

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–86534; File No. SR–MIAX–2019–33]

### Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Exchange Rule 520, Limitations on Orders

July 31, 2019.

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) <sup>1</sup> and Rule 19b–4 thereunder, <sup>2</sup> notice is hereby given that on July 18, 2019, Miami International Securities Exchange, LLC (“MIAX Options” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is filing a proposal to amend Exchange Rule 520, Limitations on Orders, to remove certain order entry restrictions prohibiting Electronic Exchange Members <sup>3</sup> from effectively operating as Market Makers <sup>4</sup> on the Exchange.

The text of the proposed rule change is available on the Exchange’s website at <http://www.miaxoptions.com/rule-filings/> at MIAX Options’ 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 amend Exchange Rule 520, Limitations on Orders, to remove certain order entry restrictions prohibiting EEMs from effectively operating as Market Makers on the Exchange. Currently, subsection (a)(1) of Exchange Rule 520 provides that the Exchange shall designate classes in which EEMs may enter into the System, <sup>5</sup> as principal or as agent, buy and sell limit orders in the same option series, for the account or accounts of the same or related beneficial owners. Currently, subsection (a)(2) of Exchange Rule 520 provides that, in all other classes, EEMs shall not enter into the System, as principal or agent, limit orders in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the EEM or the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such option contract on a regular or continuous basis. Subsection (a)(2) further provides that in determining whether an EEM or beneficial owner effectively is operating as a Market Maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same option contract; the multiple acquisition and liquidation of positions in the same options series during the same day; and the entry of multiple limit orders at different prices in the same options series.

The Exchange now proposes to amend Exchange Rule 520(a) to delete current subsection (a)(1) and to modify current subsection (a)(2) such that, for all option classes, the restrictions prohibiting EEMs from effectively operating as Market Makers will only be applicable to Priority Customer Orders <sup>6</sup> since Priority Customer Orders have priority at any price over the bids and offers of

non-Priority Customer Orders. Current Exchange Rule 520(a)(2) was adopted to limit the ability of Members that are not Market Makers to compete on preferential terms within the Exchange’s System. Because Priority Customer Orders are provided with certain benefits such as priority of bids and offers, the Exchange believes that Priority Customer Orders should continue to be subject to the restrictions set out in current Exchange Rule 520(a)(2). However, because broker-dealer orders do not have priority over bids and offers of Market Makers, the Exchange no longer believes it is necessary to impose the restrictions set out in current Exchange Rule 520(a)(2) on the entry of broker-dealer orders. Similarly, because Voluntary Professional orders do not have priority over bids and offers of Market Makers, the Exchange does not believe it is necessary to impose the restrictions set out in current Exchange Rule 520(a)(2) on Voluntary Professional orders.<sup>7</sup>

Pursuant to this proposal, the Exchange will allow EEMs to enter buy and sell limit orders in the same options series for the account or accounts of the same beneficial owners, other than for

<sup>7</sup> The Exchange notes that this rule change would only eliminate the restrictions of Exchange Rule 520(a)(2) in the manner proposed. Members would continue to remain subject to the requirements of Exchange Rule 303 (which requires Members to establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such Member’s business, to prevent the misuse of material, nonpublic information by such Member or persons associated with such Member), Exchange Rule 301, Interpretation and Policy .02 (which considers it conduct inconsistent with just and equitable principles of trade for any person associated with a Member who has knowledge of all material terms and conditions of: (a) An order and a solicited order, (b) an order being facilitated, or (c) orders being crossed, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option for the same underlying security as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or any order to buy or sell any related instrument until (1) the terms of the order and any changes in the terms of the order of which the person associated with the Member has knowledge are disclosed to the trading crowd, or (2) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received); Exchange Rule 520(b) (which provides that EEMs may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one (1) second, (ii) the EEM has been bidding or offering on the Exchange for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the EEM utilizes the MIAX PRIME pursuant to Rule 515A); and Exchange Rule 520(c) (which provides that EEMs may not execute orders they represent as agent on the Exchange against orders solicited from Members and non-member broker-dealers to transact with such orders unless the unsolicited order is first exposed on the Exchange for at least one (1) second, or the EEM utilizes the MIAX PRIME or the PRIME Solicitation Mechanism pursuant to Rule 515A).

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

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> The term “Electronic Exchange Member” or “EEM” means the holder of a Trading Permit who is not a Market Maker. Electronic Exchange Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

<sup>4</sup> The term “Market Makers” refers to “Lead Market Makers”, “Primary Lead Market Makers” and “Registered Market Makers” collectively. See Exchange Rule 100.

<sup>5</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>6</sup> The term “Priority Customer Order” means an order for the account of a Priority Customer. See Exchange Rule 100. 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 account(s). The number of orders shall be counted in accordance with Interpretation and Policy .01 of Exchange Rule 100.

the account(s) of Priority Customers, and will no longer need to designate specific classes for EEMs to engage in this type of activity. Accordingly, the Exchange believes that subsection (a)(1) of the current rule is no longer necessary and is redundant. Therefore, the Exchange proposes to delete subsection (a)(1). Similarly, the Exchange proposes to delete the beginning text of subsection (a)(2), which states “In all other classes,” as this rule text is no longer necessary in accordance with the Exchange’s proposal to also delete subsection (a)(1).

Additionally, the Exchange proposes to insert text into the first sentence of current Exchange Rule 520(a)(2) to specify that Priority Customer Orders would continue to be subject to the restrictions of that subsection. The Exchange proposes to delete the text in the first sentence of current subsection (a)(2) regarding limit orders entered by EEMs as principal or agent to clarify that all Priority Customer Orders are subject to the restrictions of that subsection. The Exchange also proposes to amend the hierarchical scheme in the first sentence of current subsection (a)(2) to insert romanettes “(i)” and “(ii)” to clarify the two conditions that must exist for the entry of Priority Customer Orders to be subject to the restrictions of current subsection (a)(2). The Exchange further proposes to delete the text in the first sentence of current subsection (a)(2) that states “or related” when referring to the account or accounts of the same beneficial owner. The purpose of this change is to remove outdated rule text and to align the Exchange’s proposed rule with a competing options exchange that has a rule consistent with this proposal.<sup>8</sup> The Exchange believes this is a non-substantive change and is consistent with the Exchange’s proposal to delete subsection (a)(1) of the rule. The Exchange does not believe that deleting the text “or related” will not [sic] have any impact to Members as the remaining text continues to apply to “the account or accounts of the same beneficial owner(s).” The Exchange also proposes to capitalize the term “Market Maker” throughout current subsection (a)(2) to harmonize the rule text to the definition of Market Maker in Exchange Rule 100 and clarify that the rule text of current

subsection (a)(2) refers to Market Makers on the Exchange. The Exchange proposes to delete the term “Electronic Exchange Member” in the second sentence of current subsection (a)(2) as the purpose of this proposed rule change is to remove the restrictions of current subsection (a)(2) as they currently pertain to EEMs effectively operating as Market Makers. Additionally, the Exchange proposes to replace the term “option contract” throughout current subsection (a)(2) with the term “security” or “securities,” where appropriately used in the singular or plural. The purpose of these proposed changes are to align the Exchange’s proposed rule with competing options exchanges that have rules consistent with this proposal.<sup>9</sup>

Further, Exchange Rule 520(a)(2) currently provides that, in determining whether an EEM or beneficial owner effectively is operating as a Market Maker, the Exchange will consider, among other things: The simultaneous or near-simultaneous entry of limit orders to buy and sell the same option contract; the multiple acquisition and liquidation of positions in the same options during the same day; and the entry of multiple limit orders at different prices in the same options series. The Exchange proposes to remove the second condition pertaining to the multiple acquisition and liquidation of positions from its list of factors used for determining whether an EEM or beneficial owner is operating as a Market Maker. In light of the proliferation of day trading activity and the fact that such a prohibition does not exist on other markets,<sup>10</sup> the Exchange no longer believes this activity should be considered a factor in determining whether an EEM or beneficial owner is effectively acting as a Market Maker.

With the proposed changes, Exchange Rule 520(a) would be amended to state as follows:

Electronic Exchange Members shall not enter into the System Priority Customer Orders in the same options series if (i) the orders are limit orders for the account or accounts of the same beneficial owner(s) and (ii) the limit orders are entered in such a manner that the beneficial owner(s) effectively is operating as a Market Maker by holding itself out as willing to buy and sell such securities on a regular or continuous basis. In determining whether a

beneficial owner effectively is operating as a Market Maker, the Exchange will consider, among other things, the simultaneous or near-simultaneous entry of limit orders to buy and sell the same security and the entry of multiple limit orders at different prices in the same security.

Accordingly, the restrictions contained in current Exchange Rule 520(a)(2) against entering limit orders into the System would no longer be applicable to EEMs, except when entering Priority Customer Orders for account of the same beneficial owner. Further, current Exchange Rule 520(a)(1) would be deleted in its entirety.

## 2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>11</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>12</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and 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 its proposal promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest by removing the prohibition on EEMs from entering limit orders in such a manner to effectively operate as Market Makers will more freely permit the entry of orders by EEMs, resulting in more orders on the Exchange. The increase in more orders on the Exchange should increase liquidity on the Exchange, which would benefit all market participants.

The Exchange believes its proposal to prohibit EEMs from entering Priority Customer Orders for the account of the same beneficial owner such that the beneficial owner is effectively operating as a Market Maker continues to promote just and equitable principles of trade because Priority Customer Orders have priority over the bids and offers of non-Priority Customer Orders. Because Priority Customers are provided with

<sup>8</sup> See Cboe Exchange, Inc. Rules, CHAPTER VI. DOING BUSINESS ON THE EXCHANGE FLOOR, Rule 6.8, Prohibition Against Customers Functioning as Market-Makers; Securities Exchange Act Release No. 59700 (April 2, 2009), 67 FR 16246 (April 9, 2009)(SR-CBOE-2009-009) (Order Approving a Proposed Rule Change To Amend its Rules Prohibiting Members From Functioning as Market Makers).

<sup>9</sup> See *id.*; see also Nasdaq ISE, LLC, Options 3 Options Trading Rules, Section 22(a); Securities Exchange Act Release No. 63017 (September 29, 2010), 75 FR 61795 (October 6, 2010)(SR-ISE-2010-95).

<sup>10</sup> See *id.*

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

certain benefits such as priority of bids and offers, the Exchange believes its proposal to continue to subject Priority Customer Orders to the restrictions of current Exchange Rule 520(a)(2) will protect investors and the public interest. The Exchange believes its proposal to remove the restrictions of current subsection (a)(2) on EEMs entering broker-dealer and Voluntary Professional orders in such a manner that the EEM is effectively operating as a Market Maker promotes just and equitable principles of trade because those orders do not receive the same benefits as Priority Customer Orders, such as priority of bids and offers.

Similarly, the Exchange believes its proposal to delete subsection (a)(1) and specific text in subsection (a)(2) promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest by removing provisions of the rule text that no longer apply in light of the Exchange's proposal to allow EEMs to enter buy and sell limit orders in the same options series for the account or accounts of the same beneficial owners, other than for the account(s) of Priority Customers. Accordingly, the Exchange will no longer need to designate specific classes for EEMs to engage in this type of market making activity pursuant to subsection (a)(1). This proposed change will provide greater clarity to Members and the public regarding the Exchange's rules and it is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

The Exchange believes its proposal to remove the second condition pertaining to the multiple acquisition and liquidation of positions from its list of factors used for determining whether an EEM or beneficial owner is operating as a Market Maker promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest because of the proliferation of day trading activity and the fact that such a prohibition does not exist on other markets.<sup>13</sup>

#### *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 that is not necessary or appropriate in furtherance of the purposes of the Act.

#### *Intra-Market Competition*

Specifically, the Exchange believes that removing the prohibition on EEMs from entering limit orders such that EEMs may enter limit orders in such a manner to effectively operate as Market Makers will further promote competition on the Exchange, increase order flow and liquidity, leading to tighter, more efficient markets to the benefit of all market participants.

The Exchange believes that the prohibition on EEMs from entering Priority Customer Orders for the account of the same beneficial owner such that the beneficial owner is effectively operating as a Market Maker does not impose any burden on competition that is not necessary or appropriate because Priority Customers are provided with certain benefits such as priority of bids and offers that are not shared by other market participants.

#### *Inter-Market Competition*

The Exchange believes that its proposal to remove the prohibition on EEMs from entering limit orders such that EEMs may enter limit orders in such a manner to effectively operate as Market Makers will not impose any burden on intermarket competition not necessary or appropriate in furtherance of the purposes of the Act because of the proliferation of day trading activity and the fact that such a prohibition does not exist on other markets.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and Rule 19b-4(f)(6) thereunder.<sup>15</sup>

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>16</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>17</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposed rule change may become operative upon filing. Waiver of the operative delay would allow the Exchange to immediately harmonize with similar rules on other exchanges that allow EEMs to effectively operate as Market Makers. Therefore, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.<sup>18</sup>

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

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2019-33 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

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

<sup>18</sup> For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>13</sup> See *supra* note 9.

Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-MIAX-2019-33. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MIAX-2019-33, and should be submitted on or before August 27, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86535; File No. SR-MRX-2019-16]

### Self-Regulatory Organizations; Nasdaq MRX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Options 2 (Options Market Participants) and Options 3 (Options Trading Rules) Relating to Certain Order Types

July 31, 2019.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 24, 2019, Nasdaq MRX, LLC ("MRX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the 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 amend Options 2 (Options Market Participants) and Options 3 (Options Trading Rules) relating to certain order types.

The text of the proposed rule change is available on the Exchange's website at <http://nasdaqmrxcchwallstreet.com/>, at the principal office of the Exchange, 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 purpose of the proposed rule change is amend Options 2 (Options Market Participants) and Options 3 (Options Trading Rules) relating to certain order types. Each change is described in more detail below.

##### Stopped Orders

The Exchange proposes to amend its rules to remove Stopped Orders as an order type. A Stopped Order is a limit order that meets the requirements of Options 5, Section 2(b)(8).<sup>3</sup> As provided in Options 5, Section 2(b)(8), a "stopped order" is defined as an order for which, at the time of receipt for the order, a Member had guaranteed an execution at no worse than a specified price, where: (i) The stopped order was for the account of a Customer; (ii) the Customer agreed to the specified price on an order-by-order basis; and (iii) the price of the Trade-Through was, for a stopped buy order, lower than the national Best Bid in the options series at the time of execution, or, for a stopped sell order, higher than the national Best Offer in the options series at the time of execution. To execute Stopped Orders, Members must enter them into the Facilitation Mechanism or Solicited Order Mechanism pursuant to Options 3, Section 11.<sup>4</sup>

Due to a lack of demand for Stopped Orders, the Exchange plans to decommission the functionality supporting this order type.<sup>5</sup> To reflect this elimination, the Exchange proposes to delete all references to Stopped Orders as follows:

- Options 2, Section 6(a), which currently allows Market Makers to enter all order types in the options classes to which they are appointed, except for Stopped Orders, Reserve Orders, and Customer Cross Orders.
- Options 3, Section 7(b)(5), which defines a Stopped Order.

The Exchange proposes to implement the amendments relating to Stopped Orders by November 1, 2019.

<sup>3</sup> See Options 3, Section 7(b)(5).

<sup>4</sup> Stopped orders were originally introduced on the Exchange as a Trade-Through exception under the Options Order Protection and Locked/Crossed Market Plan (the "Plan"). MRX adopted rules to implement the Trade-Through exception for stopped orders as an order type. See Securities Exchange Act Release No. 76998 (January 29, 2016), 81 FR 6066 (February 4, 2016) (File No. 10-221).

<sup>5</sup> No member has used this order type since the Exchange's previous trading system migrated over to Nasdaq INET technology in 2017.

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

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

<sup>19</sup> 17 CFR 200.30-3(a)(12).