

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-89991; File No. SR-MIAX-2020-31)

September 24, 2020

Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism to Adopt a New ISO Prime Order Type

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 September 17, 2020, 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, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is filing a proposal to amend Exchange Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism.

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

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

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

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 515A, MIA X Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism, to adopt a new ISO PRIME order type.

PRIME is a process by which a Member<sup>3</sup> 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.<sup>4</sup> A Member (the “Initiating Member”) may initiate an Auction provided all of the following are met: (i) the Agency Order is in a class designated as eligible for PRIME as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange; (ii) the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO<sup>5</sup> or the Agency Order’s limit price (if the order is a limit order); and (iii) with respect to Agency Orders that have a size of less than 50 contracts, if at the time of receipt

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<sup>3</sup> The term “Member” means an individual or organization approved to exercise the trading rights associated with a Trading Permit. Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

<sup>4</sup> See Exchange Rule 515A(a).

<sup>5</sup> The term “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

of the Agency Order, the NBBO has a bid/ask differential of \$0.01, the System<sup>6</sup> will reject the Agency Order.<sup>7</sup>

An Intermarket Sweep Order (“ISO”) is defined in Exchange Rule 1400(i) as a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid,<sup>8</sup> in the case of a limit order to sell, or any Protected Offer,<sup>9</sup> in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO. A Member may submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. An ISO may be either an Immediate-Or-Cancel Order<sup>10</sup> or an order that expires on the day it is entered.<sup>11</sup>

The Exchange now proposes to implement an ISO PRIME order type (“ISO PRIME”) that will allow the submission of an ISO into the PRIME. Specifically, an ISO PRIME is the

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<sup>6</sup> The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

<sup>7</sup> See Exchange Rule 515A(a)(1).

<sup>8</sup> A “Protected Bid” or “Protected Offer” means a Bid or Offer in an options series, respectively, that: (a) is disseminated pursuant to the OPRA Plan; and (b) is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange. See Exchange Rule 1400(p).

<sup>9</sup> Id.

<sup>10</sup> An immediate-or-cancel order is an order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. An immediate-or-cancel order is not valid during the opening rotation process described in Rule 503. See Exchange Rule 516(c).

<sup>11</sup> See Exchange Rule 1400(i).

transmission of two orders for crossing pursuant to Rule 515A, MIAX Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism, without regard for better priced Protected Bids or Protected Offers because the Member transmitting the ISO PRIME order to the Exchange has, simultaneously with the submission of the ISO PRIME order, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting PRIME Auction price, and has swept all interest in the Exchange’s Book<sup>12</sup> priced better than the proposed Auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PRIME order, meaning that any executions will be given to the agency side of the order.

The Exchange will accept an ISO PRIME provided that the order adheres to the current PRIME order acceptance criteria outlined above, except that the initiating Member is only required to stop the entire Agency Order as principal or with a solicited order at the Agency Order’s limit price (if the order is a limit order). Therefore, a Member (the “Initiating Member”) may initiate an Auction provided that: (i) the Agency Order is in a class designated as eligible for PRIME as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange; and (ii) the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the Agency Order’s limit price (if the order is a limit order). Also, with respect to Agency Orders that have a size of less than 50 contracts, if at the time of receipt of the Agency Order, the NBBO has a bid/ask differential of \$0.01, the System will reject the Agency Order.<sup>13</sup>

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<sup>12</sup> The term “Book” means the electronic book of buy and sell orders and quotes maintained by the System. See Exchange Rule 100.

<sup>13</sup> See Exchange Rule 515A(a)(1).

The Exchange will process the ISO PRIME order in the same manner that it currently processes PRIME Orders, except that it will initiate a PRIME Auction without protecting away prices. The Member transmitting the ISO PRIME order will bear the responsibility to clear all better priced interest away simultaneously with the submission of the ISO PRIME order to the Exchange.

The Exchange also proposes to adopt a new allocation methodology specifically for Market Maker<sup>14</sup> interest that is executed during an ISO PRIME Auction. Currently, allocation in a PRIME Auction follows the order allocation methodology defined in Exchange Rule 515A(a)(2)(iii), which provides that Priority Customer<sup>15</sup> orders resting on the Book before, or that are received during, the Response Time Interval<sup>16</sup> and Priority Customer RFR<sup>17</sup> responses shall, collectively have first priority to trade against the Agency Order. The allocation of an Agency Order against the Priority Customer orders resting in the Book, Priority Customer orders received during the Response Time Interval, and Priority Customer RFR responses shall be in

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<sup>14</sup> The term “Market Makers” refers to “Lead Market Makers”, “Primary Lead Market Makers” and “Registered Market Makers” collectively. See Exchange Rule 100.

<sup>15</sup> 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). See Exchange Rule 100.

<sup>16</sup> The “Response Time Interval” means the period of time during which responses to the RFR may be entered. The RFR timer is 100 milliseconds. See MIAX Options Regulatory Circular 2017-30, Change to MIAX Options PRIME Timer Effective June 16, 2017 (June 15, 2017) available at [https://www.miaxoptions.com/sites/default/files/circular-files/MIAX\\_Options\\_RC\\_2017\\_30.pdf](https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_Options_RC_2017_30.pdf).

<sup>17</sup> When the Exchange receives a properly designated Agency Order for auction processing, a Request for Responses (“RFR”) detailing the option, side, size, and initiating price will be sent to all subscribers of the Exchange’s data feeds. See Exchange Rule 515A(a)(2)(i)(B).

the sequence in which they are received by the System.<sup>18</sup> Market Maker priority quotes<sup>19</sup> and RFR responses from Market Makers with priority quotes will collectively have second priority. The allocation of Agency Orders against these contra sided quotes and RFR responses shall be on a size pro rata basis<sup>20</sup> as defined in Rule 514(c)(2).<sup>21</sup> Professional Interest<sup>22</sup> orders resting in the Book, Professional Interest orders placed in the Book during the Response Time Interval, Professional Interest quotes, and Professional Interest RFR responses will collectively have third priority. The allocation of Agency Orders against these contra sided orders and RFR Responses shall be on a size pro rata basis as defined in Rule 514(c)(2).<sup>23</sup>

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<sup>18</sup> See Exchange Rule 515A(a)(2)(iii)(B).

<sup>19</sup> To be considered a priority quote, at the time of execution, each of the following standards must be met: (A) the bid/ask differential of a Market Maker's two-sided quote pair must be valid width (no wider than the bid/ask differentials outlined in Exchange Rule 603(b)(4)); (B) the initial size of both or the Market Maker's bid and the offer must be in compliance with the requirements of Exchange Rule 604(b)(2); (C) the bid/ask differential of a Market Maker's two-sided quote pair must meet the priority quote width requirements defined in Exchange Rule 517(b)(1)(ii) for each option; and (D) either of the following are true: 1. At the time a locking or crossing quote or order enters the System, the Market Maker's two-sided quote pair must be valid width for that option and must have been resting on the Book; or 2. Immediately prior to the time the Market Maker enters a new quote that locks or crosses the MBBO, the Market Maker must have had a valid width quote already existing (i.e., exclusive of the Market Maker's new marketable quote or update) among his two-sided quotes for that option. See Exchange Rule 517(b). The term "MBBO" means the best bid or offer on the Exchange. See Exchange Rule 100.

<sup>20</sup> Exchange Rule 514(c)(2), Pro Rata Allocation, states that, under this method, resting quotes and orders on the Book are prioritized according to price and time. If there are two or more quotes or orders at the best price then the contracts are allocated proportionally according to size (in a pro-rata fashion). If the executed quantity cannot be evenly allocated, the remaining contracts will be distributed one at a time based upon price-size-time priority.

<sup>21</sup> See Exchange Rule 515A(a)(2)(iii)(C).

<sup>22</sup> 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.

<sup>23</sup> See Exchange Rule 515A(a)(2)(iii)(D).

The Exchange now proposes to amend subsection (C) to adopt a new allocation for Market Maker priority quotes at the conclusion of an Auction for an ISO PRIME order. The proposed rule text will state that at the conclusion of an Auction for an ISO PRIME order, the allocation of Agency Orders at the final Auction price shall be: (i) to Market Makers that traded in the associated ISO sweep, for up to the full size of such Market Makers' refreshed priority quotes, as well as any RFR responses submitted by those Market Makers; (ii) to those Market Makers with quotes at the Auction start price that were resting and any RFR responses submitted by those Market Makers at the final Auction price; and (iii) to all other Market Makers that did not trade in the associated ISO sweep and did not have resting quotes at the Auction start price with joining interest at the final Auction price that was submitted during the Auction. If two or more Market Makers are entitled to priority under (i), (ii) or (iii) above, priority will be afforded to the extent practicable on a pro-rata basis.

This can be demonstrated in the following examples.

Example 1 – (Current PRIME Allocation) Single Price Submission, Priority Customer has first priority and Market Maker with priority quotes has second priority

$$ABBO^{24} = \$1.15 - \$1.25 \text{ } 100 \times 100$$

$$MM3 = \$1.15 - \$1.25 \text{ } 100 \times 100 \text{ (priority quote)}^{25}$$

$$MBBO = \$1.15 - \$1.25 \text{ } 100 \times 100$$

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<sup>24</sup> The term “ABBO” or “Away Best Bid or Offer” means the best bid(s) or offer(s) disseminated by other Eligible Exchanges (defined in Rule 1400(g)) and calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

<sup>25</sup> The term “priority quote” has the meaning set forth in Rule 517(b)(1)(i). See Exchange Rule 100. See also supra note 19.

NBBO = \$1.15 - \$1.25 200 x 200

Agency Order to buy 50 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 50 contracts with a single stop price of \$1.20

RFR sent identifying the option, side and size, with initiating price of \$1.20

(Auction Starts)

- @ 10 milliseconds MM1 response received (did not have a priority quote on the Book), AOC eQuote to Sell 10 at \$1.18
- @ 30 milliseconds BD4 response received, AOC order to Sell 10 at \$1.18
- @ 50 milliseconds Priority Customer response received, AOC order to Sell 15 at \$1.18
- @ 75 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.18
- 100 milliseconds (Auction Ends)

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

1. 15 contracts trade with Priority Customer @ \$1.18
2. 20 contracts trade with MM3 @ \$1.18
3. 8 contracts trade with MM1 @ \$1.18
4. 7 contracts trade with BD4 @ \$1.18 (This fills the entire Agency Order and Contra Order does not receive an execution)

Example 2 – (Proposed ISO PRIME Allocation) Single Price Submission, Priority Customer has first priority and Market Maker (who initially traded as part of the associated ISO Sweep) with joining quotes at the final Auction price has second priority

ABBO = \$1.15 - \$1.17 200 x 200

MM3 = \$1.15 - \$1.17 100 x 10 (priority quote)

MBBO = \$1.15 - \$1.17 100 x 10

NBBO = \$1.15 - \$1.17 300 x 210

ISO PRIME Agency Order to buy 50 contracts with a limit price of \$1.20 is received.

It will ISO Sweep resting liquidity priced better than the Auction start price of \$1.20.

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

1. 10 contracts trade with MM3 @1.17

Contemporaneously the balance of the ISO PRIME Agency Order initiates a PRIME Auction to

buy 40 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 50 contracts with a single stop price of \$1.20

RFR sent identifying the option, side and size, with initiating price of \$1.20

(Auction Starts)

- @ 10 milliseconds MM1 response received, AOC eQuote to Sell 10 at \$1.18
- @ 30 milliseconds BD4 response received, AOC order to Sell 10 at \$1.18
- @ 40 milliseconds Priority Customer response received, AOC order to Sell 15 at \$1.18
- @ 65 milliseconds MM3 (who traded as part of the initial sweep), response received,  
AOC eQuote to Sell 40 at \$1.18
- 100 milliseconds (Auction Ends)

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

2. 15 contracts trade with Priority Customer @ \$1.18
3. 25 contracts trade with MM3 @ \$1.18 (This fills the entire Agency Order and Contra Order does not receive an execution)

Example 3 – (Proposed ISO PRIME Allocation) Single Price Submission, Market Maker who has a joining quote at a better price has priority and Market Maker (who has a resting quote at the Auction start price) that submits an RFR response at the final Auction price has priority

ABBO = \$1.15 - \$1.17 100 x 100

MM1 = \$1.15 - \$1.17 10 x 10 (priority quote)

MM2 = \$1.15 - \$1.20 20 x 20 (priority quote)

MM3 = \$1.15 - \$1.21 20 x 20 (priority quote)

MBBO = \$1.15 - \$1.17 50 x 10

NBBO = \$1.15 - \$1.17 150 x 110

ISO PRIME Agency Order to buy 50 contracts with a limit price of \$1.20 is received.

It will ISO Sweep resting liquidity priced better than the Auction start price of \$1.20.

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

1. 10 contracts trade with MM1 @ \$1.17

Contemporaneously the balance of the ISO PRIME Agency Order initiates a PRIME Auction to buy 40 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 50 contracts with a single stop price of \$1.20

RFR sent identifying the option, side and size, with initiating price of \$1.20

(Auction Starts)

- @ 10 milliseconds MM4 response received, AOC eQuote to Sell 30 at \$1.18
- @ 30 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.19
- @ 75 milliseconds MM2 (who has a resting quote at the Auction Start Price), response received, AOC eQuote to Sell 20 at \$1.19
- 100 milliseconds (Auction Ends)

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

2. 30 contracts trade with MM4 @ \$1.18
3. 10 contracts trade with MM2 @ \$1.19 (This is the final Auction price and fills the entire Agency Order and Contra Order and MM3 does not receive an execution)

Example 4 – (Proposed ISO PRIME Allocation) Single Price Submission, Priority Customer has first priority and Market Maker (who initially traded as part of an ISO Sweep) with joining quotes has second priority, Market Maker with joining interest that is received during the associated ISO PRIME Auction that did not trade in the associated ISO sweep and did not have resting interest at the Auction start price receives last priority among Market Makers

ABBO = \$1.15 - \$1.17 200 x 200

MM3 = \$1.15 - \$1.17 100 x 10 (priority quote)

MBBO = \$1.15 - \$1.17 100 x 10

NBBO = \$1.15 - \$1.17 300 x 210

ISO PRIME Agency Order to buy 50 contracts with a limit price of \$1.20 is received.

It will ISO Sweep resting liquidity priced better than the Auction start price of \$1.20.

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

1. 10 contracts trade with MM3 @1.17

Contemporaneously, the balance of the ISO PRIME Agency Order initiates a PRIME Auction to buy 40 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 50 contracts with a single stop price of \$1.20

RFR sent identifying the option, side and size, with an initiating price of \$1.20

(Auction Starts)

- @ 10 milliseconds MM1 response received (did not have a priority quote on the Book), AOC eQuote to Sell 20 at \$1.18
- @ 30 milliseconds BD4 response received, AOC order to Sell 20 at \$1.18
- @ 40 milliseconds Priority Customer response received, AOC order to Sell 15 at \$1.18
- @ 65 milliseconds MM3 (who traded as part of the initial sweep), quote response received, AOC eQuote to Sell 20 at \$1.18
- @ 100 milliseconds (Auction Ends)

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

2. 15 contracts trade with Priority Customer @ \$1.18
3. 20 contracts trade with MM3 @ \$1.18
4. 3 contracts trade with MM1 @ \$1.18

5. 2 contracts trade with BD4 @ \$1.18 (This fills the entire Agency Order and the Contra Order does not receive an execution)

The Exchange believes this allocation methodology, used only for Market Maker priority interest and only at the conclusion of an ISO PRIME Auction, will provide an additional incentive for Market Makers to provide their most aggressive quotes to the market throughout the entire trading session.

The Exchange also proposes to amend subsection (J) which currently states, notwithstanding (a)(2)(iii)(C), (D) above, if the Auction does not result in price improvement over the Exchange's disseminated price at the time the Auction began, resting unchanged quotes or orders that were disseminated at the best price before the Auction began shall have priority after any Priority Customer order priority and the Initiating Member's priority (40%) have been satisfied. The new proposed rule text will provide, notwithstanding (a)(2)(iii)(C), (D) above, (provided the Auction is not for an ISO PRIME order) if the Auction does not result in price improvement over the Exchange's disseminated price at the time the Auction began, resting unchanged quotes or orders that were disseminated at the best price before the Auction began shall have priority after any Priority Customer order priority and the Initiating Member may not participate on any such balance unless the Agency Order would otherwise go unfilled.

The Exchange will announce the implementation of this order type in a Regulatory Circular. The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 90 days following the operative date of the proposed rule. The implementation date will be no later than 90 days following the issuance of the Regulatory Circular.

## 2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>26</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>27</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 proposed rule change promotes just and equitable principles of trade and removes impediments to and perfects the mechanisms of a free and open market in that it promotes competition as described below. Specifically, the proposal allows the Exchange to offer its Members an order type that is already offered by another exchange.<sup>28</sup> In addition, the proposal benefits traders and investors because it adds a new order type for seeking price improvement through the PRIME. ISO PRIME orders will also be subject to all eligibility requirements that currently apply to PRIME orders. The Initiating Member, simultaneous with the routing of the ISO PRIME order to the Exchange, remains responsible for routing one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting PRIME Auction price and has swept all interest in the Exchange's Book priced better than the proposed Auction starting price. Finally, the proposal does not

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<sup>26</sup> 15 U.S.C. 78f(b).

<sup>27</sup> 15 U.S.C. 78f(b)(5).

<sup>28</sup> See Nasdaq ISE Exchange Rule, Options 3, Section 13, Supplementary Material .08.

unfairly discriminate among Members because all Members of the Exchange are eligible to submit an ISO PRIME order.

The Exchange's proposal to adopt a new allocation at the conclusion of an ISO PRIME Auction for Market Maker priority quotes and RFR responses from Market Makers with priority quotes, that participate in the associated ISO sweep, promotes just and equitable principles of trade, perfects the mechanisms of a free and open market and a national market system and, in general, benefits investors as it provides an additional incentive to Market Makers to provide their most aggressive quotes to the market at all times. Prioritizing Market Maker interest such that Market Makers that trade in the associated ISO sweep that also have joining interest at the final Auction price receive first priority in allocation provides an incentive to Market Makers to have their most aggressive quotes on the Book in order to participate in any potential ISO sweeps.

The Exchange's proposal does not change the existing allocation priority for PRIME Auctions. The Exchange's proposal is narrowly tailored to allocation priority only among Market Makers and only at the conclusion of a PRIME Auction initiated by an ISO PRIME order.

The Exchange currently uses priority quotes for trade allocation purposes as described in Exchange Rule 517(b) which provides that, quotes will be considered either priority quotes (i.e., trade allocation will be in accordance with Rule 514(e), which provides priority quotes with precedence over all Professional Interest) or non-priority quotes (i.e., trade allocation will be in accordance with Rule 514(e), which also provides non-priority quotes are considered together with all other Professional Interest) based upon a Market Maker's quote width at certain times as

described.<sup>29</sup> To be considered a priority quote, at the time of execution, each of the following standards must be met: (A) the bid/ask differential of both of the Market Maker's two-sided quote pair must be valid width (no wider than the bid/ask differentials outlined in Rule 603(b)(4)); (B) the initial size of both of the Market Maker's bid and the offer must be in compliance with the requirements of Rule 604(b)(2); (C) the bid/ask differential of a Market Maker's two-sided quote pair must meet the priority quote width requirements defined in Exchange Rule 517(b)(ii) for each option; and (D) either of the following are true: 1. At the time a locking or crossing quote or order enters the System, the Market Maker's two-sided pair must be valid width for that option and must have been resting on the Book; or 2. Immediately prior to the time the Market Maker enters a new quote that locks or crosses the MBBO, the Market Maker must have had a valid width quote already existing (i.e., exclusive of the Market Maker's new marketable quote or update) among his two-side quotes for that option.<sup>30</sup>

Exchange Rule 514(e) provides that after executions resulting from Priority Overlays set forth in paragraph (d) of Rule 514, when the pro-rata allocation method applies: (1) 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. (2) If after all Market Maker priority quotes have been filled in accordance with (1) above and there remains interest at the NBBO, executions will be allocated to all Professional Interest at that price. Professional Interest is defined in Rule 100 and includes

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<sup>29</sup> See Exchange Rule 517(b).

<sup>30</sup> See Exchange Rule 517(b)(1)(i).

among other interest, Market Maker non-priority quotes (as described in Rule 517(b)(1)(iii)) and Market Maker orders in both assigned and non-assigned classes.<sup>31</sup>

The Exchange does not believe that the purpose of the proposed rule change, to provide priority to a Market Maker at the conclusion of an ISO PRIME Auction (among other Market Makers) that has also traded in the associated ISO sweep, is a new or novel concept, as the Exchange has an existing hierarchy of priority allocation based on priority quotes as discussed above.

Additionally, the Exchange believes its proposal to amend subsection (J) to clarify that the subsection does not apply to Auctions for ISO PRIME orders, promotes just and equitable principles of trade, and removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by removing any ambiguity in the Exchange's rulebook about the type of Auctions subsection (J) pertains to. Current subsection (J) provides additional clarifying language concerning the priority of allocations at the conclusion of a PRIME Auction that does not result in price improvement over the Exchange's disseminated price at the time the Auction began stating that, "resting unchanged quotes or orders that were disseminated at the best price before the Auction began shall have priority after any Priority Customer order priority . . . ." The Exchange's proposal concerning allocation at the conclusion of an Auction for an ISO PRIME order provides a more nuanced and detailed hierarchy of allocation for Market Makers which would be applicable in the scenario contemplated by subsection (J). Therefore, the Exchange is proposing to exclude the application of subsection (J) to Auctions that are initiated by ISO PRIME orders. The Exchange believes this change eliminates any potential conflict regarding the application of

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<sup>31</sup> See Exchange Rule 514(e).

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 this change will benefit market participants as it encourages Market Makers to participate in ISO PRIME Auctions and will provide additional incentive to Market Makers to provide their most aggressive quotes to the market throughout the trading session and may also result in increased liquidity being available during the Auction.

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. The Exchange believes the proposed rule change will benefit inter-market competition as it will allow the Exchange to compete with other markets that already allow an ISO order type in their price improvement mechanisms.<sup>32</sup>

The Exchange's proposal to adopt an ISO PRIME order type benefits intra-market competition because it will enable the Exchange to provide market participants with an additional method of seeking price improvement through the PRIME. The Exchange does not believe that the proposed rule change will impose any burden on intra-market competition as the Rules of the Exchange apply equally to all Exchange Members, and all Exchange Members may submit an ISO PRIME order.

The Exchange does not believe its proposal to further apportion Market Maker allocation at the conclusion of an Auction of an ISO PRIME order will impose any burden on intra-market competition but rather promotes intra-market competition as it provides further incentive to Market Makers to provide their most aggressive quotes to the market throughout the entire

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<sup>32</sup> See supra note 28.

trading session and may increase liquidity available during a PRIME Auction. The proposal provides Market Makers with priority quotes on the Book, that participate in an associated ISO sweep, with priority over other Market Makers, which benefits intra-market competition as it also provides an incentive to Market Makers to provide their most aggressive quotes to the market during the entire trading session to be in position to participate in any potential ISO sweeps.

The Exchange does not believe its proposal will impose any burden on inter-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, but rather will promote inter-market competition as it provides an additional incentive to Market Makers on the Exchange to provide their most aggressive quotes to the market at all times which could result in tighter quotes and greater liquidity being available in the market place, which would benefit all investors.

The Exchange believes its proposal to amend subparagraph (J) promotes just and equitable principles of trade and removes impediments to and perfects the mechanism of a free and open market and a national market system because the proposed rule change provides additional detail and further clarifies the rule. It is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the

Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>33</sup> and Rule 19b-4(f)(6)<sup>34</sup> thereunder.

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

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-MIAX-2020-31 on the subject line.

##### Paper Comments:

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

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<sup>33</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>34</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

All submissions should refer to File Number SR-MIAX-2020-31. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-MIAX-2020-31 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>35</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>35</sup> 17 CFR 200.30-3(a)(12).