

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85344; File No. SR-EMERALD-2019-12)

March 18, 2019

Self-Regulatory Organizations; MIAX Emerald, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 515A, MIAX Emerald Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 6, 2019, MIAX Emerald, LLC (“MIAX Emerald” 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 comments on the proposed rule change from interested persons.

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

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

The text of the proposed rule change is available on the Exchange’s website at <http://www.miaxoptions.com/rule-filings/emerald> at MIAX Emerald’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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Exchange Rule 515A, MIAX Emerald Price Improvement Mechanism (“PRIME”) and PRIME Solicitation Mechanism. Specifically, the Exchange proposes to amend Rule 515A to harmonize the rule text to Rule 515A of MIAX Options.³

Background

MIAX Emerald commenced operations as a national securities exchange registered under Section 6 of the Act⁴ on March 1, 2019. As described more fully in MIAX Emerald’s Form 1 application,⁵ the Exchange is an affiliate of Miami International Securities Exchange, LLC (“MIAX Options”) and MIAX PEARL, LLC (“MIAX PEARL”). MIAX Emerald Rules, in their current form, were filed as Exhibit B to its Form 1 on August 16, 2018, and at that time, the MIAX Emerald Rule 515A was substantially similar to the rule of MIAX Options Rule 515A. In the time between when the Exchange filed its Form 1 and the time the Exchange’s application for registration as a national securities exchange was granted,⁶ MIAX Options made changes to

³ See Securities Exchange Act Release No. 84519 (November 1, 2018), 83 FR 55776 (November 7, 2018)(SR-MIAX-2018-27).

⁴ 15 U.S.C. 78f.

⁵ See Securities Exchange Act Release No. 84891 (December 20, 2018), 83 FR 67421 (December 28, 2018) (File No. 10-233) (order approving the application of MIAX Emerald for registration as a national securities exchange.)

⁶ See Id.

its rule 515A.⁷ In order to ensure consistent operation of both MIAX Emerald and MIAX Options through having consistent rules, the Exchange proposes to amend the MIAX Emerald Rule to adopt identical rule text from MIAX Options Rule 515A as described below.

Proposal

The Exchange proposes to amend Rule 515A, Interpretation and Policy .12, PRIME for Complex Orders. The current rule provides that, “. . . the provisions of Rule 515A(a) . . . shall be applicable to the trading of complex orders (as defined in Rule 518) on PRIME. The Exchange will determine, on a class-by-class basis, the option classes in which complex orders are available for trading on PRIME on the Exchange, and will announce such classes to Members⁸ via Regulatory Circular.” The Exchange now proposes to replace the word “on” which precedes “PRIME” with the phrase “in the” to more accurately describe Exchange functionality and maintain consistency with how the functionality is described in other areas of the rule.⁹

The Exchange also proposes to amend Rule 515A, Interpretation and Policy .12(d), to organize the rule for clarity and ease of reference and to codify two additional scenarios describing conditions which will terminate a cPRIME Auction¹⁰ in new proposed subsections (d)(vi) and (d)(vii).¹¹ Specifically, the Exchange proposes to consolidate current subsection (d)(v) and current subsection (d)(vi) into new subsection (d)(v). Current subsection (d)(v)

⁷ See supra note 3.

⁸ The term “Member” means an individual or organization approved to exercise the trading rights associated with a Trading Permit. Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

⁹ See Exchange Rule 515A.01, 515A.03, and 515A.04, which references usage of “the PRIME.”

¹⁰ See Exchange Rule 515A.12(a).

¹¹ The Exchange notes that the proposed changes are identical to changes made by MIAX Options. See supra note 3.

provides that a cPRIME Auction will terminate if “a simple order or quote in a component of the strategy on the same side of the market as the cPRIME Agency Order locks or crosses the NBBO for such component.” Current subsection (d)(vi) similarly provides that a cPRIME Auction will terminate if, “a simple order or quote in a component of the strategy on the opposite side of the market as the cPRIME Agency Order: (A) locks or crosses the NBBO for such component... .”

The Exchange now proposes to combine subsection (d)(v) and (d)(vi) into a single rule under new subsection (d)(v) that provides that a cPRIME Auction will terminate if, “a simple order or quote in a component of the strategy on either side of the market as the cPRIME Agency Order locks or crosses the NBBO for such component;”. The proposed change simplifies the rule text and clarifies two similar scenarios that will terminate a cPRIME Auction when interest is received on either side of the market as the cPRIME Agency Order. The Exchange believes that the proposed changes promote the protection of investors and the public interest by improving the accuracy and precision of the Exchange’s rules.

Additionally, the Exchange proposes to adopt new subsections (d)(vi) and (d)(vii) to include additional scenarios that will cause a cPRIME Auction to terminate when interest is received on the same or opposite side of the market, respectively, as the cPRIME Agency Order. Specifically, proposed subsection (d)(vi) will provide that a cPRIME Auction shall conclude at the earlier of the end of the RFR period,¹² or when “a simple order or quote in a component of the strategy, eligible to rest on the Simple Order Book,¹³ is received on the same side of the market as the cPRIME Agency Order and causes the icEBBO¹⁴ to lock or cross the best price

¹² See Exchange Rule 515A.12(d)(i).

¹³ The term “Simple Order Book” is the Exchange’s regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

¹⁴ The term “icEBBO” means the Implied Complex MIAX Emerald Best Bid or Offer. The icEBBO is a calculation that uses the best price from the Simple Order Book for each

opposite the cPRIME Agency Order;” This provision ensures that a cPRIME Agency Order will always receive the best price¹⁵ on the Exchange while simultaneously preserving the integrity of the simple market by preventing orders executed in a cPRIME Auction from possibly trading through the Exchange’s simple market.

An example of this scenario is illustrated below.

Example 1 - A simple order or quote on the same side as the Agency Order causes the icEBBO to equal the best price opposite the Agency Order

MIAX Emerald – LMM¹⁶ Mar 50 Call 5.80-6.30 (10x10)

MIAX Emerald – LMM Mar 55 Call 2.90-3.30 (10x10)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icEBBO is 2.50 debit bid and 3.40 credit offer

The Exchange receives a cPRIME Order with the cPRIME Agency Order representing the purchase of the Strategy at a net debit of 3.00, 500 times. (Auto-match is not enabled and there are no orders for the Strategy on the Strategy Book.)¹⁷

component of a complex strategy including displayed and non-displayed trading interest. See Exchange Rule 518(a)(12).

¹⁵ The best price for an Agency Order to buy (sell) is the lowest offer (highest bid) on the Exchange, comprised of all available interest.

¹⁶ The term “Lead Market Maker” means a Member registered with the Exchange for the purposes of making markets in securities traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI of the Exchange’s Rules with respect to Lead Market Makers. See Exchange Rule 100.

Since the order price is at least \$0.01 better than (inside) the icEBBO and the best net price of any order for the Strategy on the Strategy Book, a cPRIME Auction can begin.

A Request for Responses (“RFR”) is broadcast to all subscribers and the RFR period is started.

The following responses are received:

- @ 50 milliseconds BD1 response, cAOC Order¹⁸ @ 2.95 credit sell of 100 arrives
- @ 70 milliseconds MM1 response, cAOC eQuote¹⁹ @ 2.98 credit sell of 500 arrives

The cPRIME Auction process will continue until the Response Time Interval²⁰ ends or an event eligible to cause the cPRIME Auction to end sooner occurs.

- @ 85 milliseconds a simple order bid to pay 6.25 for 10 MAR 50 Calls arrives

¹⁷ The term “Strategy Book” is the Exchange’s electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

¹⁸ A Complex Auction-or-Cancel or “cAOC” Order is a complex limit order used to provide liquidity during a specific Complex Auction with a time in force that corresponds with that event. cAOC Orders are not displayed to any market participant, and are not eligible for trading outside of the event. See Exchange Rule 518(b)(3).

¹⁹ A “Complex Auction or Cancel eQuote” or “cAOC eQuote,” which is an eQuote submitted by a Market Maker that is used to provide liquidity during a specific Complex Auction with a time in force that corresponds with the duration of a Complex Auction. See Exchange Rule 518.02(c)(1).

²⁰ The “Response Time Interval” means the period of time during which responses to the RFR may be entered. See Exchange Rule 518(d)(3).

The icEBBO is now 2.95 debit bid and 3.40 credit offer. Since the bid side of the icEBBO is now equal to the best price opposite the Agency Order [BD1 response, 2.95 credit sell of 100], the cPRIME Auction is concluded prior to the end of the Response Time Interval.

The cPRIME Auction process will trade the cPRIME Agency Order with the best priced responses. The cPRIME Agency order will be filled as follows:²¹

- The cPRIME Agency Order buys 100 from BD1 @ 2.95
- The cPRIME Agency Order buys 400 from MM1 @ 2.98

Similarly, proposed subsection (d)(vii) will provide that a cPRIME Auction shall conclude at the earlier of the end of the RFR period or if, “a simple order or quote in a component of the strategy, eligible to rest on the Simple Order Book, is received on the opposite side of the market from the cPRIME Agency Order and causes the icEBBO to lock or cross the initiating price.” This provision ensures that a cPRIME Agency Order will always receive the best price on the Exchange while simultaneously preserving the integrity of the simple market by preventing orders executed in a cPRIME Auction from possibly trading through the Exchange’s simple market.

An example of this scenario is illustrated below.

Example 2 - A simple order or quote on the opposite side from the Agency Order causes the icEBBO to equal the initiating price

²¹ See Exchange Rule 515A(a)(2)(iii).

MIAX Emerald – LMM Mar 50 Call 5.80-6.30 (10x10)

MIAX Emerald – LMM Mar 55 Call 2.90-3.30 (10x10)

Strategy: Buy 1 Mar 50 Call, Sell 1 Mar 55 Call

The icEBBO is 2.50 debit bid and 3.40 credit offer

The Exchange receives a cPRIME Order with the cPRIME Agency Order representing the purchase of the Strategy at a net debit of 3.00, 500 times. (Auto-match is not enabled and there are no orders for the Strategy on the Strategy Book.)

Since the order price is at least \$0.01 better than (inside) the icEBBO and the best net price of any order for the Strategy on the Strategy Book, a cPRIME Auction can begin.

An RFR is broadcast to all subscribers and the RFR period is started.

The following responses are received:

- @ 40 milliseconds BD1 response, cAOC Order @ 2.95 credit sell of 100 arrives
- @ 50 milliseconds MM1 response, cAOC eQuote @ 2.98 credit sell of 500 arrives

The cPRIME Auction process will continue until the Response Time Interval ends or an event eligible to cause the cPRIME Auction to end sooner occurs.

- @ 75 milliseconds a simple order offer to sell 10 MAR 50 Calls @ 5.90 arrives

The icEBBO is now 2.50 debit bid and 3.00 credit offer. Since the offer side of the icEBBO is now equal to the initiating price, the cPRIME Auction is concluded prior to the end of the Response Time Interval.

The cPRIME Auction process will trade the cPRIME Agency Order with the best priced responses. The cPRIME Agency order will be filled as follows:

- The cPRIME Agency Order buys 100 from BD1 @ 2.95
- The cPRIME Agency Order buys 400 from MM1 @ 2.98

The Exchange believes that terminating a cPRIME Auction when these conditions are present ensures that the execution of the cPRIME Agency Order improves the best price on the Exchange at the time of receipt, and that there is no interference between the simple and complex markets. (The System²² will reject cPRIME Agency Orders submitted with an initiating price that is equal to or worse than (outside) the icEBBO or any other complex orders on the Strategy Book.)²³ This provision ensures that a cPRIME Agency Order will always receive the best price on the Exchange while simultaneously preserving the integrity of the simple market by preventing orders executed in a cPRIME Auction from possibly trading through the Exchange's simple market. The Exchange believes that including these scenarios in the rules will provide

²² The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

²³ See Exchange Rule 515A, Interpretation and Policy .12(a)(i).

additional detail concerning the operation of cPRIME Auctions and the conditions which will terminate a cPRIME Auction. The Exchange believes that the proposed changes will provide greater clarity to Members and the public regarding the Exchange's Rules, and it is in the public interest for rules to be accurate and concise so as to minimize the potential for confusion.

2. Statutory Basis

The Exchange believes that its proposed rule changes are consistent with Section 6(b) of the Act²⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act²⁵ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes the proposed changes promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system because they seek to add additional detail to, and improve the accuracy of, the Exchange's rules. In particular, the Exchange believes that the proposed rule changes will provide clarity and transparency to the Exchange's rules to Members and the public, and it is in the public interest for rules to be accurate and concise so as to minimize the potential for confusion.

The Exchange believes that including additional scenarios which will terminate a cPRIME Auction promotes just and equitable principles of trade and removes impediments to a free and open market by providing greater transparency concerning the operation of Exchange

²⁴ 15 U.S.C. 78f(b).

²⁵ 15 U.S.C. 78f(b)(5).

functionality. This provision ensures that a cPRIME Agency Order will always receive the best price on the Exchange while simultaneously preserving the integrity of the simple market.

Additionally, the Exchange believes that although MIAX Emerald rules may, in certain instances, intentionally differ from MIAX Options rules, the proposed changes will promote uniformity with MIAX Options with respect to rules that are intended to be identical. MIAX Emerald and MIAX Options may have a number of Members in common, and where feasible the Exchange intends to implement similar behavior to provide consistency between MIAX Options and MIAX Emerald so as to avoid confusion among Members.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended to promote competition by improving the efficiency of handling cPRIME Agency Orders on the Exchange. The Exchange believes that this enhances intermarket competition by enabling the Exchange to compete for this type of order flow with other exchanges that have similar rules and functionality in place.

The Exchange does not believe the proposal will impose any burden on intra-market competition as the Exchange's rules apply equally to all Members of the Exchange.

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

Written comments were neither solicited nor received.

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

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

Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act²⁶ and Rule 19b-4(f)(6)²⁷ thereunder.

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

IV. Solicitation of Comments

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

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail [to rule-comments@sec.gov](mailto:to-rule-comments@sec.gov). Please include File Number SR-EMERALD-2019-12 on the subject line.

Paper Comments:

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

²⁶ 15 U.S.C. 78s(b)(3)(A).

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

All submissions should refer to File Number SR-EMERALD-2019-12. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-EMERALD-2019-12 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁸

Eduardo A. Aleman
Deputy Secretary

²⁸ 17 CFR 200.30-3(a)(12).