execute these orders on MIAX. The prohibition against the Legging of complex orders with two option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts, and on complex orders with three option legs where all legs are buying or all legs are selling regardless of whether the option leg is a call or a put, protects investors and the public interest by ensuring that Market Makers providing liquidity do not trade above their established risk tolerance levels.

The Exchange believes it is reasonable to limit the types of complex orders that are eligible to leg into the Simple Order Book. The Exchange believes that the vast majority of complex orders sent to the Exchange will be unaffected by this proposed rule. Moreover, the Exchange believes that the potential risk of offering legging functionality for complex orders such as those impacted by the proposed rule could limit the amount of liquidity that Market Makers are willing to provide in the Simple Order Book. In particular, Market Makers, without the proposed limitation, are at risk of executing the cumulative size of their quotations across multiple options series without an opportunity to adjust their quotes. Market Makers may be compelled to change their quoting and trading behavior to account for this additional risk by widening their quotes and reducing the size associated with their quotes, which would diminish the Exchange's quality of markets and the quality of the markets in general. The limitations in proposed Rule 518(c)(2)(iii) substantially diminish a potential source of unintended Market Maker risk when certain types of

complex orders leg into the Simple Order Book, 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 by adding confidence and stability in the Exchange's marketplace. This benefit to investors far exceeds the small amount of potential liquidity provided by the few complex orders to which this aspect of the proposal applies.

Additionally, investors will have greater opportunities to manage risk with the new availability of trading in complex orders. The proposed adoption of rules governing complex order auctions will facilitate the execution of complex orders while providing opportunities to access additional liquidity and fostering price improvement. The Exchange believes the proposed rules are appropriate in that complex orders are widely recognized by market participants as invaluable, both as an investment, and a risk management strategy. The proposed rules will provide an efficient mechanism for carrying out these strategies. In addition, the proposed complex order rules promote equal access by providing Members that subscribe to the Exchange's data feeds that include auction notifications with the opportunity to interact with orders in the Complex Auction. In this regard, any Member can subscribe to the options data provided through the Exchange's data feeds that include auction notifications.

The Exchange believes that the general provisions regarding the trading of complex orders provide a clear framework for trading of complex orders in a manner consistent with other options exchanges. This consistency should promote a fair and orderly national options market system. The Exchange believes that the proposed rules will result in efficient trading and reduce the risk for investors that complex orders could fail to execute by providing additional opportunities to fill complex orders.

The proposed execution and priority rules will allow complex orders to interact with interest in the MIAX Simple Order Book and, conversely, interest on the MIAX Simple Order Book to interact with complex orders in an efficient and orderly manner. Consistent with other exchanges and with well-established principles of customer protection, the proposed rules state that 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

¹⁰³ 15 U.S.C. 78f(b).

¹⁰⁴ 15 U.S.C. 78f(b)(5).

¹⁰⁵ *Id.*

the marketplace that are no better than the bids or offers comprising such net credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least a \$0.01 increment.¹⁰⁶ Additionally, before executing against another complex order, a complex order on MIAX will execute first against orders on the MIAX Simple Order Book (except in the limited circumstance described in proposed Rule 518(c)(2)(iii)) if the net price of such orders is equal to the best price on the Strategy Book if any of the bids or offers established in the simple marketplace consist of a Priority Customer Order.

For the reasons set forth above, the Exchange believes the proposed rule change regarding complex order execution is consistent with the goals of the Act to remove impediments to and to perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

Market Maker Priority Interest for Complex

The Exchange believes that affording priority in the Strategy Book to Market Makers with complex Standard quotes that are priced at or inside the dcMBBO further 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 Market Makers with additional incentive to submit complex Standard quotes at the best price in the Strategy Book.

Certain Market Maker complex Standard quotes and complex eQuotes will qualify as "Market Maker Priority Interest for Complex" on the Strategy Book at the beginning of a Complex Auction, or at the time of execution in free trading. Affording priority in the Strategy Book to Market Makers with a Complex priority quote should provide incentive to MIAX participants to submit complex quotes at the best prices.

Moreover, the Exchange believes that this treatment of Market Makers is a suitable reward for Market Makers quoting in the Strategy Book at the best price in the complex strategy. The Exchange believes this furthers the objectives of Section 6(b)(5) of the Act¹⁰⁷ because it provides greater depth and liquidity in the Strategy Book, all to

the benefit of investors. The Exchange believes its proposal to afford priority in the Strategy Book to certain Market Maker quotes on the Strategy Book will result in enhanced liquidity on the Exchange, and thus further perfects the mechanisms of a free and open market and a national market system, consistent with the Act.

Derived Orders

The Exchange believes the generation of derived orders as set forth in proposed Rule 518(a)(9) is consistent with the goals of the Act to remove the impediments to and perfect the mechanism of a free and open market because their addition to the marketplace should facilitate additional transactions and interaction between orders on the Strategy Book and orders on the Simple Order Book. The Exchange believes the addition of derived orders to the MIAX market will benefit Market Makers, traders, and retail investors trading on MIAX by enhancing execution quality and the likelihood and efficiency of trade execution. In the absence of the proposed rule, complex orders that could otherwise execute against interest on the Simple Order Book would not trade.

A derived order is automatically removed from the Simple Order Book if the displayed price of the derived order is no longer at the displayed best bid or offer on the Simple Order Book; if execution of the derived order would no longer achieve the net price of the complex order on the Strategy Book when the other component of the complex order is executed against the best bid or offer on the Simple Order Book; if the complex order is executed in full; if the complex order is cancelled, or if any component of the complex order resting on the Strategy Book that is used to generate the derived order is subject to a SMAT Event, a wide market condition, or a halt. Until such removal, derived orders provide additional likelihood and efficiency of trade execution in furtherance of the goals of the Act. Applying these limitations, the Exchange will closely monitor the generation of derived orders to ensure they do not negatively impact system capacity and performance, thus removing these potential impediments to, and perfecting the mechanism of, a free and open market.

The Exchange further believes that the automatic generation of derived orders will provide additional execution opportunities for complex orders and interest on the MIAX Simple Order Book, and thus enhance execution quality for investors on MIAX. The

Exchange believes the additional opportunities for potential execution through the interaction of orders on the Strategy Book and orders on the Simple Order Book as achieved through derived orders, and the potential for enhanced execution quality, as outlined above, promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market, are in the public interest and, therefore, consistent with the Act.

The Exchange believes that the availability of derived orders will provide additional execution opportunities for complex orders without negatively impacting any investors in the simple market. The availability of derived orders may enhance the quality of execution for investors on the MIAX Simple Order Book by improving the price and/or size of the MBBO and by providing additional execution opportunity for resting interest on the MIAX Simple Order Book. The Exchange also believes that derived orders are compliant with Rule 602 of Regulation NMS¹⁰⁸ because each derived order is included in the MBBO if it is equal to or better than the otherwise existing MBBO.

Types of Complex Orders

The Exchange proposes that complex orders may be submitted as limit orders, market orders, IOC orders, GTC orders, or day limit orders as each such term is defined in Exchange Rule 516, or as a cAOA order, or cAOC order.¹⁰⁹ In particular, the Exchange believes that limit orders, IOC orders, GTC orders and day limit orders all provide valuable limitations on execution price and time that help to protect MIAX participants and investors in both the Simple Order Book and in the proposed Strategy Book. The Exchange believes that permitting complex orders to be entered with these varying order contingency types will give MIAX participants greater control and flexibility over the manner and circumstances in which their orders may be executed, modified, or cancelled, and thus will provide for the protection of investors and contribute to market efficiency.

Evaluation

The Exchange believes that the regular and event-driven evaluation of the Strategy Book for the eligibility of complex orders or, as appropriate, complex quotes, to initiate or participate in a Complex Auction, and to determine their eligibility to participate in the managed interest process, whether a

¹⁰⁶ See proposed Rule 518(c)(3)(i).

¹⁰⁷ 15 U.S.C. 78f(b)(5).

¹⁰⁸ 17 CFR 242.602.

¹⁰⁹ See proposed Rule 518(b).

derived order should be generated or cancelled, if they are eligible for full or partial execution against a complex order or quote resting on the Strategy Book or through Legging with the Simple Order Book, whether the complex order or quote should be cancelled; and whether the complex order or quote or any remaining portion thereof should be placed on the Strategy Book are consistent with the principles of the Act 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.

Evaluation of the executability of complex orders and quotes and for the determination as to whether a complex order is Complex Auction-eligible is central to the removal of impediments to, and the perfection of, the mechanisms of a free and open market and a national market system and, in general, the protection of investors and the public interest. The evaluation process ensures that the System will capture and act upon complex orders and quotes that are due for execution or placed in a Complex Auction. The regular and event-driven evaluation process removes potential impediments to the mechanisms of the free and open market and the national market system by ensuring that complex orders and quotes are given the best possible chance at execution at the best price, evaluating the availability of complex orders and quotes to be handled in a number of ways as described in this proposal. Any potential impediments to the order handling and execution process respecting complex orders and quotes are substantially removed due to their continual and event-driven evaluation for subsequent action to be taken by the System. This protects investors and the public interest by ensuring that complex orders and quotes in the System are continually monitored and evaluated for potential action(s) to be taken on behalf of investors that submit their complex orders and quotes to MIAX.

Complex Auction Process

The Complex Auction process is also designed 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.

Following evaluation, a Complex Auction-eligible order may begin a Complex Auction or may join a Complex Auction in progress.¹¹⁰ The Complex Auction process promotes just and equitable principles of trade, fosters cooperation and coordination with persons engaged in facilitating transactions in securities, 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 eligible complex orders and quotes are given every opportunity to be executed at the best prices against an increased level of contra-side liquidity responding to the RFR message. This mechanism of a free and open market is designed to enhance liquidity and the potential for better execution prices during the Response Time Interval, all to the benefit of investors on MIAX, and thereby consistent with the Act.

The Exchange believes that the determination to initiate a Complex Auction using the IIP, URIP or RIP value, as applicable, 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 a Complex Auction is conducted for a complex order only when there is a reasonable and realistic chance for price improvement through a Complex Auction. The IIP, URIP and RIP are used to calculate a percentage of the dcMBBO bid/ask differential at or within which the System will determine to initiate a Complex Auction. If a complex order is priced equal to, or improves, the IIP, URIP or RIP value, the complex order will be eligible to initiate a Complex Auction.

The purpose of this provision is to ensure that a complex order will not initiate a Complex Auction if it is priced through the bid or offer at a point (*i.e.*, outside of the IIP, URIP or RIP) where it is not reasonable to anticipate that it would generate a meaningful number of RFR Responses such that there would be price improvement of the complex order's limit price. Promoting the orderly initiation of a Complex Auction is essential to maintaining a fair and orderly market for complex orders; otherwise, the initiation of Complex Auctions that are unlikely to result in

price improvement might result in unnecessary activity in the marketplace when there is no meaningful opportunity for price improvement. The Exchange believes that the IIP, URIP and RIP remove this potential impediment to the MIAX market and to the marketplace as a whole.

If a complex order is not priced equal to, or better than, the IIP, URIP or RIP value, the Exchange believes that it is not reasonable to anticipate that it would generate a meaningful number of RFR Responses such that there would be price improvement of the complex order's limit price. Promoting the orderly initiation of Complex Auctions is essential to maintaining a fair and orderly market for complex orders; otherwise, the initiation of Complex Auctions that are unlikely to result in price improvement could affect the orderliness of the marketplace in general.

The Exchange believes that this removes impediments to and perfects the mechanisms of a free and open market and a national market system by promoting the orderly initiation of Complex Auctions, and by limiting the likelihood of unnecessary Complex Auctions that are not expected to result in price improvement.

The Exchange believes the proposed maximum 500 millisecond Response Time Interval promotes just and equitable principles of trade and removes impediments to a free and open market because it allows sufficient time for Members participating in a Complex Auction to submit RFR Responses and would encourage competition among participants, thereby enhancing the potential for price improvement for complex orders in the Complex Auction to the benefit of investors and public interest. The Exchange believes the proposed rule change is not unfairly discriminatory because it establishes a Response Time Interval applicable to all MIAX participants participating in a Complex Auction.

The proposed Complex Auction process is designed to protect the integrity of the System and of the MIAX marketplace for the protection of investors and the public interest by, among other things, limiting the number of Complex Auctions that may be initiated within a given time period. Multiple Complex Auctions may be in progress at any particular time across multiple strategies, but only one Complex Auction per strategy may be in progress at any particular time. Without such a limitation, investors could be faced with an unusually large number of simultaneous Complex Auctions in the same strategy, which in turn could

¹¹⁰ A cAOC eQuote will not initiate a Complex Auction but may join a Complex Auction in progress; an IOC eQuote will not initiate or join a Complex Auction in progress. See proposed Rule 518, Interpretations and Policies .02(c)(1) and (2).

impact the orderly function of the markets. The Exchange believes that this limitation is consistent with the Act because it is designed to remove impediments to and perfect the mechanisms of a free and open market and a national market system by ensuring orderliness in the Complex Auction process.

The Complex Auction Process also protects investors and the public interest by creating more opportunities for price improvement of complex orders, all to the benefit of MIAX participants and the marketplace as a whole.

Complex Order Price Protections

The Exchange believes that the proposed complex order price protections will provide market participants with valuable price and order size protections in order to enable them to better manage their risk exposure when trading complex orders. The VSV will ensure that a Vertical Spread will not trade at a net price of less than the minimum possible value minus a pre-set price setting an acceptable range or greater than the maximum possible value plus a pre-set price setting an acceptable range. The CSV will ensure that a Calendar Spread will not trade at a price of less than zero (minus a pre-set price setting an acceptable range). Orders to buy below the minimum price and orders to sell above the maximum price will be rejected by the System.

cMOM defines a price range outside of which a complex limit order will not be accepted by the System. A complex order that is priced through this range will be rejected. This is intended to provide a fair and orderly market in complex orders on the Exchange by filtering and rejecting inbound complex orders at prices that could be erroneous and/or disruptive.

Other Protections

The Exchange is proposing to suspend and in some cases restart trading in complex orders and quotes, to remove certain complex orders from the Strategy Book, and to end a complex Auction either early or at the end of the Response Time Interval when there is a wide market condition, SMAT Event and/or a halt in the underlying security of, or in an individual component of, a complex order. This protection is intended to protect investors and the public interest by causing the System not to execute during potentially disruptive conditions or events that could affect customer protection, and to resume trading in complex orders and quotes to the extent possible upon the

conclusion or resolution of the potentially disruptive condition or event.

The System's proposed functionality during a wide market condition protects investors and the public interest by ensuring that the execution of complex orders and quotes on behalf of investors and the public will only occur at times when there is a fair and orderly market.

Risk Protection Monitor

The proposed amendment to Exchange Rule 519A, Risk Protection Monitor, to reject complex orders that exceed a Member-designated "Allowable Order Rate" and an "Allowable Contract Execution Rate" is designed to protect investors and the public interest by assisting Members submitting complex orders in their risk management. Members are vulnerable to the risk from system or other error or a market event that may cause them to send a large number of orders or receive multiple, automatic executions before they can adjust their order exposure in the market. Without adequate risk management tools, such as the Risk Protection Monitor, Members could reduce the amount of order flow and liquidity that they provide to the market. Such actions may undermine the quality of the markets available to customers and other market participants. Accordingly, the proposed amendments to the Risk Protection Monitor should instill additional confidence in Members that submit orders to the Exchange that their risk tolerance levels are protected, and thus should encourage such Members to submit additional order flow and liquidity to the Exchange with the understanding that they have this protection respecting all orders they submit to the Exchange, including complex orders, 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.

Obvious and Catastrophic Errors

The proposed amendment to Exchange Rule 521, Nullification and Adjustment of Options Transactions Including Obvious Errors protects investors and the public interest by extending the obvious error process for complex orders.

Under the proposal, if a complex order executes against another complex order on the Strategy Book and one or more components of the transaction is deemed eligible to be adjusted or nullified, the entire trade (all components) will be nullified, unless

both parties agree to adjust the transaction to a different price within thirty (30) minutes of being notified by the Exchange of the decision to nullify the transaction. If a complex order executes against orders or quotes on the Simple Order Book, each component of the complex order will be reviewed and handled independently in accordance with Rule 521.

This addition to Exchange Rule 521 should help add more certainty to the obvious/catastrophic error process and reduce the price risk to parties trading on the Exchange, and mitigate risk for the parties to a complex order where all or one or more components of the complex order traded at an erroneous price. Parties to complex trades on MIAX will have less trading risk because all of the components will be nullified under the proposal.

This additional risk protection for parties to a complex trade promotes just and equitable principles of trade and is designed to protect investors and the public interest, by providing additional mechanisms through which investors may nullify or adjust erroneous trades, and is therefore consistent with the Act.

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 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 proposal to offer the ability to execute complex orders on the Exchange is pro-competitive by providing market participants with the opportunity to execute complex orders in a manner that is similar to that allowed on other options exchanges.

The Exchange believes that the proposal will enhance competition among the various markets for complex order execution, potentially resulting in more active complex order trading on all exchanges.

The Exchange notes that as to intramarket competition, its proposal is designed to treat all Exchange participants in the same category of participant equally. The Exchange believes that it is equitable and reasonable to afford trade allocation priority to certain categories of participants. The proposal to establish first priority to Priority Customer complex orders resting on the Strategy Book is consistent with the long-

standing policies of customer protection found throughout the Act. Allocating thereafter to Market Maker Priority Interest for Complex is justified because Market Maker Priority Interest for Complex only applies if the Market Maker has a complex Standard quote in the complex strategy that equals or improves the dcMBBO. The Exchange's proposal to afford such a Market Maker priority in the Strategy Book is not new conceptually; Market Makers are afforded priority on the Exchange in the Simple Order Book in certain situations.¹¹¹ Thus, the Exchange believes that a Market Maker whose quoting activity qualifies for Market Maker Priority Interest for Complex is justifiably afforded priority with respect to such quoting activity.

The Exchange also believes that affording priority to them (after Priority Customer complex orders) is reasonable in light of the liquidity they provide, which other MIAX participants such as non-Market Maker Professional Interest participants are not required to provide.

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.

¹¹¹ For example, after executions resulting from Priority Overlays when the pro-rata allocation method applies, if there is other interest at the NBBO, after all Priority Customer Orders (if any) at that price have been filled, executions at that price will be first allocated to other remaining Market Maker priority quotes, which have not received a participation entitlement, and have precedence over Professional Interest. See Exchange Rule 514(e)(i)[sic].

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) By order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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 email to rule-comments@sec.gov. Please include File Number SR-MIAX-2016-26 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-2016-26. This file number should be included on the subject line if email 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 Web site 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 such 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-2016-26, and should be submitted on or before September 15, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹²

Robert W. Errett,
Deputy Secretary.

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¹¹² 17 CFR 200.30-3(a)(12).