

Dated at Rockville, Maryland, this 28th day of February 2014.

For the Nuclear Regulatory Commission.

**Joseph Anderson,**

*Acting Director, Division of Preparedness and Response, Office of Nuclear Security and Incident Response.*

[FR Doc. 2014-05105 Filed 3-7-14; 8:45 am]

**BILLING CODE 7590-01-P**

## NUCLEAR REGULATORY COMMISSION

[NRC-2014-0001]

### Sunshine Act Meeting Notice

**DATE:** Weeks of March 10, 17, 24, 31, April 7, 14, 2014.

**PLACE:** Commissioners' Conference Room, 11555 Rockville Pike, Rockville, Maryland.

**STATUS:** Public and Closed.

#### Week of March 10, 2014

There are no meetings scheduled for the week of March 10, 2014.

#### Week of March 17, 2014—Tentative

Friday, March 21, 2014

1:00 p.m. Briefing on Waste Confidence Rulemaking (Public Meeting) (Contact: Andrew Imboden, 301-287-9220)

This meeting will be webcast live at the Web address—<http://www.nrc.gov/>.

#### Week of March 24, 2014—Tentative

There are no meetings scheduled for the week of March 24, 2014.

#### Week of March 31, 2014—Tentative

There are no meetings scheduled for the week of March 31, 2014.

#### Week of April 7, 2014—Tentative

Thursday, April 10, 2014

9:00 a.m. Meeting with Organization of Agreement States (OAS) and Conference of Radiation Control Program Directors (CRCPD) (Public Meeting) (Contact: Cindy Flannery, 301-415-0223)

This meeting will be webcast live at the Web address—<http://www.nrc.gov/>.

#### Week of April 14, 2014—Tentative

There are no meetings scheduled for the week of April 14, 2014.

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#### Additional Information

The Briefing on Human Reliability Program Activities and Analyses scheduled on March 3, 2014, was postponed.

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The schedule for Commission meetings is subject to change on short

notice. To verify the status of meetings, call (recording)—301-415-1292.

Contact person for more information: Rochelle Bavol, 301-415-1651.

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The NRC Commission Meeting Schedule can be found on the Internet at: <http://www.nrc.gov/public-involve/public-meetings/schedule.html>.

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The NRC provides reasonable accommodation to individuals with disabilities where appropriate. If you need a reasonable accommodation to participate in these public meetings, or need this meeting notice or the transcript or other information from the public meetings in another format (e.g. braille, large print), please notify Kimberly Meyer, NRC Disability Program Manager, at 301-287-0727, or by email at [Kimberly.Meyer-Chambers@nrc.gov](mailto:Kimberly.Meyer-Chambers@nrc.gov). Determinations on requests for reasonable accommodation will be made on a case-by-case basis.

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Members of the public may request to receive this information electronically. If you would like to be added to the distribution, please contact the Office of the Secretary, Washington, DC 20555 (301-415-1969), or send an email to [Darlene.Wright@nrc.gov](mailto:Darlene.Wright@nrc.gov).

Dated: March 6, 2014.

**Rochelle Bavol,**

*Policy Coordinator, Office of the Secretary.*

[FR Doc. 2014-05221 Filed 3-6-14; 4:15 pm]

**BILLING CODE 7590-01-P**

## PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD

[Notice-PCLOB-2014-02; Docket No. 2014-0001; Sequence No. 2]

### Notice of Public Hearing

**AGENCY:** Privacy and Civil Liberties Oversight Board.

**ACTION:** Public Hearing notice.

**SUMMARY:** The Privacy and Civil Liberties Oversight Board (PCLOB) will conduct a public hearing to continue the PCLOB's study of the federal government's surveillance program. The meeting is open to the public.

**DATES:** March 19, 2014, 9:00 a.m.—4:30 p.m. Eastern Standard Time.

**FOR FURTHER INFORMATION CONTACT:** Ms. Susan Reingold, Chief Management Officer, at 202-331-1986.

**SUPPLEMENTARY INFORMATION:** The public hearing meeting is scheduled for March 19, 2014, beginning at 9:00 a.m. and ending at 4:30 p.m. Eastern Standard Time. Location: Mayflower

Hotel, 1127 Connecticut Avenue NW., Washington, DC 20036.

**Matters To Be Considered:** The Privacy and Civil Liberties Oversight Board (PCLOB) will conduct a public hearing to continue the PCLOB's study of the federal government's surveillance program operated pursuant to Section 702 of the Foreign Intelligence Surveillance Act, 50 U.S.C. § 1881a. The Board will evaluate both legal and policy issues concerning operation of the program, and consider recommendations to ensure that U.S. government counterterrorism efforts properly balance the need to protect privacy and civil liberties. Please visit the PCLOB Web site [www.pclob.gov](http://www.pclob.gov) for the full agenda closer to the hearing date.

### Procedures for Public Observation

The meeting is open to the public. Pre-registration is not required. Individuals who plan to attend and require special assistance should contact Ms. Susan Reingold, Chief Management Officer, at 202-331-1986, at least 72 hours prior to the meeting date.

Dated: March 4, 2014.

**Peter Winn,**

*Acting General Counsel, Privacy and Civil Liberties Oversight Board.*

[FR Doc. 2014-05047 Filed 3-7-14; 8:45 am]

**BILLING CODE 3820-B3-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-71640; File No. SR-MIAX-2014-09]

### Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change to Adopt the MIAx Price Improvement Mechanism

March 4, 2014.

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 February 18, 2014, Miami International Securities Exchange LLC ("MIAX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit

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

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

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 adopt Rule 515A to provide for a price improvement auction and a solicited order mechanism.

The text of the proposed rule change is available on the Exchange's Web site at [http://www.miaxoptions.com/filter/wotitle/rule\\_filing](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 Rule 515A and associated Interpretations and Policies to provide for a price improvement auction and a solicited order mechanism on the Exchange. In particular, the Exchange proposes to adopt the MIAX Price Improvement Mechanism ("PRIME") to provide a method for market participants to effect orders in a price improvement auction. The proposed rules are similar to the rules of other exchanges that have price improvement auction mechanisms.<sup>3</sup> The Exchange believes that the similarity of its proposed price improvement rules to those of other exchanges will allow the Exchange's proposed price improvement functionality to fit seamlessly into the greater options market place and benefit market participants who are already familiar with similar functionality offered on other exchanges.

#### **PRIME Price Improvement Auction**

PRIME is a process by which a Member may electronically submit for

execution ("Auction") an order it represents as agent ("Agency Order"), and/or an Agency Order against solicited interest. 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;<sup>4</sup> (ii) if the Agency Order is for 50 standard option contracts or 500 mini-option contracts or more, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO<sup>5</sup> or the Agency Order's limit price (if the order is a limit order);<sup>6</sup> and (iii) if the Agency Order is for less than 50 standard option contracts or 500 mini-option contracts, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at the better of (A) the NBBO price improved by a \$0.01 increment; or (B) the Agency Order's limit price (if the order is a limit order).<sup>7</sup> Since the Initiating Member is stopping the entire Agency Order at the NBBO price or better at the beginning of the Auction, the Auction execution at the conclusion of the Auction will qualify as an exception to the general prohibition against Trade-Throughs, pursuant to Rule 1401(b)(9).<sup>8</sup> The

<sup>4</sup> See Proposed Rule 515A(a)(1)(i). See also CBOE Rule 6.74A(a)(1).

<sup>5</sup> See Rule 100. 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.

<sup>6</sup> See Proposed Rule 515A(a)(1)(ii). See also CBOE Rule 6.74A(a)(2). The Exchange notes that nothing in this Rule prevents an Initiating Member from choosing to stop an Agency Order better than that NBBO or the Agency Order's limit price for orders for 50 standard option contracts or 500 mini-option contracts or more. An Initiating Member may choose to stop an Agency Order better than these minimum requirements, thus guaranteeing further price improvement to the Agency Order if such Initiating Member chooses by simply designating a more aggressive price upon submission for either a single price submission or an auto-match.

<sup>7</sup> See Proposed Rule 515A(a)(1)(iii). See also CBOE Rule 6.74A(a)(3). The Exchange notes that nothing in this Rule prevents an Initiating Member from choosing to stop an Agency Order better than that NBBO improved by a \$0.01 or the Agency Order's limit price for orders for 50 standard option contracts or 500 mini-option contracts or more. An Initiating Member may choose to stop an Agency Order better than these minimum requirements, thus guaranteeing further price improvement to the Agency Order if such Initiating Member chooses by simply designating a more aggressive price upon submission for either a single price submission or an auto-match.

<sup>8</sup> See Rule 1401(b)(9) (providing an exception from Trade-Through liability in the circumstance when a transaction that constituted the Trade-Through was the execution of an order that was stopped at a price that did not Trade-Through an Eligible Exchange at the time of the stop).

Exchange notes that this is consistent with how the electronic price improvement auctions of other competing exchanges operate.<sup>9</sup>

To initiate the Auction, the Initiating Member must mark the Agency Order for Auction processing, and specify (i) a single price at which it seeks to cross the Agency Order (with principal interest and/or a solicited order) (a "single-price submission"), including whether the Initiating Member elects to have last priority in allocation, or (ii) that it is willing to automatically match ("auto-match") as principal the price and size of all Auction responses up to an optional designated limit price in which case the Agency Order will be stopped at the better of the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater), \$0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts), or the Agency Order's limit price.<sup>10</sup> For both single price submissions and auto-match, if the MBBO on the same side of the market as the Agency Order represents a limit order on the Book, the stop price must be at least \$0.01 increment better than the booked order's limit price.<sup>11</sup> For both a single price submission and auto-match, the stopped price specified by the Initiating Member on the Agency Order shall be the "initiating price" for the Auction.<sup>12</sup> Thus for single price submissions, the initiating price will be the stop price which is the limit price of the single price submission. For Agency Orders where no limit price is designated (market orders), the initiating price will be the stop price which is at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or \$0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). For auto-match submissions with a designated limit price, the initiating price will be the

<sup>9</sup> See, e.g., CBOE Rule 6.74A; ISE Rule 723.

<sup>10</sup> See Proposed Rule 515A(a)(2)(i)(A). See also CBOE Rule 6.74A(b)(1)(A). As noted above, an Initiating Member may choose to stop an Agency Order better than the minimum requirements, thus guaranteeing further price improvement to the Agency Order if such Initiating Member chooses by simply designating a more aggressive price upon submission for either a single price submission or an auto-match.

<sup>11</sup> See Proposed Rule 515A(a)(2)(i)(A). The corresponding CBOE provision is silent regarding this situation. See CBOE Rule 6.74A(b)(1)(A). The Exchange proposes adding this provision to enable the PRIME to work seamlessly with the Exchange's Book in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange. See also NASDAQ OMX PHLX Rule 1080(n)(ii)(A)(1).

<sup>12</sup> See Proposed Rule 515A(a)(2)(i)(A).

<sup>3</sup> See CBOE Rules 6.74A and 6.74B; ISE Rule 723.

stop price which is the limit price designated on the Agency Order. For auto-match submissions where no limit price is designated (market orders), the initiating price will be the stop price at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or \$0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts).<sup>13</sup> Once the Initiating Member has submitted an Agency Order for processing pursuant to proposed Rule 515A(a)(2)(i)(A), such submission may not be modified or cancelled.<sup>14</sup> Only one Auction may be ongoing at any given time in an option and Auctions in the same option may not queue or overlap in any manner.<sup>15</sup> The Exchange believes that these options afford the Initiating Member flexibility and control over the prices at which it would be willing to guarantee an Agency Order. The following examples show the options afforded to Initiating Members to specify.

#### *Example 1—Single Price Submission*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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 <sup>16</sup> of \$1.20 (Auction Starts)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 5 at \$1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at \$1.18

<sup>13</sup> See Proposed Rule 515A(a)(2)(i)(A). See also CBOE Rule 6.74A(b)(1)(A).

<sup>14</sup> See Proposed Rule 515A(a)(2)(i)(A). See also CBOE Rule 6.74A(b)(1)(A).

<sup>15</sup> See Proposed Rule 515A(a)(2). See also CBOE Rule 6.74A(b).

<sup>16</sup> The "initiating price" is the stop price of the Agency Order. Thus for single price submissions, the initiating price will be the stop price which is the limit price of the single price submission. For Agency Orders where no limit price is designated (market orders), the initiating price will be the stop price which is at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or \$0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). For auto-match submissions with a designated limit price, the initiating price will be the stop price which is the limit price designated on the Agency Order. For auto-match submissions where no limit price is designated (market orders), the initiating price will be the stop price at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or \$0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). See Proposed Rule 515A(a)(2)(i)(A). See also CBOE Rule 6.74A(b)(1)(A).

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

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

1. 5 contracts trade with MM1 @ \$1.17
2. 10 contracts trade with MM4 @ \$1.18
3. 20 contracts trade with the Initiating Member's Contra Order @ \$1.20 (This satisfies their 40% participation guarantee)
4. 15 contracts trade with MM3 @ \$1.20 (This fills the entire Agency Order)

#### *Example 2—Single Price Submission*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Agency Order to buy 100 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 100 contracts with a single stop price of \$1.20

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

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

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

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

#### *Example 3—Single Price Submission, Less Than 50 Contracts*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Agency Order to buy 30 contracts with a limit price of \$1.20

Initiating Member's Contra Order selling 30 contracts with a single stop price of \$1.20

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

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

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

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

#### *Example 4—Single Price Submission, Initiating Member Elects Last Priority in Allocation*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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, electing last priority in allocation

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

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 5 at \$1.17
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at \$1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 40 at \$1.20
- 500 milliseconds (Auction Ends)

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

1. 5 contracts trade with MM1 @ \$1.17
2. 10 contracts trade with MM4 @ \$1.18
3. 35 contracts trade with MM3 @ \$1.20 (This fills the entire Agency Order and the Contra Order does not receive an execution)

#### *Example 5—Auto-Match*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Agency Order to buy 50 contracts with a limit price of \$1.24

Initiating Member's Contra Order selling 50 contracts auto-match

RFR sent identifying the option, side and size, with initiating price of \$1.24 (Auction Starts)

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

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

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

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

*Example 6—Auto-Match, Agency Order Entered Without a Limit Price*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Agency Order to buy 50 contracts without a limit price

Initiating Member's Contra Order selling 50 contracts auto-match

RFR sent identifying the option, side and size, with initiating price of \$1.25 (Auction Starts)

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

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

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

*Example 7—Auto-Match, Agency Order Entered Without a Limit Price, Less Than 50 Contracts*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Agency Order to buy 50 contracts without a limit price

Initiating Member's Contra Order selling 30 contracts auto-match

RFR sent identifying the option, side and size, with initiating price of \$1.24 (Auction Starts)

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

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

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

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.<sup>17</sup> The Exchange believes that including this level of detail in each RFR may lead to better prices for the Agency Order. The RFR will last for 500 milliseconds.<sup>18</sup> The Exchange believes that the 500 millisecond duration of the RFR would provide Members with sufficient time to submit RFR responses and would encourage competition among participants, thereby enhancing the potential for price improvement for the Agency Order.<sup>19</sup> Members may submit responses to the RFR (specifying prices and sizes). RFR responses shall be an Auction or Cancel ("AOC") order or an AOC eQuote.<sup>20</sup> Such responses

<sup>17</sup> See Proposed Rule 515A(a)(2)(i)(B). The Exchange will include the RFR from the auction mechanisms in the Exchange's data feeds at no incremental cost to subscribers. Thus, any subscriber that chooses to receive options data, including any Member subscriber, has the ability to respond to those RFRs. The proposed RFR differs from CBOE which only disseminates side and size to Trading Permit Holders that have elected to receive RFRs. See CBOE Rule 6.74A(b)(1)(B).

<sup>18</sup> See Proposed Rule 515A(a)(2)(i)(C). The RFR response time during price improvement auctions varies from exchange to exchange. While the BOX Options RFR response period is as short as 100 milliseconds, the CBOE RFR response period lasts for one second and the ISE exposure time lasts for 500 milliseconds. See CBOE Rule 6.74A(b)(1)(C); ISE Rule 723(c)(1); BOX Options Rule 7150(f)(1).

<sup>19</sup> In February 2014, to determine whether the proposed duration of the RFR would provide sufficient time to enter a RFR response, the Exchange asked Members, including Market Makers, whether their firms "could respond to an Auction with a duration of 500 milliseconds." Of the 8 Members that responded to the question, 100% indicated that their firm could respond in this time frame. Thus, the Exchange believes that the proposed duration for the RFR of 500 milliseconds, would provide a meaningful opportunity for participants on MIAX to respond to a RFR while at the same time facilitating the prompt execution of orders.

<sup>20</sup> See Proposed Rule 515A(a)(2)(i)(D). An "AOC order" is a limit order used to provide liquidity during a specific Exchange process (such as the Opening Imbalance process described in Rule 503) with a time in force that corresponds with that event. AOC orders are not displayed to any market

cannot cross the disseminated MBBO<sup>21</sup> on the opposite side of the market from the response.<sup>22</sup> RFR responses shall not be visible to other Auction participants, and shall not be disseminated to OPRA.<sup>23</sup> The minimum price increment for RFR responses and for the Initiating Member's submission shall be \$0.01 increment, regardless if the class trades in another price increment.<sup>24</sup> An RFR response with a size greater than the size of the Agency Order will be capped at the size of the Agency Order for

participant, are not included in the MBBO and therefore are not eligible for trading outside of the event, may not be routed, and may not trade at a price inferior to the away markets. See Rule 516(b)(4). An "AOC eQuote" is a quote submitted by a Market Maker to provide liquidity in a specific Exchange process (such as the Opening Imbalance Process described in Rule 503) with a time in force that corresponds with the duration of that event and will automatically expire at the end of that event. AOC 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. An AOC eQuote does not automatically cancel or replace the Market Maker's previous Standard quote or eQuote. See Rule 517(a)(2)(ii). The Exchange notes that any orders or quotes received by the System during the Auction that are not AOC orders or AOC eQuotes will be treated as unrelated trading interest. In addition, the Exchange notes that an AOC order or an AOC eQuote could trade at a price inferior to the away market if it is a part of an exempt transaction. See Rule 1402.

AOC orders are available to all market participants on MIAX; thus enabling all market participants with the ability to participate in the PRIME. As mentioned below, in contrast to CBOE which limits responses to only market makers assigned to the relevant options class, any MIAX Member may respond to the RFR in the PRIME. See CBOE Rule 6.74A(b)(1)(D). In addition, the Exchange does not propose to limit responses to Members acting as agent to orders resting at the top of the Exchange's Book opposite the Agency Order like CBOE. Instead, any MIAX Member acting as agent for orders may respond to the RFR in the PRIME. See Proposed Rule 515A(a)(2)(i)(D). See CBOE Rule 6.74A(b)(1)(E).

<sup>21</sup> The term "MBBO" means the best bid or offer on the Exchange. See Rule 100.

<sup>22</sup> See Proposed Rule 515A(a)(2)(i)(D). In contrast to CBOE which limits responses to only market makers assigned to the relevant options class, any MIAX Member may respond to the RFR in the PRIME. See also CBOE Rule 6.74A(b)(1)(D). In addition, the Exchange does not propose to limit responses to Members acting as agent to orders resting at the top of the Exchange's Book opposite the Agency Order like CBOE. Instead, any MIAX Member acting as agent for orders may respond to the RFR in the PRIME. See Proposed Rule 515A(a)(2)(i). See CBOE Rule 6.74A(b)(1)(E).

<sup>23</sup> See Proposed Rule 515A(a)(2)(i)(E). In contrast to CBOE which is silent on the pricing increment that is available for non-single price submissions, the Exchange proposes that the Initiating Member's submission whether single price or auto-match shall have a minimum price increment of \$0.01. See also CBOE Rule 6.74A(b)(1)(F).

<sup>24</sup> See Proposed Rule 515A(a)(2)(i)(F). See also CBOE Rule 6.74A(b)(1)(G).

allocation purposes.<sup>25</sup> RFR responses may be cancelled.<sup>26</sup>

The PRIME Auction is designed to work seamlessly with the Exchange's Book and is designed to maintain priority of all resting quotes and orders and any RFR responses received before the conclusion of the Auction. The PRIME will conclude early, before the end of the RFR period, as a result of certain events that would otherwise disrupt the priority of the Auction within the Book. The Exchange notes that this is consistent with how the electronic price improvement auctions of other competing exchanges operate.<sup>27</sup> Specifically, the Auction shall conclude at the sooner of the following: (i) The end of the RFR period; (ii) upon receipt by the System of an unrelated order (in the same option as the Agency Order) on the same side or opposite side of the market from the RFR responses, that is marketable against either the MBBO (when such quote is the NBBO) or the RFR responses; (iii) upon receipt by the System of an unrelated limit order (in the same option as the Agency Order and on the opposite side of the market from the Agency Order) that improves any RFR response; (iv) any time an RFR response matches the MBBO on the opposite side of the market from the RFR responses; (v) any time there is a quote lock in the subject option on the Exchange pursuant to Rule 1402; or (vi) any time there is a trading halt in the option on the Exchange.<sup>28</sup>

#### *Priority and Allocation of Orders and Quotes*

The priority of allocation at the conclusion of a PRIME Auction,

<sup>25</sup> See Proposed Rule 515A(a)(2)(i)(G). In contrast to CBOE which limits responses to only the size of the Agency Order, responses that exceed the size of the Agency Order will be treated as if they were the same size as the Agency Order for purposes of the Auction. See CBOE Rule 6.74A(b)(1)(H). RFR response sizes are capped at the same size of the Agency Order in order to prevent manipulation and gaming of the pro rata allocation within each origin type and price point. See Proposed Rules 515A(2)(iii)(C),(D). The Exchange notes that unrelated trading interest including unrelated orders, quotes, or orders on the Exchange's Book will not be subject to such a cap, since they are not considered responses to the Auction. The Exchange believes that this will help enable the Auction to work seamlessly with the Exchange's Book, by maintaining priority of all resting quotes and orders and any RFR responses received before the conclusion of the Auction while preventing the gaming of pro rata allocations by RFR responses. The Exchange notes that this is consistent with how the electronic price improvement auctions of other competing exchanges operate. See CBOE Rule 6.74A.

<sup>26</sup> See Proposed Rule 515A(a)(2)(i)(H). See also CBOE Rule 6.74A(b)(1)(I).

<sup>27</sup> See CBOE Rule 6.74A(b)(2); ISE Rule 723(c)(5).

<sup>28</sup> See Proposed Rule 515A(a)(2)(ii). See also CBOE Rule 6.74A(b)(2).

described below, will be similar to the standard allocation of orders and quotes on MIAX. Current MIAX Rule 514 provides the priority of allocation of order and quotes on the Exchange. Under the pro-rata allocation method, resting quotes and orders on the Book are prioritized according to price. 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) within each origin type. If the executed quantity cannot be evenly allocated, the remaining contracts will be distributed one at a time based upon size-time priority.<sup>29</sup> 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 at the same price, priority shall be afforded to such Priority Customer Orders in the sequence in which they are received by the System.<sup>30</sup> 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<sup>31</sup>, which have not received a participation entitlement, and have precedence over Professional Interest.<sup>32</sup> If after all Market Maker priority quotes have been filled in accordance with Rule 514(d)(1) and there remains interest at the NBBO, executions will be allocated to all Professional Interest at that price.

<sup>29</sup> See Exchange Rule 514(c)(2).

<sup>30</sup> See Exchange Rule 514(d)(1). 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). See Exchange Rule 100.

<sup>31</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 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 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)(1)(i).

<sup>32</sup> See Exchange Rule 514(e)(1).

Professional Interest is defined in Rule 100 and includes among other interest, Market Maker non-priority quotes (as described in Rule 517(b)(1)(ii)) and Market Maker orders in both assigned and non-assigned classes.<sup>33</sup>

PRIME is designed to work seamlessly with the Exchange's Book in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange. The priority of allocation at the conclusion of a PRIME Auction will be similar to the standard allocation of orders and quotes on MIAX.<sup>34</sup> At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) pursuant to the matching algorithm in effect for the class subject to the following:

- Such best prices include non-Auction quotes and orders.<sup>35</sup>
- Priority Customer orders resting on the Book before, or that are received during, the Response Time Interval and Priority Customer RFR 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 the sequence in which they are received by the System.<sup>36</sup>
- Market Maker priority quotes and RFR responses from Market Makers with priority quotes will collectively have second priority. The allocation of

<sup>33</sup> See Exchange Rule 514(e)(2). Specifically, 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>34</sup> In this regard, the proposed Rule 515A(a)(2)(iii) differs from CBOE Rule 6.74A(b)(3) which gives priority to public customers but also restricts participation in the auction to market makers appointed in the relevant option class. Since participation in the PRIME extends to all Members on MIAX, the Exchange believes that the existing priority rules that distinguish between Priority Customers, Market Makers with priority quotes, and Professional Interest is the best method to ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange.

<sup>35</sup> See Proposed Rule 515A(a)(2)(iii)(A). See also CBOE Rule 6.74A(b)(3)(A).

<sup>36</sup> See Proposed Rule 515A(a)(2)(iii)(B). The Exchange notes that the priority allocation in PRIME is consistent with the standard priority rules for Priority Customers in Rule 514(d)(1). In contrast to CBOE that extends priority to only public customers in the book, the Exchange gives priority to Priority Customer orders whether they were on the Book or received during the Response Time Interval. See CBOE Rule 6.74A(b)(3)(B).

Agency Orders against these contra sided quotes and RFR responses shall be on a size pro rata basis as defined in Rule 514(c)(2).<sup>37</sup>

- Professional Interest 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.<sup>38</sup> 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>39</sup>

- No participation entitlement shall apply to orders executed pursuant to this Rule.<sup>40</sup>

- If an unrelated market or marketable limit order on the opposite side of the market as the Agency Order was received during the Auction and ended the Auction, such unrelated order shall trade against the Agency Order at the midpoint of the best RFR response (or in the absence of a RFR response, the initiating price<sup>41</sup>) and the NBBO on the other side of the market from the RFR responses (rounded towards the disseminated quote when necessary).<sup>42</sup>

- If an unrelated non-marketable limit order on the opposite side of the market as the Agency Order was received during the Auction and ended the

Auction, such unrelated order shall trade against the Agency Order at the midpoint of the best RFR response and the unrelated order's limit price (rounded towards the unrelated order's limit price when necessary).<sup>43</sup>

- Notwithstanding proposed Rule 515A(a)(2)(iii)(C), (D), if the best price equals the Initiating Member's single-price submission, the Initiating Member's single-price submission shall be allocated the greater of one contract or a certain percentage of the order, which percentage will be determined by the Exchange and may not be larger than 40%. However, if only one Member's response matches the Initiating Member's single price submission then the Initiating Member may be allocated up to 50% of the order.<sup>44</sup>

- Notwithstanding proposed Rule 515A(a)(2)(iii)(C), (D), if the Initiating Member selected the auto-match option of the Auction, the Initiating Member shall be allocated its full size of RFR responses at each price point up to the designated limit price or until a price point is reached where the balance of the order can be fully executed.<sup>45</sup> At such price point, the Initiating Member shall be allocated the greater of one contract or a certain percentage of the remainder of the order, which percentage will be determined by the Exchange and may not be larger than 40%.<sup>46</sup>

<sup>37</sup> See Proposed Rule 515A(a)(2)(iii)(C).

<sup>38</sup> See Exchange Rule 514(e)(2). Specifically, 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>39</sup> See Proposed Rule 515A(a)(2)(iii)(D).

<sup>40</sup> See Proposed Rule 515A(a)(2)(iii)(E). See also CBOE Rule 6.74A(b)(3)(C).

<sup>41</sup> As mentioned above, the "initiating price" is the stop price of the Agency Order. Thus for single price submissions, the initiating price will be the stop price which is the limit price of the single price submission. For Agency Orders where no limit price is designated (market orders), the initiating price will be the stop price which is at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or \$0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). For auto-match submissions with a designated limit price, the initiating price will be the stop price which is the limit price designated on the Agency Order. For auto-match submissions where no limit price is designated (market orders), the initiating price will be the stop price at the NBBO (if 50 standard option contracts or 500 mini-option contracts or greater) or \$0.01 increment better than the NBBO (if less than 50 standard option contracts or 500 mini-option contracts). See Proposed Rule 515A(a)(2)(i)(A). See also CBOE Rule 6.74A(b)(1)(A).

<sup>42</sup> See Proposed Rule 515A(a)(2)(iii)(F). The proposed treatment of the unrelated market or marketable limit order on the opposite side differs from CBOE, in that CBOE's rule does not contemplate pricing at the midpoint when there is no RFR response. The Exchange believes that in the absence of a RFR response, using the initiating price in this scenario is appropriate and helps facilitate an execution at an improved price for the Agency Order. See CBOE Rule 6.74A(b)(3)(D).

<sup>43</sup> See Proposed Rule 515A(a)(2)(iii)(G). An unrelated non-marketable limit order on the opposite side of the market as the Agency Order would end the Auction in the situation when that unrelated non-marketable limit order improves any RFR response. Thus, in contrast to the situation of an unrelated market or marketable limit order, the proposed treatment of an unrelated non-marketable limit order on the opposite side will be identical to CBOE since there will be a RFR response present to calculate the midpoint from when the Auction ends. See also CBOE Rule 6.74A(b)(3)(E).

<sup>44</sup> See Proposed Rule 515A(a)(2)(iii)(H). In contrast to CBOE which is silent on the priority of allocation at a price point between the Initiating Member's guaranteed allocation and other interest, the Exchange proposes additional language to clarify that the priority of the Initiating Member's guaranteed allocation is after Priority Customer interest. See also CBOE Rule 6.74A(b)(3)(F).

<sup>45</sup> The Exchange notes that the auto-match functionality will only allocate the full size of RFR responses (AOC orders and AOC eQuotes). See Proposed Rule 515A(a)(2)(iii)(I). In contrast to CBOE which is silent on the priority of allocation at a price point between the Initiating Member's guarantee and other interest, the Exchange proposes additional language to clarify that the priority of the Initiating Member's guaranteed allocation is after Priority Customer interest. See also CBOE Rule 6.74A(b)(3)(G). As noted above, any orders or quotes received by the System during the Auction that are not AOC orders or AOC eQuotes will be treated as unrelated trading interest; the auto-match functionality will not allocate against such unrelated trading interest. See Proposed Rule 515A(a)(2)(i)(D).

<sup>46</sup> See Proposed Rule 515A(a)(2)(iii)(I). In contrast to CBOE which is silent regarding the allocation of

- Notwithstanding proposed Rule 515A(a)(2)(iii)(C), (D), 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.<sup>47</sup> Any unexecuted balance on the Agency Order shall be allocated to RFR responses provided that those RFR responses will be capped to the size of the original order and that the Initiating Member may not participate on any such balance unless the Agency Order would otherwise go unfilled.<sup>48</sup>

- If the final Auction price locks a Priority Customer order on the Book on the same side of the market as the Agency Order, then, unless there is sufficient size in the Auction responses to execute both the Agency Order and the booked Priority Customer order (in which case they will both execute at the final Auction price), the Agency Order will execute against the RFR responses at \$0.01 increment worse than the final Auction price (towards the opposite side of the Agency Order) against the Auction participants that submitted the final Auction price and any balance shall trade against the Priority Customer order in the Book at such order's limit price.<sup>49</sup>

- If the Initiating Member elected to have last priority in allocation when

the Initiating Member's auto-match when there is a designated limit price, the Exchange proposes additional language to clarify that the Initiating Member shall be allocated its full size of RFR responses at each price point up to the designated limit price or until a price point is reached where the balance of the order can be fully executed. See also CBOE Rule 6.74A(b)(3)(G).

<sup>47</sup> The Exchange notes that the priority of such resting unchanged quotes or orders that were disseminated at the best price before the Auction began will still be subject to the standard priority allocation in effect pursuant to Rule 514.

In contrast to CBOE which is silent on the priority of allocation at a price point between the Initiating Member's guarantee and other interest, the Exchange proposes additional language to clarify that the priority of the Initiating Member's guaranteed allocation is after Priority Customer interest. See Proposed Rule 515A(a)(2)(iii)(J). See also CBOE Rule 6.74A(b)(3)(H).

<sup>48</sup> See Proposed Rule 515A(a)(2)(iii)(J). This provision differs slightly from CBOE which caps RFR responses to the size of the unexecuted balance of the Agency Order when allocating any unexecuted balance on the Agency Order. See CBOE Rule 6.74A(b)(3)(H).

<sup>49</sup> See Proposed Rule 515A(a)(2)(iii)(K). The Exchange proposes additional language not in the CBOE rule to clarify that an execution price in this situation that is \$0.01 increment worse than the final Auction price means the final Auction price adjusted by \$0.01 increment towards the opposite side of the Agency Order. See also CBOE Rule 6.74A(b)(3)(I).

submitting an Agency Order to initiate an Auction against a single-price submission, the Initiating Member will be allocated only the amount of contracts remaining, if any, after the Agency Order is allocated to all other responses at the single price specified by the Initiating Member.<sup>50</sup>

- If an unexecuted balance remains on the Auction responses after the Agency Order has been executed and such balance could trade against any unrelated order(s) that caused the Auction to conclude, then the RFR balance will trade against the unrelated order(s) on a size pro rata basis as defined in Rule 514(c)(2).<sup>51</sup>

The following examples show how allocations will be allocated at the conclusion of the Prime Auction.<sup>52</sup>

*Example 8—Single Price Submission, Priority Customer Has Priority*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 10 at \$1.18
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at \$1.18
- @ 450 milliseconds Priority Customer response received, AOC order to Sell 40 at \$1.18
- 500 milliseconds (Auction Ends)

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

1. 40 contracts trade with Priority Customer @ \$1.18
2. 5 contracts trade with MM1 @ \$1.18
3. 5 contracts trade with MM4 @ \$1.18 (This fills the entire Agency Order and Contra Order does not receive an execution)

<sup>50</sup> See Proposed Rule 515A(a)(2)(iii)(L). See also CBOE Rule 6.74A(b)(3)(J).

<sup>51</sup> See Proposed Rule 515A(a)(2)(iii)(M). In contrast to CBOE which is silent regarding the basis for allocation of an unrelated order(s) against the RFR balance in this situation, the Exchange proposes additional language to clarify that such RFR balance will trade against the unrelated order(s) on a size pro rata basis as defined in Rule 514(c)(2). See also CBOE Rule 6.74A(b)(3).

<sup>52</sup> 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.

*Example 9—Single Price Submission, Priority Customer Has Priority and Only One Response Matches the Initiating Member at the Best Price*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 50 at \$1.20
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at \$1.22
- @ 450 milliseconds Priority Customer response received, AOC order to Sell 40 at \$1.22
- 500 milliseconds (Auction Ends)

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

1. 25 contracts trade with MM1 @ \$1.20
2. 25 contracts trade with the Contra Order @ \$1.20 (This fills the entire Agency Order and this satisfies their 50% of the order size when matching one other member participation guarantee)

*Example 10—Single Price Submission, Market Maker With Priority Quotes Has Priority*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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)

- @ 110 milliseconds MM1 non-priority response received, AOC eQuote to Sell 10 at \$1.18
- @ 230 milliseconds MM4 non-priority response received, AOC eQuote to Sell 10 at \$1.18
- @ 450 milliseconds MM3 with priority quotes response received, AOC eQuote to Sell 40 at \$1.18
- 500 milliseconds (Auction Ends)

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

1. 40 contracts trade with MM3 @ \$1.18
2. 5 contracts trade with MM1 @ \$1.18
3. 5 contracts trade with MM4 @ \$1.18 (This fills the entire Agency Order and Contra Order does not receive an execution)

*Example 11—Single Price Submission, Market Maker With Priority Quotes Has Priority*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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)

- @ 110 milliseconds MM1 non-priority response received, AOC eQuote to Sell 10 at \$1.18
- @ 230 milliseconds BD4 response received, AOC order to Sell 10 at \$1.18
- @ 450 milliseconds MM3 with priority quotes response received, AOC eQuote to Sell 40 at \$1.18
- 500 milliseconds (Auction Ends)

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

1. 40 contracts trade with MM3 @ \$1.18
2. 5 contracts trade with MM1 @ \$1.18
3. 5 contracts trade with BD4 @ \$1.18 (This fills the entire Agency Order and Contra Order does not receive an execution)

*Example 12—Auto-Match, Market Maker With Priority Quotes Has Priority*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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

Initiating Member's Contra Order selling 50 contracts auto-match

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

- @ 110 milliseconds MM1 non-priority response received, AOC eQuote to Sell 10 at \$1.18
- @ 230 milliseconds MM4 non-priority response received, AOC eQuote to Sell 10 at \$1.18
- @ 450 milliseconds MM3 with priority quotes response received, AOC eQuote to Sell 40 at \$1.18
- 500 milliseconds (Auction Ends)

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

1. 30 contracts trade with MM3 @ \$1.18
2. 20 contracts trade with the Contra Order @ \$1.18 (This fills the entire Agency Order and this satisfies their 40% participation guarantee)

*Example 13—Auto-Match, Market Maker With Priority Quotes Has Priority*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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

Initiating Member's Contra Order selling 50 contracts auto-match

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

- @ 110 milliseconds MM1 non-priority response received, AOC eQuote to Sell 10 at \$1.18



- @ 230 milliseconds BD4 response received, AOC order to Sell 10 at \$1.18
- @ 450 milliseconds MM3 with priority quotes response received, AOC eQuote to Sell 40 at \$1.18
- 500 milliseconds (Auction Ends)  
Under this scenario the Agency Order would be executed as follows:
  1. 30 contracts trade with MM3 @ \$1.18
  2. 20 contracts trade with the Contra Order @ \$1.18 (This fills the entire Agency Order and this satisfies their 40% participation guarantee)

*Example 14—Single Price Submission, Priority Customer Order on the Book on the Same Side Locks the Final Auction Price*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Priority Customer order on the Book to Buy 75 at \$1.15

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)

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 10 at \$1.22
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.15 (response matches the opposite MBBO causes the Auction to conclude early)  
Under this scenario the Agency Order would be executed as follows:
  1. 50 contracts trade with MM4 @ \$1.16 (This fills the entire Agency Order and Contra Order does not receive an execution)

*Example 15—Auto-Match, Priority Customer Order on the Book on the Same Side Locks the Final Auction Price*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Priority Customer order on the Book to Buy 75 at \$1.15

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

Initiating Member's Contra Order selling 50 contracts auto-match

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

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 10 at \$1.22
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.15 (response matches the opposite MBBO causes the Auction to conclude early)

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

1. 30 contracts trade with MM4 @ \$1.16
2. 20 contracts trade with the Contra Order @ \$1.16 (This fills the entire Agency Order and this satisfies their 40% participation guarantee)
3. Priority Customer order to buy 75 at \$1.15 then executes as follows:
  - a. 20 contracts trade with MM4 @ \$1.15
  - b. Remaining contracts post to the Book as the new BB paying \$1.15 for 55 contracts

In Examples 14 and 15, since both the Agency Order and the Priority Customer order could not both be executed against the RFR responses due to insufficient size, the Agency Order executed against the RFR response at \$0.01 increment worse than the final Auction price with the remaining balance of responses trading against the Priority Customer order in the Book at such order's limit price.<sup>53</sup> In Example 15, there is sufficient balance remaining of the RFR response to partially trade at the Priority Customer's limit price. However, in Example 14, there is not any remaining balance of RFR responses that can trade against the Priority Customer order.

*Example 16—Auto-Match, Priority Customer Order on the Book on the Same Side Locks the Final Auction Price*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

Priority Customer order to Buy 20 at \$1.15

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

Initiating Member's Contra Order selling 50 contracts auto-match

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

- @ 110 milliseconds MM1 response received, AOC eQuote to Sell 50 at \$1.15 (response matches the opposite MBBO causes the Auction to conclude early)

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

1. 30 contracts trade with MM1 @ \$1.15
2. 20 contracts trade with the Contra Order @ \$1.15 (This fills the entire Agency Order and this satisfies their 40% participation guarantee)
3. Priority Customer order to buy 20 at \$1.15 then executes as follows:
  - a. 20 contracts trade with MM1 @ \$1.15

In Example 16, since there is sufficient size in the RFR responses to execute both the Agency Order and the Priority Customer order, both execute at the final Auction price.<sup>54</sup>

<sup>53</sup> See Proposed Rule 515A(a)(2)(iii)(K). See also CBOE Rule 6.74A(b)(3)(I).

<sup>54</sup> See *id.*

As mentioned above and shown in Examples 8–16, the priority of allocation at the conclusion of a PRIME Auction will be similar to the standard allocation of orders and quotes on MIAx.<sup>55</sup> At each price point, orders and quotes will be given priority by type—Priority Customer, Market Maker with priority quotes, and then to Professional Interest. The Exchange believes that this design is necessary to ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange. In addition, by keeping the priority of allocation of the PRIME similar in this way to the standard allocation, there is a reduced ability to misuse the Auction to circumvent the standard priority rules.

As noted earlier, the PRIME Auction is integrated seamlessly within the Exchange's Book and is designed to maintain priority of all resting quotes and orders and any RFR responses received before the conclusion of the Auction. A PRIME Auction would conclude early as a result of certain events that would otherwise disrupt the priority of the Auction within the Book. The Exchange notes that this is consistent with how the electronic price improvement auctions of other competing exchanges operate.<sup>56</sup> The following examples show how allocations will be allocated due to the early conclusion of the Prime Auction before the expiration of the RFR timer.<sup>57</sup>

*Example 17—Early Conclusion of Auction, Opposite Side Limit Order Marketable Against NBBO at the Time of Arrival*

NBBO = \$1.20–\$1.24 200 × 100

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy 50 contracts with a limit of \$1.24

<sup>55</sup> In simple terms, the allocation of orders and quotes at the conclusion of a PRIME Auction will be in priority ranked by price/origin type/pro-rata/time which is that standard allocation of orders and quotes on MIAx when the pro-rata allocation method and the Priority Customer Overlay is in effect. The key differences between the standard allocation and PRIME allocation are that in PRIME: RFR responses are capped at the total size of the Agency order which changes the pro-rata calculation when allocating within the same origin type; no participation entitlement will apply to orders executed in the PRIME; and the Initiating Member's facilitating or solicitation order may receive a participation guarantee at the stop price.

<sup>56</sup> See, e.g., CBOE Rule 6.74A; ISE Rule 723.

<sup>57</sup> See *supra* note 42. As provided above, 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.



Initiating Member's Contra Order selling 50 contracts with a stop price of \$1.24 RFR sent identifying the option, side and size, initiating price of \$1.24 (Auction Starts)

- @ 200 milliseconds MM3 response received, AOC eQuote to Sell 50 at \$1.22
  - @ 210 milliseconds MM1 response received, AOC eQuote to Sell 50 at \$1.22
  - @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.23
  - @ 400 milliseconds BD1 Unrelated Order received Sell 10 at \$1.20 (Opposite-side order marketable against the NBB causes an early conclusion to the Auction)
- Under this scenario, the Agency Order would be executed as follows:

1. 10 contracts trade with the unrelated order for BD1 @ \$1.21 (midpoint of the best RFR response of \$1.22 and the opposite side of the market from the RFR response of \$1.20)
2. 20 contracts trade with MM3 @ \$1.22
3. 20 contracts trade with MM1 @ \$1.24 (This fills the entire Agency Order)
4. MM4 does not trade any contracts
5. Contra Order does not trade any contracts

*Example 18—Early Conclusion of Auction, Opposite Side Non-Marketable Order Received*

NBBO = \$1.20–\$1.24 200 × 100

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy 50 contracts with a limit of \$1.24

Initiating Member's Contra Order selling 50 contracts with a stop price of \$1.24 RFR sent identifying the option, side and size, initiating price of \$1.24 (Auction Starts)

- @ 200 milliseconds MM3 response received, AOC eQuote to Sell 50 at \$1.23
- @ 210 milliseconds MM1 response received, AOC eQuote to Sell 50 at \$1.23
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 50 at \$1.24
- @ 400 milliseconds BD1 Unrelated Order received Sell 10 at \$1.21 (Opposite-side order non-marketable against the NBB causes an early conclusion to the Auction)

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

1. 10 contracts trade with the unrelated order for BD1 @ \$1.22 (midpoint of the best RFR response of \$1.23 and the unrelated order's limit price of \$1.21, rounded towards the unrelated order's limit price when necessary)
2. 20 contracts trade with MM3 @ \$1.23

3. 20 contracts trade with MM1 @ \$1.23 (This fills the entire Agency Order)
4. MM4 does not trade any contracts
5. Contra Order does not trade any contracts

*Example 19—Early Conclusion of Auction, Opposite Side Market Order With Auto-Match and No Responses*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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

Initiating Member's Contra Order selling 50 contracts with Auto-match RFR sent identifying the option, side and size, with initiating price of \$1.20 (Auction Starts)

- @ 490 milliseconds BD1 Unrelated Order received Sell 5 at the market (Opposite-side market order causes an early conclusion to the Auction)

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

1. 5 contracts trade with BD1 @ \$1.17 (midpoint of the initiating price of \$1.20 and the opposite side of the market from the RFR response of \$1.15, rounded towards the disseminated quote when necessary)
2. 45 contracts trade with Contra Order at \$1.20 (the initiating price) (This fills the entire Agency Order)

*Example 20—Early Conclusion of Auction, Opposite Side Market Order With Auto-Match and Responses Before Early Conclusion*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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

Initiating Member's Contra Order selling 50 contracts with Auto-match, RFR sent identifying the option, side and size, with initiating price of \$1.20 (Auction Starts)

- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at \$1.18
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 40 at \$1.20
- @ 490 milliseconds BD1 Unrelated Order received Sell 5 at the market (Opposite-side market order causes an early conclusion to the Auction)

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

1. 5 contracts trade with BD1 @ \$1.16 (midpoint of the best RFR response of \$1.18 and the opposite side of the market from the RFR response of \$1.15, rounded towards the disseminated quote)
2. 10 contracts trade with MM4 @ \$1.18
3. 10 contracts trade with Contra Order @ \$1.18 (Auto-match other response prices)

4. 10 contracts trade with the Contra Order @ \$1.20 (This satisfies their 40% of the remaining contracts participation guarantee)
5. 15 contracts trade with MM3 @ \$1.20 (This fills the entire Agency Order)

*Example 21—Early Conclusion of Auction, Opposite Side Market Order With Single-Price Submission*

NBBO = \$1.15–\$1.25 200 × 200

BBO = \$1.15–\$1.25 100 × 100

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

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

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

- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 10 at \$1.19
- @ 450 milliseconds MM3 response received, AOC eQuote to Sell 40 at \$1.20
- @ 490 milliseconds BD1 Unrelated Order received Sell 5 at the market (Opposite-side market order causes an early conclusion to the Auction)

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

1. 5 contracts trade with BD1 @ \$1.17 (midpoint of the best RFR response of \$1.19 and the opposite side of the market from the RFR response of \$1.15)
2. 10 contracts trade with MM4 @ \$1.19
3. 20 contracts trade with the Contra Order @ \$1.20 (This satisfies their 40% participation guarantee)
4. 15 contracts trade with MM3 @ \$1.20 (This fills the entire Agency Order)

*Example 22—Early Conclusion of Auction, Same Side Market Order*

NBBO = \$1.20–\$1.24 200 × 200

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy 20 contracts for \$1.23

Initiating Member's Contra Order selling 20 contracts with Auto-match

RFR sent, identifying the option, side and size, initiating price of \$1.23 (Auction Starts)

- @ 200 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.23
- @ 210 milliseconds MM1 response received, AOC eQuote to Sell 20 at \$1.22
- @ 230 milliseconds MM4 response received, AOC eQuote to Sell 20 at \$1.22
- @ 250 milliseconds C1 Unrelated Order received Buy 100 at the market (Same-side order marketable against the NBO causes an early conclusion to the Auction)

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

1. 8 contracts trade with the Contra Order @ \$1.22 (This satisfies their 40% participation guarantee)
2. 6 contract trades with MM1 @ \$1.22
3. 6 contract trades with MM4 @ \$1.22 (This fills the entire Agency Order)
4. C1 unrelated order to buy 100 at the market then executes as follows:
  - a. 14 contracts trade with MM1 @ \$1.22
  - b. 14 contracts trade with MM4 @ \$1.22
  - c. 20 contracts trade with MM3 @ \$1.23
  - d. The remaining 52 contracts from C1 unrelated order are handled pursuant to existing Rule 514 (in this case, that means the 52 contracts would trade with the interest comprising the BO, which was offering 100 contracts at \$1.24)

*Example 23—Early Conclusion of Auction, Same Side New BBO Improves Initiating Price*

NBBO = \$1.20–\$1.24 200 × 200

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy 20 contracts with a limit price of \$1.22

Initiating Member's Contra Order selling 20 contracts at \$1.22

RFR sent identifying the option, side and size, with an initiating price of \$1.22 (Auction Starts)

- @ 300 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.22
- @ 310 milliseconds MM1 response received, AOC eQuote to Sell 20 at \$1.22
- @ 430 milliseconds MM4 response received, AOC eQuote to Sell 20 at \$1.22
- @ 450 milliseconds C1 Unrelated Order received Buy 100 at \$1.23 (Same side limit order to buy that improves (i.e., is priced higher than) the Agency Order's initiating price causes the Auction to conclude early)

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

- 8 contracts trade with the Contra Order @ \$1.22 (This satisfies their 40% participation guarantee)
- 4 contracts trades with MM3 @ \$1.22
- 4 contracts trades with MM1 @ \$1.22
- 4 contracts trade with MM4 @ \$1.22 (This fills the entire Agency Order)
- C1 unrelated order then executes as follows:
  - a. 16 contracts trade with MM3 @ \$1.22
  - b. 16 contracts trade with MM1 @ \$1.22
  - c. 16 contracts trade with MM4 @ \$1.22
  - d. Remaining contracts post to the Book as new BB paying \$1.23 for 52 contracts

*Example 24—Early Conclusion of Auction, IOC Marketable Against Either Side of NBBO at Time of Arrival*

NBBO = \$1.20–\$1.24 200 × 200

BBO = \$1.20–\$1.24 100 × 100

Agency Order to buy with a limit price of \$1.22 for 20 contracts

Initiating Member's Contra Order selling 20 contracts at \$1.22

RFR sent identifying the option, side and size, with initiating price of \$1.22 (Auction Starts)

- @ 100 milliseconds MM3 response received, AOC eQuote to Sell 20 at \$1.22
- @ 210 milliseconds MM1 response received, AOC eQuote to Sell 20 at \$1.22
- @ 330 milliseconds MM4 response received, AOC eQuote to Sell 20 at \$1.22
- @ 400 milliseconds C1 Unrelated IOC Order received Buy 100 at \$1.24 (Same side IOC order to buy marketable against the BO causes the Auction to conclude early)

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

1. 8 contracts trade with the Contra Order @ \$1.22 (This satisfies their 40% participation guarantee)
2. 4 contracts trades with MM3 @ \$1.22
3. 4 contracts trades with MM1 @ \$1.22
4. 4 contracts trade with MM4 @ \$1.22 (This fills the entire Agency Order)
5. C1 unrelated IOC order then executes as follows:
  - a. 16 contracts trade with MM3 @ \$1.22
  - b. 16 contracts trade with MM1 @ \$1.22
  - c. 16 contracts trade with MM4 @ \$1.22
  - d. Remaining 52 contracts then executes with the posted market at the Exchange's \$1.24 BO

As described above, the PRIME is designed to work seamlessly with the Exchange's Book and with a priority of allocation that will be similar to the standard allocation of orders and quotes on MIAx. If orders are received by the Exchange during the period when a PRIME Auction is occurring, such orders will be eligible to participate in the auction, subject to the process above. If orders received are not executed in the Auction, the time stamps they received will be used to determine time priority for their execution outside of the auction. The Exchange believes that early conclusion of the Auction in these circumstances will ensure that the Auction interacts seamlessly with the Exchange's Book so as not to disturb the priority of orders on the Book, while affording the PRIME Auction opportunities for price improvement.

*PRIME Solicitation Mechanism*

The Exchange also proposes to provide for a price improvement mechanism to handle solicited orders. A Member that represents agency orders

may electronically execute orders it represents as agent ("Agency Order") against solicited orders provided it submits both the Agency Order and solicited orders for electronic execution into the PRIME Solicitation Mechanism ("Solicitation Auction") pursuant to proposed Rule 515A(b).

A Member (the "Initiating Member") may initiate a Solicitation Auction provided all of the following are met: (i) The Agency Order is in a class designated as eligible for Solicitation Auctions as determined by the Exchange and within the designated Solicitation Auction order eligibility size parameters as such size parameters are determined by the Exchange (however, the eligible order size may not be less than 500 standard option contracts or 5,000 mini-option contracts); (ii) each order entered into the Solicitation Auction shall be designated as all-or-none; and (iii) the minimum price increment for an Initiating Member's single price submission shall be \$0.01 increment.<sup>58</sup>

The Exchange proposes that the PRIME Solicitation Auction will proceed as follows:

- To initiate the Solicitation Auction, the Initiating Member must mark the Agency Order for Solicitation Auction processing, and specify a single price at which it seeks to cross the Agency Order with a solicited order which shall be the "initiating price" for the Solicitation Auction.<sup>59</sup>

• When the Exchange receives a properly designated Agency Order for Solicitation Auction processing, a RFR message indicating the option, side, size, and initiating price<sup>60</sup> will be sent to all subscribers of the Exchange's data feeds.<sup>61</sup>

- Members may submit responses to the Request for Responses (specifying prices and sizes) during the response period (which shall be 500 milliseconds).<sup>62</sup> RFR responses shall be

<sup>58</sup> See Proposed Rule 515A(b)(1). See also CBOE Rule 6.74B(a).

<sup>59</sup> See Proposed Rule 515A(b)(2)(i)(A). See also CBOE Rule 6.74B(b)(1)(A).

<sup>60</sup> The "initiating price" for the PRIME Solicitation Auction is the single price specified by the Initiating Member at which it seeks to cross the Agency Order with a solicited order. See *id.*

<sup>61</sup> See Proposed Rule 515A(b)(2)(i)(B). As mentioned above, the Exchange will include the RFR from the auction mechanisms in the Exchange's data feeds at no incremental cost to subscribers. Thus, any subscriber that chooses to receive options data, including any Member subscriber, has the ability to respond to those RFRs. The proposed RFR differs from CBOE which only disseminates side and size to Trading Permit Holders that have elected to receive RFRs. See also CBOE Rule 6.74B(b)(1)(B).

<sup>62</sup> See Proposed Rule 515A(b)(2)(i)(C). The RFR response time during solicitation auctions varies

an Auction or Cancel (“AOC”) order or an AOC eQuote.<sup>63</sup>

- Responses shall not be visible to other Solicitation Auction participants, and shall not be disseminated to OPRA.<sup>64</sup>

- The minimum price increment for responses shall be the same as provided in 515A(b)(1)(iii) above.<sup>65</sup>

- A response with a size greater than the size of the Agency Order will be capped at the size of the Agency Order.<sup>66</sup>

- RFR responses may be cancelled.<sup>67</sup>

The Solicitation Auction shall conclude at the sooner of the following: (i) The end of the RFR period; (ii) upon receipt by the System of an unrelated order (in the same option as the Agency Order) on the same side or opposite side of the market from the RFR responses, that is marketable against either the MBBO (when such quote is the NBBO) or the RFR responses; (iii) upon receipt by the System of an unrelated limit order (in the same option as the Agency Order and on the opposite side of the market as the Agency Order) that improves any RFR response; (iv) any time an RFR response matches the MBBO on the opposite side of the market from the RFR responses; (v) any time there is a quote lock on the Exchange pursuant to Rule 1402; or (vi) any time there is a trading halt in the option on the Exchange.<sup>68</sup>

At the conclusion of the Solicitation Auction, the Agency Order will be automatically executed in full and

from exchange to exchange. The CBOE RFR lasts for one second. See CBOE Rule 6.74B(b)(1)(C). In February 2014, to determine whether the proposed duration of the RFR would provide sufficient time to enter a RFR response, the Exchange asked Members, including Market Makers, whether their firms “could respond to an Auction with a duration of 500 milliseconds.” Of the 8 Members that responded to the question, 100% indicated that their firm could respond in this time frame. Thus, the Exchange believes that the proposed duration for the RFR of 500 milliseconds, would provide a meaningful opportunity for participants on MIAX to respond to a RFR while at the same time facilitating the prompt execution of orders.

<sup>63</sup> See Proposed Rule 515A(b)(2)(i)(C). See *supra* note 20. In contrast to CBOE which does not allow responses from options market makers from another options exchange, any MIAX Member may respond to the RFR in the PRIME Solicitation Mechanism. See CBOE Rule 6.74B(b)(1)(C).

<sup>64</sup> See Proposed Rule 515A(b)(2)(i)(D). See also CBOE Rule 6.74B(b)(1)(D).

<sup>65</sup> See Proposed Rule 515A(b)(2)(i)(E). See also CBOE Rule 6.74B(b)(1)(E).

<sup>66</sup> See Proposed Rule 515A(b)(2)(i)(F). In contrast to CBOE which limits responses to only the size of the Agency Order, responses that exceed the size of the Agency Order will be treated as if they were the same size as the Agency Order for purposes of the auction. See CBOE Rule 6.74B(b)(1)(F).

<sup>67</sup> See Proposed Rule 515A(b)(2)(i)(G). See also CBOE Rule 6.74B(b)(1)(G).

<sup>68</sup> See Proposed Rule 515A(b)(2)(ii). See also CBOE Rules CBOE Rule 6.74B(b)(2) and 6.74A(b)(2).

allocated subject to the following provisions, or cancelled. The Agency Order will be executed against the solicited order at the proposed execution price, provided that:

- The execution price must be equal to or better than the NBBO. If the execution would take place outside the NBBO, the Agency Order and solicited order will be cancelled;<sup>69</sup>
- There are no Priority Customer orders resting in the Book on the opposite side of the Agency Order at the proposed execution price.<sup>70</sup>

- If there are Priority Customer orders and there is sufficient size (considering all resting orders, quotes and responses) to execute the Agency Order, the Agency Order will be executed against these interests and the solicited order will be cancelled. The Agency Order will be allocated at the best price(s) pursuant to the matching algorithm in effect for the class.<sup>71</sup>

- If there are Priority Customer orders and there is not sufficient size (considering all resting orders, quotes and responses), both the Agency Order and the solicited order will be cancelled;<sup>72</sup> and

- There is insufficient size to execute the Agency Order at an improved price(s).<sup>73</sup>

- If there is sufficient size (considering all resting orders, quotes and responses) to execute the Agency Order at an improved price(s) that is equal or better than the NBBO, the Agency Order will execute at the improved price(s) and the solicited order will be cancelled. The Agency Order will be allocated at the best price(s) pursuant to the matching algorithm in effect for the class.<sup>74</sup>

<sup>69</sup> See Proposed Rule 515A(b)(2)(iii)(A). See also CBOE Rule 6.74B(b)(2)(A)(I).

<sup>70</sup> See Proposed Rule 515A(b)(2)(iii)(B)(1). See also CBOE Rule 6.74B(b)(2)(A)(II).

<sup>71</sup> See Proposed Rule 515A(b)(2)(iii)(B)(2). In contrast to CBOE which is silent on the priority of allocation of interest against the Agency Order, the Exchange proposes to specify that the Agency Order will be allocated pursuant to the matching algorithm in effect for the class. This will ensure that the Agency Order is allocated consistent with the standard priority of allocation on the Exchange rules that distinguish between Priority Customers, Market Makers with priority quotes, and Professional Interest in a manner that will help ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Solicitation Auction commenced on the Exchange. See also CBOE Rule 6.74B(b)(2)(A)(II).

<sup>72</sup> See Proposed Rule 515A(b)(2)(iii)(B). See also CBOE Rule 6.74B(b)(2)(A)(II).

<sup>73</sup> See Proposed Rule 515A(b)(2)(iii)(C). See also CBOE Rule 6.74B(b)(2)(A)(III).

<sup>74</sup> See Proposed Rule 515A(b)(2)(iii)(C)(1) [sic]. In contrast to CBOE which is silent on the priority of allocation of interest against the Agency Order, the Exchange proposes to specify that the Agency Order will be allocated pursuant to the matching

The following examples show how orders will be executed in the Solicitation Auction.

*Example 25—All-or-None (“AON”) Solicited Offer Gets Allocation*

XYZ Jan 50 Calls

NBBO—1.10–1.25

BBO—1.10–1.30

Paired order to execute 2000 contracts

AON (customer selling) @ 1.10

A RFR is broadcast to all subscribers showing option, size, side, and price; timer is started

System starts the auction at the Initiating Customer price to sell @ 1.10

- @ 100 milliseconds Response 1 to buy @ 1.10 2000 AOC order arrives
- @ 200 milliseconds Response 2 to buy @ 1.10 2000 AOC order arrives
- @ 220 milliseconds Response 3 to buy @ 1.10 5000 AOC order arrives
- @ 432 milliseconds Response 4 to buy @ 1.20 1000 AOC order arrives
- @ 500 milliseconds auction timer expires and auction ends

Aggregate responses did not price improve AON size of Initiating Customer Trade is allocated against Initiating Customer:

1. Solicited order buys 2000 contracts paying 1.10

*Example 26—Customer Gets Price Improved for AON Size*

XYZ Jan 50 Calls

NBBO—1.10–1.25

BBO—1.10–1.30

Paired order to execute 2000 contracts

AON (customer selling) @ 1.10

A RFR is broadcast to all subscribers showing option, size, side, and price; timer is started

System starts the auction at the Initiating Customer price to sell @ 1.10

- @ 100 milliseconds Response 1 to buy @ 1.10 2000 AOC order arrives
- @ 200 milliseconds Response 2 to buy @ 1.10 2000 AOC order arrives
- @ 220 milliseconds Response 3 to buy @ 1.10 5000 AOC order arrives
- @ 332 milliseconds Response 4 to buy @ 1.20 1000 AOC order arrives
- @ 400 milliseconds Response 5 to buy @ 1.15 2000 AOC order arrives
- @ 500 milliseconds auction timer expires and auction ends

algorithm in effect for the class. This will ensure that the Agency Order is allocated consistent with the standard priority of allocation on the Exchange rules that distinguish between Priority Customers, Market Makers with priority quotes, and Professional Interest in a manner that will help ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Solicitation Auction commenced on the Exchange. See also CBOE Rule 6.74B(b)(2)(A)(III).

Solicited contra does not participate because entire size was price improved  
Trade is allocated against Initiating Customer:

1. 1000 trade vs. Response 4 @ 120
2. 1000 trade vs. Response 5 @ 115; balance of response size is cancelled
3. Solicited contra does not participate because entire size was price improved

*Example 27—Customer Gets Price Improved for AON Size, Unrelated Opposite Side Order Ends Auction and Trades vs. Responses*

XYZ Jan 50 Calls  
NBBO—1.10–1.25  
BBO—1.10–1.30

Paired order to execute 2000 contracts AON (customer selling) @ 1.10  
A RFR is broadcast to all subscribers showing option, size, side, and price; timer is started

System starts the auction at the Initiating Customer price to sell @ 1.10

- @ 100 milliseconds Response 1 to buy @ 1.10 2000 AOC order arrives
- @ 200 milliseconds Response 2 to buy @ 1.10 2000 AOC order arrives
- @ 220 milliseconds Response 3 to buy @ 1.10 5000 AOC order arrives
- @ 332 milliseconds Response 4 to buy @ 1.20 1000 AOC order arrives
- @ 400 milliseconds Response 5 to buy @ 1.15 2000 AOC order arrives
- @ 450 milliseconds, unrelated opposite side order arrives buying 100 @ 1.20—(Opposite side limit order to buy that improves a RFR response (improves Responses 1, 2, 3, and 4)<sup>75</sup> causes the Auction to conclude early)

Trade is allocated against Initiating Customer:

1. 1000 trade vs. Response 4 @ 1.20
2. 100 trade vs. unrelated opposite side order @ 1.20
3. 900 trade vs. Response 5 @ 1.15; balance of response size is cancelled
4. Solicited contra does not participate because entire size was price improved

*Example 28—Customer Gets Price Improved for AON Size, Unrelated Same Side Order Ends Auction and Trades vs. Responses*

XYZ Jan 50 Calls  
NBBO—1.10–1.25  
BBO—1.10–1.30

Paired order to execute 2000 contracts AON (customer selling) @ 1.10  
A RFR is broadcast to all subscribers showing option, size, side, and price; timer is started

System starts the auction at the Initiating Customer price to sell @ 1.10

- @ 100 milliseconds Response 1 to buy @ 1.10 2000 AOC order arrives
- @ 200 milliseconds Response 2 to buy @ 1.10 2000 AOC order arrives
- @ 220 milliseconds Response 3 to buy @ 1.10 5000 AOC order arrives
- @ 332 milliseconds Response 4 to buy @ 1.20 1000 AOC order arrives
- @ 400 milliseconds Response 5 to buy @ 1.15 2000 AOC order arrives
- @ 450 milliseconds, unrelated same side order arrives selling 100 @ 1.10—(Same side limit order to sell that is marketable against RFR responses causes the Auction to conclude early)

Trade is allocated against Initiating Customer:

1. 1000 trade vs. Response 4 @ 1.20
2. 1000 trade vs. Response 5 @ 1.15
3. Solicited contra does not participate because entire size was price improved
4. Unrelated same side order trades 100 vs. Response 5 @ 1.15; balance of response size is cancelled

*Interpretations and Policies*

The Exchange also proposes several Interpretations and Policies to Proposed Rule 515A.

Interpretations and Policy .01 provides that it shall be considered conduct inconsistent with just and equitable principles of trade, in accordance with Rule 301, for any Member to enter orders, quotes, Agency Orders, or other responses for the purpose of disrupting or manipulating the Auction. Such conduct includes, but is not limited to, engaging in a pattern or practice of submitting unrelated orders that cause an Auction to conclude before the end of the RFR period and engaging in a pattern of conduct where the Member submitting the Agency Order into the PRIME breaks up the Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage than the Member would have otherwise received in accordance with the allocation procedures contained in paragraph (a)(2)(iii) or (b)(2)(iii) above.<sup>76</sup>

Interpretations and Policy .02 provides that the Auction and the Solicitation Auction may only be used to execute bona fide crossing transactions. Using the Auction and the Solicitation Auction for any other means, including but not limited to, market or price manipulation, shall be

considered conduct inconsistent with just and equitable principles of trade in accordance with Rule 301.<sup>77</sup>

Interpretations and Policy .03 provides that for executions pursuant to Rule 515A(b), prior to entering Agency Orders into the PRIME on behalf of customers, Initiating Members must deliver to the customer a written notification informing the customer that his order may be executed using the PRIME. The written notification must disclose the terms and conditions contained in this Rule 515A and be in a form approved by the Exchange.<sup>78</sup>

Interpretations and Policies .04 provides that Members may enter contra orders that are solicited. The PRIME provides a facility for Members that locate liquidity for their customer orders. Members may not use the Solicitation Auction to circumvent Rule 520 limiting principal transactions. This may include, but is not limited to, Members entering contra orders that are solicited from (a) affiliated broker-dealers, or (b) broker-dealers with which the Member has an arrangement that allows the Member to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal. Additionally, solicited contra orders entered by Members to trade against Agency Orders may not be for the account of a MIA X Market Maker assigned to the options class.<sup>79</sup>

Interpretation and Policy .05 provides that any determinations made by the Exchange pursuant to this Rule such as eligible classes and order size parameters shall be communicated in a Regulatory Circular.<sup>80</sup>

Interpretation and Policy .06 provides that if managed interest exists on the MIA X Book pursuant to Rule 515(c) for the option on the opposite side of the market as the Agency Order and when the MBBO is equal to the NBBO, the Agency Order will be automatically executed against the managed interest if the execution would be at a price equal to the initiating price of the Agency Order. If the Agency Order is not fully executed after the managed interest is fully exhausted and is no longer at a price equal to or better than the initiating price of the Agency Order, the Auction will be initiated for the balance

<sup>77</sup> See Proposed Rule 515A, Interpretations and Policies .02. See also ISE Rule 723, Commentary .02.

<sup>78</sup> See Proposed Rule 515A, Interpretations and Policies .03. See also CBOE Rule 6.74B.02.

<sup>79</sup> See Proposed Rule 515A, Interpretations and Policies .04. See also CBOE Rule 6.74B.03.

<sup>80</sup> See Proposed Rule 515A, Interpretations and Policies .05. See also CBOE Rule 6.74A.05.

<sup>75</sup> The Commission believes that in Example 27, the reference to Response 4 in the final bullet point should instead be to Response 5.

<sup>76</sup> See Proposed Rule 515A, Interpretations and Policies .01. See also ISE Rule 723, Commentary .01; CBOE Rule 6.74A.02.

of the order as provided in this rule. With respect to any portion of an Agency Order that is automatically executed against managed interest pursuant to this paragraph .06, the exposure requirements contained in Rule 520(b) and (c) will not be satisfied just because the member utilized the PRIME.<sup>81</sup> Managed interest on the opposite side of the market as the Agency Order pursuant to Rule 515(c) is posted at one minimum trading increment away from the NBBO, but is available for execution at the NBBO. In order to preserve the priority of this managed interest against incoming RFR responses to the Auction of the Agency Order, the System will execute the Agency Order to the extent possible. The Exchange believes that this provision is necessary to ensure that PRIME works seamlessly with the Exchange's Book in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange.

Interpretation and Policy .07 provides that if managed interest exists on the Exchange's Book pursuant to Rule 515(c) for the option on the same side of the market as the Agency Order, the Agency Order will be rejected by the System prior to initiating an Auction or a Solicitation Auction.<sup>82</sup> Managed interest on the same side of the market as the Agency Order pursuant to Rule 515(c) is posted at one minimum trading increment away from the NBBO, but is available for execution at the NBBO. In order to preserve the priority of this managed interest against incoming RFR responses to the Auction of the Agency Order, the System will reject the Agency Order. The Exchange believes that this provision is necessary to ensure that PRIME works seamlessly with the Exchange's Book in a manner that would ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange.

Interpretation and Policy .08 provides that the Exchange will submit certain data, as required by the Commission, to

provide supporting evidence that, among other things, there is meaningful competition for all size orders within the PRIME, that there is significant price improvement for all orders executed through the PRIME, and that there is an active and liquid market functioning on the Exchange outside of the PRIME. Any data which is submitted to the Commission will be provided on a confidential basis.<sup>83</sup>

#### *Order Exposure Rule*

Current Rule 520 prohibits Electronic Exchange Members from acting as principal on any orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one (1) second, and (ii) the Electronic Exchange Member 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. In addition, Electronic Exchange Members 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.

The Exchange believes that the proposed RFR period of 500 milliseconds is sufficient length to permit Members time to respond to a PRIME Auction thereby enhancing opportunities for competition among participants and increasing the likelihood of price improvement for the Agency Order. Accordingly, the Exchange proposes to amend Rule 520 to stipulate that a Member may execute as principal orders they represent as agent, provided that the Member avails itself of the PRIME Auction, pursuant to Rule 515A. Similarly, the Exchange proposes to amend Rule 520 to stipulate that a Member may execute orders they represent as agent against solicited orders, provided that the Member avails itself of the PRIME Auction, pursuant to Rule 515A. Such Agency Orders would not be subject to the one second order exposure requirement of Rule 520, which exclusion from the one second order exposure requirement is consistent with the treatment of similar orders at another competing exchange.<sup>84</sup>

#### *Section 11(a) of the Exchange Act*

Section 11(a) of the Exchange Act prohibits any member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or an account over which it or its associated persons exercises discretion ("covered accounts"), unless an exception applies.<sup>85</sup> Section 11(a)(1) contains a number of exceptions for principal transactions by members and their associated persons. As set forth below, the Exchange believes that the proposed rules for the PRIME are consistent with the requirements in Section 11(a) and the rules thereunder.

In this regard, Section 11(a)(1)(A) provides an exception from the prohibitions in Section 11(a) for dealers acting in the capacity of market makers. With respect to Market Makers on the Exchange, the Exchange believes that orders sent by them for covered accounts to the proposed PRIME would qualify for this exception from Section 11(a).

In addition to this Market Maker exception, Rule 11a2-2(T) under the Exchange Act, known as the "effect versus execute" rule, provides exchange members with an exception from Section 11(a) by permitting them, subject to certain conditions, to effect transactions for covered accounts by arranging for an unaffiliated member to execute the transactions on the exchange.<sup>86</sup> To comply with the "effect versus execute" rule's conditions, a member: (i) Must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;<sup>87</sup> (iii) may not be affiliated with the member executing the transaction on the floor through the facilities of the Exchange; and (iv) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the rule.<sup>88</sup>

The Exchange believes that orders sent by Members for covered accounts to the proposed PRIME would qualify for this "effect versus execute" exception from Section 11(a), as

<sup>81</sup> See Proposed Rule 515A, Interpretations and Policies .06. In contract to ISE which allows the Agency Order to execute against the ISE BBO before executing a crossing transaction in the price improvement mechanism, the Exchange proposes allowing the immediate execution against managed interest if that execution is equal to the initiating price, which is the stop price of the Agency Order. See ISE Rule 723, Commentary .08.

<sup>82</sup> See Proposed Rule 515A, Interpretations and Policies .07.

<sup>83</sup> See Proposed Rule 515A, Interpretations and Policies .08; *Exhibit 3* (providing a comprehensive list of the data that the Exchange represents that it will collect in order to aid the Commission in its evaluation of the PRIME). See also ISE Rule 723, Commentary .03.

<sup>84</sup> See BOX Options Rule 7130 IM-7140-2.

<sup>85</sup> 15 U.S.C. 78k(a)(1).

<sup>86</sup> 17 CFR 240.11a2-2(T).

<sup>87</sup> The member, however, may participate in clearing and settling the transaction. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978).

<sup>88</sup> 17 CFR 240.11a2-2(T).

described below. In this regard, the first condition of Rule 11a2-2(T) is that orders for covered accounts be transmitted from off the exchange floor. The MIAX trading system and the proposed PRIME receives all orders electronically through remote terminals or computer-to-computer interfaces. The Exchange represents that orders for covered accounts from Members will be transmitted from a remote location directly to the proposed PRIME mechanisms by electronic means. In the context of other automated trading systems, the Commission has found that the off-floor transmission requirement is met if a covered account order is transmitted from a remote location directly to an exchange's floor by electronic means.<sup>89</sup> The second condition of Rule 11a2-2(T) requires that the member not participate in the execution of its order once the order is transmitted to the floor for execution.<sup>90</sup> The Exchange represents that, upon submission to the PRIME, an order will be executed automatically pursuant to the rules set forth for the mechanism. In particular, execution of an order sent to the mechanism depends not on the Member entering the order, but rather on what other orders are present and the priority of those orders. Thus, at no time following the submission of an order is a Member able to acquire control or influence over the result or timing of order execution.<sup>91</sup> Rule 11a2-2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The Commission has stated that the requirement is satisfied when automated exchange facilities, such as the PRIME, are used, as long as the design of these systems

ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.<sup>92</sup> The Exchange represents that the PRIME is designed so that no Member has any special or unique trading advantage in the handling of its orders after transmitting its orders to the mechanism. Rule 11a2-2(T)'s fourth condition requires that, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2-2(T) thereunder.<sup>93</sup> The Exchange recognizes that Members relying on Rule 11a2-2(T) for transactions effected through the PRIME must comply with this condition of the Rule.

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

<sup>89</sup> In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

<sup>90</sup> See 17 CFR 240.11a2-2(T)(a)(2)(iv). In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for covered accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such transactions. See also 1978 Release (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

## 2. Statutory Basis

MIAX believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>94</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>95</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 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.

In particular, the proposal will provide market participants auction mechanisms to execute various crossing transactions with the opportunity for price improvement, while ensuring equal access to exposed orders for all market participants. In this regard, PRIME and PRIME Solicitation are intended to be beneficial to investors because they are designed to provide investors seeking to effect option orders while providing opportunities to access additional liquidity and receive price improvement. The Exchange believes the proposed rules are appropriate in that price improvement auctions are widely recognized by market participants as invaluable, both as a tool to access liquidity, and a mechanism to help meet their best execution obligations. The proposed rules will provide the opportunity for an efficient mechanism for carrying out these strategies. In addition, PRIME and PRIME Solicitation promote equal access by providing Members that subscribe to the Exchange's data feeds with the opportunity to interact with orders in PRIME and PRIME Solicitation. In this regard, any Member can subscribe to the options data provided through the Exchange's data feeds.

The Exchange believes that the general provisions regarding the price improvement auction provide a simple, clear framework that will enable the efficient trading of options in a manner consistent with other options exchanges. Further, this clarity in how the price improvement auction functions and its consistency with other exchanges will help 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 seek access to additional liquidity

<sup>94</sup> 15 U.S.C. 78f(b).

<sup>95</sup> 15 U.S.C. 78f(b)(5).

<sup>89</sup> See, e.g., Securities Exchange Act Release Nos. 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080); 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004) (SR-BSE-2002-15); 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) ("1979 Release"); 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978) ("1978 Release").

<sup>90</sup> The description above covers the universe of the types of Members (i.e., Market Makers, EEMs).

<sup>91</sup> The Exchange notes that a Member may cancel or modify the order, or modify the instructions for executing the order, but that such instructions would be transmitted from off the floor of the Exchange. The Commission has stated that the non-participation requirement is satisfied under such circumstances so long as such modifications or cancellations are also transmitted from off the floor. See 1978 Release (stating that the "non-participation requirement does not prevent initiating members from canceling or modifying orders (or the instructions pursuant to which the initiating member wishes to be executed) after the orders have been transmitted to the executing member, provided that any such instructions are also transmitted from off the floor").

and price improvement by providing additional opportunities to do so. The proposed priority of allocation rules in PRIME and PRIME Solicitation are designed to be similar to the existing priority rules that distinguish between Priority Customers, Market Makers with priority quotes, and Professional Interest in a manner that will help ensure a fair and orderly market by maintaining priority of orders and quotes while still affording the opportunity for price improvement on each Auction commenced on the Exchange. In addition, by keeping the priority of allocation of PRIME and PRIME Solicitation similar in this way to the standard allocation, the proposal reduces the ability of market participants to misuse the Auction to circumvent the standard priority rules in a manner that is designed to prevent fraudulent and manipulative acts and practices, and to promote just and equitable principles of trade on the Exchange. The proposed execution and priority rules will allow option orders to interact with interest in the MIAX Book and, conversely, all interest on the MIAX Book to interact with option orders in the price improvement mechanism in an efficient and orderly manner. The Exchange also believes that this interaction of orders will benefit investors by increasing the opportunity for option orders to receive execution, while also enhancing execution quality for the orders on the MIAX Book.

#### *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. PRIME and PRIME Solicitation are designed to increase competition for order flow on the Exchange in a manner intended to be beneficial to investors seeking to effect option orders with an opportunity to access additional liquidity and receive price improvement. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues who offer similar functionality. The Exchange believes that the proposal to offer price improvement auctions on the Exchange is pro-competitive by providing market participants with functionality that is similar to that of other options exchanges.

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

Written comments were neither solicited nor received.

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

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 the 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. Among other things, the Commission notes that MIAX's proposed rule text in this filing is similar to and based on the rules in place at other options exchanges, in particular CBOE, with a few provisions that reflect the unique structure of the MIAX market. As such, MIAX likely intends that its proposed PRIME auction will operate in a manner similar to those other auction mechanisms. Despite the similarity in rule text, however, ambiguities in the rule may nevertheless exist concerning how the auction mechanisms would function in a live trading environment.

Although MIAX has provided guidance in this respect through numerous examples in Section III of this notice, the Commission requests comments on whether the MIAX's proposed rule text is sufficiently clear and precise regarding how the proposed PRIME auctions would operate and how orders would interact within the auctions as well as how the auctions would interact with MIAX's market. Among other things, the Commission requests comment on the following issues:

1. Are the proposed rules sufficiently clear and detailed as to how and at what price the Agency Order could be stopped (either in single-price or auto match auctions)?

2. In the case of an unrelated order that arrives to MIAX during the auction period on either the side of the Agency

Order or the side of the RFR Responses (when it is marketable or when it is not, either against the BBO, NBBO, or an RFR Response), is the proposed rule text sufficiently clear regarding the operation of the proposed PRIME Auction and its outcomes?

3. Are the proposed allocation provisions for the price improvement mechanism as well as the solicitation mechanism sufficiently detailed and clear?

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-2014-09 on the subject line.

#### *Paper Comments*

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

All submissions should refer to File Number SR-MIAX-2014-09. 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 20549-1090, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-MIAX-2014-09 and should be submitted on or before March 31,



2014. For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>96</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

[FR Doc. 2014-05029 Filed 3-7-14; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-71645; File No. SR-NYSEArca-2013-127]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Order Instituting Proceedings to Determine Whether to Approve or Disapprove Proposed Rule Change Relating to the Listing and Trading of Shares of Nine Series of the IndexIQ Active ETF Trust Under NYSE Arca Equities Rule 8.600

March 4, 2014.

#### I. Introduction

On November 18, 2013, NYSE Arca, Inc. ("Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade shares ("Shares") of the IQ Long/Short Alpha ETF, IQ Bear U.S. Large Cap ETF, IQ Bear U.S. Small Cap ETF, IQ Bear International ETF, IQ Bear Emerging Markets ETF, IQ Bull U.S. Large Cap ETF, IQ Bull U.S. Small Cap ETF, IQ Bull International ETF, and IQ Bull Emerging Markets ETF (each a "Fund" and collectively, the "Funds"). On November 26, 2013, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The proposed rule change was published for comment in the **Federal Register** on December 4, 2013.<sup>4</sup> The Commission received no comment letters on the proposed rule change. On January 15, 2014, pursuant to Section 19(b)(2) of the Act,<sup>5</sup> the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed

rule change.<sup>6</sup> This Order institutes proceedings under Section 19(b)(2)(B) of the Act<sup>7</sup> to determine whether to approve or disapprove the proposed rule change.

#### II. Description of the Proposal

The Exchange proposes to list and trade the Shares under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares. Each of the Funds is a series of the IndexIQ Active ETF Trust ("Trust"), which is registered under the Investment Company Act of 1940 ("1940 Act").<sup>8</sup> IndexIQ Advisors LLC ("Adviser") is the investment adviser for the Funds. The Funds are described below. Additional information regarding the Trust, the Fund, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions, and taxes, among other things, is included in the Notice and Registration Statement, as applicable.<sup>9</sup>

##### *IQ Long/Short Alpha ETF*

The Exchange states that the investment objective of the IQ Long/Short Alpha ETF is to seek capital appreciation. Under normal circumstances,<sup>10</sup> at least 80% of the

Fund's assets will be exposed to equity securities of U.S. large capitalization companies,<sup>11</sup> by investing in exchange-traded funds ("ETFs"), in "Financial Instruments," which are defined as swap agreements, options contracts, and futures contracts with economic characteristics similar to those of the ETFs for which they are substituted, or in both. The Exchange states that all options contracts and futures contracts will be listed on a U.S. national securities exchange or a non-U.S. securities exchange that is a member of the Intermarket Surveillance Group ("ISG") or a party to a comprehensive surveillance sharing agreement with the Exchange.

To implement its strategy, the Fund will hold long and short positions in ETFs providing exposure to certain sectors. Cash balances arising from the use of short selling and derivatives typically will be held in money market instruments.<sup>12</sup>

##### *IQ Bear U.S. Large Cap ETF*

The Exchange states that the investment objective of the IQ Bear U.S. Large Cap ETF is to seek capital appreciation. Under normal circumstances, at least 80% of the Fund's assets will be exposed to equity securities of U.S. large capitalization issuers by taking short positions in ETFs, Financial Instruments, or both. To implement its strategy, the Fund will primarily hold short positions in ETFs providing exposure to certain sectors. Cash balances arising from the use of short selling and derivatives typically will be held in money market instruments.

##### *IQ Bear U.S. Small Cap ETF*

The Exchange states that the investment objective of the IQ Bear U.S. Small Cap ETF is to seek capital appreciation. Under normal circumstances, at least 80% of the Fund's assets will be exposed to equity securities of U.S. small capitalization companies<sup>13</sup> by taking short positions in ETFs, Financial Instruments, or both. To implement its strategy, the Fund will hold short positions in ETFs providing

of its assets in cash in times of extreme market stress.

<sup>11</sup> The Exchange states that the Adviser considers "large capitalization companies" to have market capitalizations of at least \$5 billion.

<sup>12</sup> Money market instruments generally are short-term cash instruments that have a remaining maturity of 397 days or less and exhibit high quality credit profiles. These include U.S. Treasury Bills and repurchase agreements.

<sup>13</sup> According to the Registration Statement, the Adviser will consider "small capitalization companies" to have market capitalizations of between \$300 million and \$2 billion.

<sup>96</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> Amendment No. 1 clarified how certain holdings will be valued for purposes of calculating a fund's net asset value and where investors will be able to obtain pricing information for certain underlying holdings.

<sup>4</sup> See Securities Exchange Act Release No. 70954 (November 27, 2013), 78 FR 72955 ("Notice").

<sup>5</sup> 15 U.S.C. 78s(b)(2).

<sup>6</sup> See Securities Exchange Act Release No. 71309, 79 FR 3657 (January 22, 2014). The Commission determined that it was appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider the proposed rule change. Accordingly, the Commission designated March 4, 2014 as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

<sup>7</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>8</sup> The Exchange states that on September 12, 2013, the Trust filed with the Commission an amendment to its registration statement on Form N-1A relating to the Funds (File Nos. 333-183489 and 811-22739) ("Registration Statement"). In addition, the Commission has issued an order granting certain exemptive relief to the Trusts under the 1940 Act. See Investment Company Act Release No. 30198 (September 10, 2012) (File No. 812-13956) ("Exemptive Order").

<sup>9</sup> See Notice and Registration Statement, *supra* notes 4 and 8, respectively.

<sup>10</sup> The term "under normal circumstances" includes, but is not limited to, the absence of adverse market, economic, political, or other conditions, including extreme volatility or trading halts in the fixed income markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; and force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance. In certain situations or market conditions, a Fund may temporarily depart from its normal investment policies and strategies, provided that the alternative is consistent with the Fund's investment objective and is in the best interest of the Fund. For example, a Fund that typically takes short positions may hold little or no short positions for extended periods, or a Fund may hold a higher than normal proportion