SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-96376; File No. SR-EMERALD-2022-30)

November 22, 2022

Self-Regulatory Organizations; MIAX Emerald, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on November 10, 2022, 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 proposes to (i) adopt new Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls; and (ii) amend Exchange Rule 518, Complex Orders.

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 adopt new Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls.[3] The Exchange proposes to adopt a new Managed Protection Override feature, a new Max Put Price Protection feature, and a new MIAX Strategy Price Protection ("MSPP") in new proposed Rule 532. The Exchange notes that the proposed functionality is identical to functionality recently adopted by the Exchange's affiliate, MIAX Options Exchange.[4]

The Exchange also proposes to relocate and amend paragraph (a), Vertical Spread Variance ("VSV") Price Protection; paragraph (b), Calendar Spread Variance ("CSV") Price Protection; and paragraph (c) VSV and CSV Price Protection, from Interpretations and Policies .05 of Exchange Rule 518 to new proposed Rule 532 as described below.

Additionally, the Exchange proposes to add a new Butterfly Spread Variance ("BSV") Price Protection to proposed section (b)(2) of new proposed Rule 532.[5] Further, the Exchange proposes to relocate paragraph (d), Implied Away Best Bid or Offer ("ixABBO") Price Protection; paragraph (f), Complex MIAX Emerald Price Collar Protection; and paragraph (g),

---

3 The Exchange notes that proposed Rule 532 is identical to current Rule 532 on the MIAX Options Exchange.

4 See Securities Exchange Act Release No. 94353 (March 3, 2022), 87 FR 13339 (March 9, 2022) (SR-MIAX-2021-58).

5 The Exchange notes that the proposed functionality is identical to functionality recently adopted by the Exchange's affiliate, MIAX Options. See Securities Exchange Act Release No. 94353 (March 3, 2022), 87 FR 13339 (March 9, 2022) (SR-MIAX-2021-58).

Market Maker Single Side Protection, from Interpretations and Policies .05 of Exchange Rule 518 to new proposed Rule 532 in their entirety and without modification as section (b)(6), Complex MIAX Options Price Collar Protection; section (b)(7), Implied Away Best Bid or Offer ("ixABBO") Price Protection; and section (b)(8), Market Maker Single Side Protection.[6]

The Exchange also proposes to amend Exchange Rule 518, Complex Orders, to change the value used in the calculation that determines whether a complex order is eligible to initiate a Complex Auction[7] from the dcEBBO[8] to the cNBBO.[9] The Exchange notes that this proposed change is substantively identical (the only difference being the naming convention used by each exchange, whereas MIAX Options used the term dcMBBO[10] prior to changing to the cNBBO

---

6 The proposed rulebook changes are identical to recent rulebook changes made by the Exchange's affiliate, MIAX Options. See supra note 4.

7 Certain option classes, as determined by the Exchange and communicated to Members via Regulatory Circular, will be eligible to participate in a Complex Auction (an "eligible class"). Upon evaluation as set forth in subparagraph (c)(5) of Exchange Rule 518, the Exchange may determine to automatically submit a Complex Auction-eligible order into a Complex Auction. Upon entry into the System or upon evaluation of a complex order resting at the top of the Strategy Book, Complex Auction-eligible orders may be subject to an automated request for responses ("RFR"). See Exchange Rule 518(d).

8 The Displayed Complex MIAX Emerald Best Bid or Offer ("dcEBBO") is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. For stock-option orders, the dcEBBO for a complex strategy will be calculated using the Exchange's best displayed bid or offer in the individual option component(s) and the NBBO in the stock component. See Exchange Rule 518(a)(8).

9 The Complex National Best Bid or Offer ("cNBBO") is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy. See Exchange Rule 518(a)(2).

10 The Displayed Complex MIAX Best Bid or Offer ("dcMBBO") is calculated using the best displayed price for each component of a complex strategy from the Simple Order Book. For stock-option orders, the dcMBBO for a complex strategy will be calculated using the Exchange's best displayed bid or offer in the individual option component(s) and the NBBO in the stock component. See MIAX Options Exchange Rule 518(a)(8).

and MIAX Emerald uses the term dcEBBO) to a recent change made by the Exchange's affiliate, MIAX Options.[11]

Additionally, the Exchange also proposes to relabel paragraph (e) of Interpretations and Policies .05 of Exchange Rule 518 to paragraph (a), and to make a number of non-substantive changes to update internal cross references throughout Exchange Rule 518 that have changed as a result of the proposed changes contained herein.

Background

The Exchange launched in December 2018, and at that time, the Exchange Rulebook contained complex order rules that were substantially similar to the rules of its affiliate exchange, MIAX Options. Since December 2018, MIAX Options has added functionality to grow its complex order business. The Exchange proposes to amend its rules to adopt functionality that currently exists on the MIAX Options Exchange. The Exchange seeks to align functionality to its affiliate, MIAX Options, where feasible. The proposed rule changes described below are identical, or substantively identical, to rule changes filed by the Exchange's affiliate, MIAX Options.[12]

---

[11] See Securities Exchange Act Release No. 94671 (April 11, 2022), 87 FR 22605 (April 15, 2022) (SR-MIAX-2022-13).

[12] See Securities Exchange Act Release No. 94353 (March 3, 2022), 87 FR 13339 (March 9, 2022) (SR-MIAX-2021-58) (Notice of Filing of Amendment Nos. 1 and 2 and Order Granting Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, To Adopt Exchange Rule 532, Order and Quote Price Protection Mechanisms and Risk Controls).

Proposal

Managed Protection Override ("MPO")

The Exchange proposes to adopt a new Managed Protection Override feature which will work in conjunction with certain risk protections on the Exchange. If a Member[13] enables the Managed Protection Override then all risk protections connected to the Managed Protection Override feature are engaged. When a risk protection connected to the Managed Protection Override feature is triggered, and the Managed Protection Override feature is enabled, the order subject to the risk protection will be cancelled. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[14]

The Managed Protection Override will be available for the following risk protections: Vertical Spread Variance ("VSV") Price Protection, Calendar Spread Variance ("CSV") Price Protection, new proposed Butterfly Spread Variance ("BSV") Price Protection, Parity Price Protection, and new proposed Max Put Price Protection. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[15]

Currently, when the Vertical Spread Variance ("VSV") Price Protection and the Calendar Spread Variance ("CSV") Price Protection are triggered the default behavior is to manage the order in accordance to Exchange Rule 518(c)(4).[16] Additionally, when the Parity Price

13 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.

14 See MIAX Options Exchange Rule 532.

15 See id.

16 See Interpretations and Policies .05(c) of Exchange Rule 518.

Protection is triggered the default behavior is to place the order on the Strategy Book[17] at its parity protected price.[18] The Exchange believes that offering Members the option to have their orders either managed by the Exchange or cancelled gives Members greater flexibility and control over their orders while retaining risk protection functionality.

Max Put Price Protection ("MPPP")

The Exchange proposes to adopt a new price protection for put[19] options by establishing a maximum price at which a put option may trade. This proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[20]

To determine the maximum price the Exchange will add a pre-set value, the Put Price Variance ("PPV"), to the strike price of the Put option. The pre-set value will be determined by the Exchange[21] and communicated to Members via Regulatory Circular. Buy orders that are priced through the maximum trading price limit will trade up to, and including, the maximum

---

17 The "Strategy Book" is the Exchange's electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

18 See Interpretations and Policies .01(g) of Exchange Rule 518.

19 The term "put" means an option contract under which the holder of the option has the right, in accordance to the terms and provisions of the option, to sell to the Clearing Corporation the number of units of the underlying security covered by the option contract. See Exchange Rule 100.

20 See MIAX Options Exchange Rule 532(a)(1).

21 The Exchange proposes to use a pre-set value for the Put Price Variance of $0.10 to align to other similar price protections on the Exchange. The Exchange believes this value provides an adequate price range for executions while offering price protection against potentially erroneous executions. See MIAX Emerald Regulatory Circular 2019-73, Complex Order Price Protection Pre-set Values (August 13, 2019) available at https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_Emerald_RC_2019_73.pdf, which establishes a $0.10 pre-set value for Vertical Spreads and Calendar Spreads.

trading price limit, and will then be placed on the Book[22] and managed to the appropriate trading price limit as described in Rule 515(c)(1)(ii), or cancelled if the Managed Protection Override ("MPO") is enabled. Sell orders that are priced higher than the maximum trading price limit will be rejected.

A bid quote through the maximum trading price limit will trade up to, and including the maximum trading price limit, then will be placed on the Book and managed to the appropriate trading price limit as described in Rule 515(c)(1)(ii), or in the case of a bid eQuote, will be cancelled. An offer quote received that is higher than the maximum trading price limit is not rejected and will be placed on the Book and displayed. An offer eQuote greater than the maximum trading price limit will be cancelled.[23]

Example Max Put Price Protection for a Buy Market Order

An order to Buy 10 XYZ Jan 5 Put @ Market is received.

The current market is:

EBBO[24] 0.50 (10) x 5.50 (10)

The price protection is:

Put Price Variance (PPV) = $0.10

---

[22] The term "Book" means the electronic book of buy and sell orders and quotes maintained by the System. See Exchange Rule 100.

[23] Orders and quotes are handled differently as orders may only be submitted by Electronic Exchange Members and quotes may only be submitted by Market Makers. The term "Electronic Exchange Member" or "EEM" means the holder of a Trading Permit who is not a Market Maker. Electronic Exchange Members are deemed "members" under the Exchange Act. See Exchange Rule 100. The term "Market Makers" refers to "Lead Market Makers", "Primary Lead Market Makers" and "Registered Market Makers" collectively. See Exchange Rule 100.

[24] The term "EBBO" means the best bid or offer on the Simple Order Book on the Exchange. See Exchange Rule 518(a)(10). The "Simple Order Book" is the Exchange's regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

Max Put Price Protection = (Strike + PPV) = $5.10

Because the Buy Order is priced through the Max Put Price Protection of $5.10, the order is subject to management and posted to the order book at $5.10.

EBBO 5.10 (10) x 5.50 (10)

<u>Example Max Put Price Protection for a Sell Limit Order</u>

An Order to Sell 10 XYZ Jan 5 Put @ $5.25 is received.

<u>The current market is:</u>

EBBO 0.50 (10) x 5.50 (10)

<u>The price protection is:</u>

Put Price Variance (PPV) = $0.10

Put Option = XYZ Jan 5 Put

Max Put Price Protection = (Strike + PPV) = $5.10

Because the Sell Order is priced higher than the Max Put Price Protection of $5.10, the order is rejected.

<u>Example Max Put Price Protection for a Buy Quote</u>

A Quote to Buy 10 XYZ Jan 5 Put @ $5.50 is received.

<u>The current market is:</u>

EBBO 0.50 (10) x 5.50 (10)

<u>The price protection is:</u>

Put Price Variance (PPV) = $0.10

Put Option = XYZ Jan 5 Put

Max Put Price Protection = (Strike + PPV) = $5.10

Because the Buy Quote is priced through the Max Put Price Protection of $5.10, the quote posted to the order book and managed at $5.10.

EBBO 5.10 (10) x 5.50 (10)

Example Max Put Price Protection for a Sell Quote

A Quote to Sell 10 XYZ Jan 5 Put @ $5.25 is received.

The current market is:

EBBO 0.50 (10) x 5.50 (10)

The price protection is:

Put Price Variance (PPV) = $0.10

Put Option = XYZ Jan 5 Put

Max Put Price Protection = (Strike + PPV) = $5.10

Although the Sell Quote is priced higher than the Max Put Price Protection of $5.10, sell Quotes priced higher than the Max Put Price Protection are not rejected and therefore it is posted to the order book at $5.25.

EBBO 5.10 (10) x 5.25 (10)

The Exchange believes that offering Members the option to have orders either managed by the Exchange or cancelled when a risk protection is triggered gives Members greater flexibility and control over their orders while retaining the risk protection functionality. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[25]

[25] See MIAX Options Exchange Rule 532(a)(1).

Definitions

The Exchange proposes to include a "Definitions" section as paragraph (b)(1) in proposed Rule 532.[26] For the purposes of proposed paragraph (b) the Exchange will adopt the following definition of a Butterfly Spread in section (b)(1)(i): A "Butterfly Spread" is a three legged complex order with two legs to buy (sell) the same number of calls[27] (puts) and one leg to sell (buy) twice the number of calls (puts), all legs have the same expiration date but different exercise prices, and the exercise price of the middle leg is between the exercise prices of the other legs. The strike price of each leg is equidistant from the next sequential strike price.[28]

The Exchange also proposes to relocate the definition of Calendar Spread and Vertical Spread from Interpretations and Policies .05(b) and .05(a) of Exchange Rule 518 respectively, to proposed section (b)(1)(ii) and (b)(1)(iii) of proposed Rule 532 respectively. The definition of a Calendar Spread is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price.[29] The definition of a Vertical Spread is a complex strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same

---

26 The Exchange notes that the proposed rule text is identical to current rule text on MIAX Options. See MIAX Options Exchange Rule 532(b)(1).

27 The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the number of units of the underlying security covered by the option contract. See Exchange Rule 100.

28 The Exchange notes that its proposed definition of a Butterfly Spread is identical to the definition of a Butterfly Spread on MIAX Options. See MIAX Options Exchange Rule 532(b)(1)(i).

29 The Exchange notes that its proposed definition of a Calendar Spread is identical to the definition of a Calendar Spread on MIAX Options. See MIAX Options Exchange Rule 532(b)(1)(ii).

security that have the same expiration but different strike prices.[30] The Exchange notes its definition of a Calendar Spread and a Vertical Spread is not changing under this proposal.

Butterfly Spread Price Variance ("BSV") Price Protection

The Exchange proposes to adopt a new price protection for Butterfly Spreads as section (b)(2) of new proposed Rule 532. This proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[31]

A Butterfly Spread is comprised of three legs which have the same expiration date but different exercise prices, and are of the same type, either calls or puts, and are at equal strike intervals. The upper and lower strikes are each a buy (sell) and the middle strike is a sell (buy). The ratio of a butterfly spread will always be +1 -2 +1 or -1 +2 -1.

Butterfly Spread Example

Buy 1 XYZ April 50 Call

Sell 2 XYZ April 55 Calls

Buy 1 FYX April 60 Call

The Exchange will establish a price protection for Butterfly Spreads by establishing a Butterfly Spread Variance. The Exchange proposes to adopt paragraph (b)(2)(i) to provide that, the minimum possible trading price limit of a Butterfly Spread is zero minus a pre-set value. The maximum possible trading price limit of a Butterfly Spread is the absolute value of the difference between the closest strikes (the upper strike price minus the middle strike price or the middle strike price minus the lower strike price) plus a pre-set value. The Exchange notes that this

30 The Exchange notes that its proposed definition of a Vertical Spread is identical to the definition of a Vertical Spread on MIAX Options. See MIAX Options Exchange Rule 532(b)(1)(iii).

31 See MIAX Options Exchange Rule 532(b)(2).

proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[32]

The Exchange proposes to adopt paragraph (b)(2)(ii) to provide that, if the execution price of a complex order would be outside of the limits set forth in paragraph (i) above (bid higher than the maximum trading price limit or offer lower than the minimum trading price limit), such complex order will trade up to, and including, the maximum trading price limit for bids or down to, and including, the minimum trading price limit for offers. Remaining interest will then will be placed on the Strategy Book and managed to the appropriate trading price limit as described in Rule 518(c)(4), or cancelled if the Managed Protection Override is enabled. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[33]

The Exchange proposes to adopt paragraph (b)(2)(iii) to provide that, buy orders, sell orders, and offer eQuotes[34] with a limit price less than the minimum trading price limit will be rejected. Bid eQuotes with a limit price less than the minimum trading price limit will be cancelled. Sell orders with a limit price greater than the maximum trading price limit will be rejected. Offer eQuotes with a limit price greater than the maximum trading price limit will be cancelled. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[35]

---

32 See MIAX Options Exchange Rule 532(b)(2)(i).

33 See MIAX Options Exchange Rule 532(b)(2)(ii).

34 The Exchange proposes to extend existing price protections to sell limit orders and offer eQuotes for certain complex order spread strategies similar to MIAX Options. See Exchange Act Release No. 95227 (July 8, 2022), 87 FR 42229 (July 14, 2022) (SR-MIAX-2022-25).

35 See MIAX Options Exchange Rule 532(b)(2)(iii).

The Exchange also proposes to adopt paragraph (b)(2)(iv) to provide that, the pre-set value will be determined by the Exchange and communicated to Members via Regulatory Circular. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[36]

The minimum value of a Butterfly Spread is zero and the maximum value is capped at the absolute value of the difference between the closest strikes (the upper strike price minus the middle strike price or the middle strike price minus the lower strike price). To establish the maximum and minimum trading values, a configurable pre-set value is added to the maximum spread value and subtracted from the minimum spread value. The pre-set value will be determined by the Exchange and communicated to Members via Regulatory Circular.[37]

Example

Butterfly Spread: Buy 1 October 50 Call, Sell 2 October 55 Calls, Buy 1 October 60 Call.

October 50 Call EBBO: $11.00 x $16.00

October 55 Call EBBO: $6.00 x $11.00

October 60 Call EBBO: $1.00 x $6.00

The maximum spread value is the absolute value of the difference between the closest strikes or $5.00 (60.00 - 55.00 or 55.00 - 50.00). The minimum spread value is zero. If the pre-set value is $0.10 the maximum allowable price limit is then $5.10 and the minimum allowable price limit is then -$0.10. A strategy order to buy at $5.15 will be managed on the Strategy Book at $5.10.

---

36 See MIAX Options Exchange Rule 532(b)(2)(iv).

37 The Exchange proposes to use a pre-set value of $0.10 for Butterfly Spreads to align to the pre-set value which is used on the Exchange for Calendar Spreads and Vertical Spreads. See supra note 21.

Calendar Spread Variance ("CSV") Price Protection

The Exchange proposes to (i) relocate the Calendar Spread Variance ("CSV") Price Protection from Rule 518; (ii) amend the rule text to align to the rule text on the Exchange's affiliate, MIAX Options; (iii) amend the rule text to enable the operation of the Managed Protection Override; and (iv) extend the existing price protection to include sell orders and offer eQuotes. Specifically, the Exchange proposes to relocate the Calendar Spread Variance ("CSV") Price Protection from Interpretations and Policies .05(b) of Rule 518 to paragraph (b)(3) of new proposed Rule 532. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[38]

The Exchange proposes to adopt paragraph (i) to state that, the maximum possible value of a Calendar Spread is unlimited, thus there is no maximum price protection for Calendar Spreads. The minimum possible trading price limit of a Calendar Spread is zero minus a pre-set value. The Exchange notes that this rule text is being relocated to Rule 532(b)(3)(i) but is not changing under this proposal.[39]

Currently, the operation of the Calendar Spread Variance ("CSV") and Vertical Spread Variance ("VSV") price protection is described together in Interpretations and Policies .05(c) of Rule 518. The Exchange now proposes to describe the operation of the price protection separately for each strategy. Specifically, the Exchange proposes to adopt subparagraph (ii) to proposed Rule 532(b)(3) to state that, if the execution price of a complex order would be outside of the limit set forth in subparagraph (i) above (offers lower than the minimum trading price limit), such complex order will trade down to, and including, the minimum trading price limit.

---

38 See MIAX Options Exchange Rule 532(b)(3).

39 See Interpretations and Policies .05(b)(1) of Rule 518.

The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[40]

The Exchange also proposes to describe the handling of remaining interest within the rule text to provide additional detail and to incorporate the operation of the Managed Protection Override. Specifically, the Exchange proposes to adopt an additional provision to proposed Rule 532(b)(3)(ii) to provide that, remaining interest will then be placed on the Strategy Book and managed to the appropriate trading price limit as described in Rule 518(c)(4), or cancelled if the Managed Protection Override is enabled. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[41]

The Exchange proposes to adopt subparagraph (iii) to state that, buy orders, sell orders, and offer eQuotes[42] with a limit price less than the minimum trading price will be rejected. Bid eQuotes with a limit price less than the minimum trading price limit will be cancelled. Currently, the rule provides that orders to buy below the minimum trading price limit will be rejected.[43] The Exchange is proposing to extend this price protection to sell orders and offer eQuotes under this proposal. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[44]

---

40 See MIAX Options Exchange Rule 523(b)(3)(ii).

41 See id.

42 See supra note 34.

43 See Interpretations and Policies .05(c) of Exchange Rule 518.

44 See MIAX Options Exchange Rule 532(b)(3)(iii).

The Exchange proposes to adopt subparagraph (iv) to state that the CSV Price Protection applies only to strategies in American-style option classes. The Exchange notes that this rule text is being relocated to proposed Rule 532(b)(3)(iv) but is not changing under this proposal.[45]

The Exchange proposes to adopt subparagraph (v) to state that the pre-set value will be determined by the Exchange and communicated to Members via Regulatory Circular. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[46]

Vertical Spread Variance ("VSV") Price Protection

The Exchange proposes to (i) relocate Vertical Spread Variance ("VSV") Price Protection from Rule 518; (ii) amend the rule text to align to the rule text on the Exchange's affiliate, MIAX Options; (iii) amend the rule text to enable the operation of the Managed Protection Override; and (iv) extend the existing price protection to include sell orders and offer eQuotes. Specifically, the Exchange proposes to relocate the Vertical Spread Variance ("VSV") Price Protection from Interpretations and Policies .05(a) of Rule 518 to paragraph (b)(4) of new proposed Rule 532. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[47]

The Exchange proposes to adopt subparagraph (i) to state that, the maximum possible trading price limit of the VSV is the difference between the two component strike prices plus a pre-set value. For example, a Vertical Spread consisting of the purchase of one January 30 call and the sale of one January 35 call would have a maximum trading price limit of $5.00 plus a

---

45 See Interpretations and Policies .05(c)(3) of Exchange Rule 518.

46 See MIAX Options Exchange Rule 518(b)(3)(v).

47 See MIAX Options Exchange Rule 532(b)(4).

pre-set value. The minimum possible trading price limit of a Vertical Spread is always zero minus a pre-set value. The Exchange notes that this rule text is being relocated to Rule 532(b)(4)(i) but is not changing under this proposal.[48]

Currently, the operation of the Calendar Spread Variance ("CSV") and Vertical Spread Variance ("VSV") price protection is described together in Interpretations and Policies .05(c) of Rule 518. The Exchange now proposes to describe the operation of the price protection separately for each strategy. Specifically, the Exchange proposes to adopt subparagraph (ii) to proposed Rule 532(b)(4) to state that, if the execution price of a complex order would be outside of the limits set forth in subparagraph (i) above (bid higher than the maximum trading price limit or offer lower than the minimum trading price limit), such complex order will trade up to, and including, the maximum trading price limit for bids or down to, and including, the minimum trading price limit for offers. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[49]

The Exchange also proposes to describe the handling of remaining interest within the rule text to provide additional detail and to incorporate the operation of the Managed Protection Override. Specifically, the Exchange proposes to adopt an additional provision to proposed Rule 532(b)(4)(ii) to provide that, remaining interest will then be placed on the Strategy Book and managed to the appropriate trading price limit as described in Rule 518(c)(4), or cancelled if the Managed Protection Override is enabled. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[50]

---

48 See Interpretations and Policies .05(a)(1) of Rule 518.

49 See MIAX Options Exchange Rule 532(b)(4)(ii).

50 See id.

The Exchange proposes to adopt subparagraph (iii) to state that, buy orders, sell orders, and offer eQuotes[51] with a limit price less than the minimum trading price limit will be rejected. Bid eQuotes with a limit price less than the minimum trading price limit will be cancelled. Sell orders with a limit price greater than the maximum trading price limit will be rejected. Offer eQuotes with a limit price greater than the maximum trading price limit will be cancelled. Currently, the rule provides that orders to buy below the minimum trading price limit and orders to sell above the maximum trading price limit will be rejected by the System.[52] The Exchange is proposing to extend this price protection to sell orders and offer eQuotes under this proposal. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[53]

The Exchange also proposes to adopt subparagraph (iv) to state that, the pre-set value will be determined by the Exchange and communicated to Members via Regulatory Circular. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[54]

MIAX Strategy Price Protection ("MSPP")

The Exchange also proposes to introduce a MIAX Strategy Price Protection ("MSPP") which will establish a maximum protected price for buy orders and a minimum protected price for sell orders. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[55]

---

51 See supra note 34.

52 See Interpretations and Policies .05(c) of Exchange Rule 518.

53 See MIAX Options Exchange Rule 532(b)(4)(iii).

54 See MIAX Options Exchange Rule 532(b)(4)(iv).

55 See MIAX Options Exchange Rule 532(b)(5).

To determine the maximum price for a buy order the Exchange will add a pre-set value, the MIAX Strategy Price Protection Variance ("MSPPV"),[56] to the offer side value of the cNBBO.[57] To determine the minimum protected price for sell orders the Exchange will subtract the MSPPV value from the bid side value of the cNBBO. The MSPPV value will be determined by the Exchange and communicated to Members via Regulatory Circular. For market orders[58] the functional limit price will be the MSPP. All Day[59] and GTC[60] complex orders are eligible for

56 The Exchange proposes to use a pre-set value of $2.50 for the MIAX Strategy Price Protection Variance ("MSPPV"). The Exchange believes this value provides an adequate price range for executions while offering price protection against potentially erroneous executions and is identical to the value currently in use for the MSPP on the MIAX Options Exchange. See MIAX Options Exchange Regulatory Circular 2022-16, MIAX Order Price Protection Pre-set Values (March 4, 2022) available at https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_Options_RC_2022_16.pdf.

57 The cNBBO is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy. For stock-option orders, the cNBBO for a complex strategy will be calculated using the NBBO in the individual option component(s) and the NBBO in the stock component. See Exchange Rule 518(a)(2).

58 A market order is an order to buy or sell a stated number of option contracts at the best price available at the time of execution. See Exchange Rule 516(a).

59 A Day Limit Order is an order to buy or sell which, if not executed, expires at the end of trading in the security on the day on which it was entered. See Exchange Rule 516(k).

60 A Good 'til Cancelled or "GTC" Order is an order to buy or sell which remains in effect until it is either executed, cancelled or the underlying option expires. See Exchange Rule 516(l).

the MIAX Strategy Price Protection. cIOC orders,[61] cAOC orders,[62] cIOC eQuotes,[63] and cAOC eQuotes,[64] are not eligible for the MIAX Strategy Price Protection,[65] nor are crossing orders.[66]

---

61 A Complex Immediate-or-Cancel or "cIOC" order is a complex order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. See Exchange Rule 518(b)(4).

62 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. A cAOC order with a size greater than the aggregate auctioned size (as defined in Rule 518(d)(4)) will be capped for allocation purposes at the aggregate auctioned size. See Exchange Rule 518(b)(3).

63 A "Complex Immediate or Cancel eQuote" or "cIOC eQuote," which is a complex eQuote with a time-in-force of IOC that may be matched with another complex quote or complex order for an execution to occur in whole or in part upon receipt into the System. cIOC eQuotes will not: (i) be executed against individual orders and quotes resting on the Simple Order Book; (ii) be eligible to initiate a Complex Auction or join a Complex Auction in progress; (iii) rest on the Strategy Book; or (iv) be displayed. Any portion of a cIOC eQuote that is not executed is immediately cancelled. See paragraph (c)(2) of Interpretations and Policies .02 of Exchange Rule 518.

64 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 the Complex Auction. A cAOC eQuote with a size greater than the aggregate auctioned size (as defined in Rule 518(d)(4)) will be capped for allocation purposes at the aggregate auctioned size. cAOC eQuotes will not: (i) be executed against individual orders and quotes resting on the Simple Order Book; (ii) be eligible to initiate a Complex Auction, but may join a Complex Auction in progress; (iii) rest on the Strategy Book; or (iv) be displayed. See paragraph (c)(1) of Interpretations and Policies .02 of Exchange Rule 518.

65 The Exchange does not believe that these order and quote types require the additional price protection afforded by the MSPP as these orders and quotes do not rest on the Strategy Book but are either executed immediately or cancelled. See supra notes 61, 62, 63, and 64.

66 The Exchange does not believe that crossing orders require the additional price protection afforded by the MSPP as the execution price of these orders is pre-established. A Complex Customer Cross or "cC2C" Order is comprised of one Priority Customer complex order to buy and one Priority Customer complex order to sell at the same price and for the same quantity. Trading of cC2C Orders is governed by Rule 515(h)(3). See Exchange Rule 518(b)(5). A Complex Qualified Contingent Cross or "cQCC" Order is comprised of an originating complex order to buy or sell where each component is at least 1,000 contracts that is identified as being part of a qualified contingent trade, as defined in Rule 516, Interpretations and Policies .01, coupled with a contra-side complex

The MIAX Strategy Price Protection is an additional price protection feature provided to all Members of the Exchange.

If the MSPP is priced less aggressively than the limit price of a complex order (i.e., the MSPP is less than the complex order's bid price for a buy order, or the MSPP is greater than the complex order's offer price for a sell order), or if the order is a complex market order, the order will be (i) executed up to, and including, its MSPP for buy orders; or (ii) executed down to, and including, its MSPP for sell orders. Any unexecuted portion of such a complex order will be cancelled. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[67]

If the MSPP is priced equal to, or more aggressively than, the limit price of a complex order (i.e., the MSPP is greater than the complex order's bid price for a buy order, of the MSPP is less than the complex order's offer price for a sell order) the order will be (i) displayed and/or executed up to, and including, its limit price for buy orders; or (ii) displayed and/or executed down to, and including, its limit price for sell orders. Any unexecuted portion of such a complex order: (A) will be subject to the cLEP as described in subsection (e) of Exchange Rule 518; (B) may be submitted, if eligible, to the managed interest process described in Exchange Rule 518(c)(4); or (C) may be placed on the Strategy Book at its limit price. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[68]

---

order or orders totaling an equal number of contracts. Trading of cQCC Orders is governed by Rule 515(h)(4). See Exchange Rule 518(b)(6).

67 See MIAX Options Exchange Rule 532(b)(5)(v).

68 See MIAX Options Exchange Rule 532(b)(5)(vi).

The MSPP is designed to work in conjunction with other features on the Exchange such as the Complex Liquidity Exposure ("cLEP") Process. The Exchange introduced the Complex Liquidity Exposure Process (cLEP) in 2018.[69] The cLEP process was designed for complex orders and complex eQuotes that violate their Complex MIAX Price Collar ("MPC") price.[70] The MPC price protection feature is an Exchange-wide mechanism under which a complex order or complex eQuote to sell will not be displayed or executed at a price that is lower than the opposite side cNBBO bid at the time the MPC is assigned by the System[71] (i.e., upon receipt or upon opening) by more than a specific dollar amount expressed in $0.01 increments (the "MPC Setting"), and under which a complex order or eQuote to buy will not be displayed or executed at a price that is higher than the opposite side cNBBO offer at the time the MPC is assigned by the System by more than the MPC Setting (each the "MPC Price").[72] The MPC Price is established (i) upon receipt of the complex order or eQuote during free trading, or (ii) if the complex order or eQuote is not received during free trading, at the opening (or reopening following a halt) of trading in the complex strategy; or (iii) upon evaluation of the Strategy Book by the System when a wide market condition, as described in Interpretations and Policies .05(e)(1) of this Rule, no longer exists.[73] Once established the MPC Price will not change during the life of the complex order or eQuote. If the MPC Price is priced less aggressively than the limit price of the

---

69 See Securities Exchange Act Release No. 85346 (March 18, 2019), 84 FR 10854 (March 22, 2019) (SR-EMERALD-2019-14).

70 The Exchange notes that there are no changes to the Complex MIAX Price Collar functionality under this proposal.

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

72 See Exchange Rule 518.05(f).

73 See Exchange Rule 518.05(f)(3).

complex order or eQuote (i.e., the MPC Price is less than the complex order or eQuote's bid price for a buy, or the MPC Price is greater than the complex order or eQuote's offer price for a sell), or if the complex order is a market order, the complex order or eQuote will be displayed and/or executed up to its MPC Price.[74]

A complex order or complex eQuote that would violate its MPC Price begins a cLEP Auction.[75] The System will post the complex order or eQuote to the Strategy Book at its MPC Price and begin the cLEP Auction by broadcasting a liquidity exposure message to all subscribers of the Exchange's data feeds.[76] Remaining liquidity with an original limit price that is (i) less aggressive (lower for a buy order or eQuote, or higher for a sell order or eQuote) than or equal to the MPC Price will be handled in accordance with subsection (c)(2)(ii)-(v) of Rule 518, or (ii) more aggressive than the MPC Price will be subject to the Reevaluation Process.[77]

The Reevaluation process occurs at the conclusion of a cLEP Auction where the System will calculate the next potential MPC Price for remaining liquidity with an original limit price more aggressive than the existing MPC Price. The next MPC Price will be calculated as the MPC Price plus (minus) the next MPC increment for buy (sell) orders (the "New MPC Price"). Liquidity with an original limit price equal to or less aggressive than the New MPC Price is no longer subject to the MPC price protection. Liquidity with an original limit price more aggressive than the New MPC Price (or market order liquidity) is subject to the MPC price protection feature using the New MPC Price. In certain scenarios this could lead to a cycle of cLEP Auctions and ever increasing MPC price protection prices.

---

74 See Exchange Rule 518.05(f)(5).

75 See Exchange Rule 518(e).

76 Id.

77 Id.

The operation of the MIAX Strategy Price Protection feature during a cLEP Auction can be seen in the following example.

Example

MPC: 0.25

The Exchange has one order (Order 1) resting on its Strategy Book: +1 component A, -1 component B:

The current market is:

EBBO component A: 4.00 (10) x 6.00 (10)

EBBO component B: 1.00 (10) x 2.50 (10)

NBBO[78] component A: 4.05 (10) x 4.15 (10)

NBBO component B: 2.30 (10) x 2.40 (10)

icEBBO:[79] 1.50 (10) x 5.00 (10)

cNBBO: 1.65 (10) x 1.85 (10)

The price protection is:

MSPPV: 2.50

---

78 The term "NBBO" means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from the appropriate Securities Information Processor ("SIP"). See Exchange Rule 518(a)(14).

79 The icEBBO is a calculation that uses the best price from the Simple Order Book for each component of a complex strategy including using displayed and non-displayed trading interest. For stock-option orders, the icEBBO for a complex strategy will be calculated using the best price (whether displayed or non-displayed) on the Simple Order Book in the individual option component(s), and the NBBO in the stock component. See Exchange Rule 518(a)(12).

Buy MSPPV: 1.85 + .2.50 = 4.35

Sell MSPPV: 1.65 – 2.50 = -.85

Order 1 to sell 10 at 1.90 is received and updates the icEBBO.

icEBBO: 1.50 (10) x 1.90 (10)

The Exchange receives a new order (Order 2) to buy 30 at the Market. For Market Orders the functional limit is the MSPP or 4.35.

Order 2 buys 10 from Order 1 at $1.90 and initiates the Complex Liquidity Exposure Process: Order 2 reprices to its MPC protected price of $2.10 (cNBO of 1.85 + 0.25) and is posted at that price on the Strategy Book and the cLEP Auction begins.

During the cLEP Auction the Exchange receives a new order (Order 3) to sell 10 at 2.10. This order locks the current same side Book Price of $2.10. At the end of the auction, Order 3 sells 10 to Order 2 at $2.10, filling Order 3.

Order 2 reprices to the next MPC protected price of $2.35 (initial MPC of 2.10 + 0.25) and is posted at that price on the Strategy Book and the next cLEP Auction begins.

During the next cLEP Auction the Exchange does not receive any interest to sell. At the end of the auction Order 2 is reevaluated and reprices to the next MPC protected price of 2.60 (previous MPC of 2.35 + 0.25) and is posted at that price on the Strategy Book and the next cLEP Auction begins.

During all subsequent cLEP Auctions the Exchange does not receive any interest to sell. At the end of each subsequent auction, Order 2 is reevaluated and repriced to the next MPC protected price as seen below until the MSPP protected price is equal to or less than the MPC protected price.

3rd MPC evaluation 2.60 + 0.25 = 2.85

4th MPC evaluation 2.85 + 0.25 = 3.10

5th MPC evaluation 3.10 + 0.25 = 3.35

6th MPC evaluation 3.35 + 0.25 = 3.60

7th MPC evaluation 3.60 + 0.25 = 3.85

8th MPC evaluation 3.85 + 0.25 = 4.10

9th MPC evaluation 4.10 + 0.25 = 4.35

At the end of the final auction, because the MSPP protected price of 4.35 is equal to the MPC protected price of 4.35, Order 2 is not repriced to the next MPC and is cancelled subject to MSPP.

icEBBO: 4.35 (10) x 5.00 (10)

The Exchange proposes to amend Exchange Rule 518(e), Reevaluation, to account for the introduction of a protected price into the cLEP process. Currently, at the conclusion of a cLEP Auction, the System will calculate the next potential MPC Price for remaining liquidity with an original limit price more aggressive than the existing MPC Price. The Exchange proposes to amend this sentence to state that, at the conclusion of a cLEP Auction, the System will calculate the next potential MPC Price for remaining liquidity with an original limit price <u>or protected price</u> more aggressive than the existing MPC Price. Additionally, the current rule text provides that, liquidity with an original limit price less aggressive (lower for a buy order or eQuote, or higher for a sell order or eQuote) than or equal to the New MPC Price will be posted to the Strategy Book at its original limit price or handled in accordance with subsection (c)(2)(ii) – (v) of Rule 518. The Exchange proposes to amend this sentence to provide that, liquidity with an original limit price <u>or protected price</u> less aggressive (lower for a buy order or eQuote, or higher for a sell order or eQuote) than or equal to the New MPC Price will be posted to the Strategy Book at its original limit price or handled in accordance with subsection (c)(2)(ii) – (v) of Rule 518.

The next MPC Price will be calculated as the MPC Price plus (minus) the next MPC increment for buy (sell) orders (the "New MPC Price"). The System will initiate a cLEP Auction for liquidity that would execute or post at a price that would violate its New MPC Price. Liquidity with an original limit price or protected price less aggressive (lower for a buy order or eQuote, or higher for a sell order or eQuote) than or equal to the New MPC Price will be posted to the Strategy Book at its original limit price or handled in accordance with subsection (c)(2)(ii) – (v) of this Rule. The cLEP process will continue until no liquidity remains with an original limit price that is more aggressive than its MPC Price. At the conclusion of the cLEP process, any liquidity that has not been executed will be posted to the Strategy Book at its original limit price.

Additionally, the Exchange proposes to introduce the protected price into the allocation process at the end of a cLEP Auction. The current rule, Allocation at the Conclusion of a Complex Liquidity Exposure Auction, provides that, orders and quotes executed in a cLEP Auction will be allocated first in price priority based upon their original limit price, and thereafter in accordance with the Complex Auction allocation procedures described in subsection (d)(7)(i) – (vi) of this Rule (518).

The Exchange now proposes to amend this provision to state that, orders and quotes executed in a cLEP Auction will be allocated first in price priority based upon their original limit price, orders subject to the MIAX Strategy Price Protection ("MSPP") (as described in Rule 532(b)(5)) are allocated using their protected price, and thereafter in accordance with the Complex Auction allocation procedures described in subsection (d)(7)(i) – (vi) of this Rule (518).

The Exchange also proposes to amend Rule 518(e), Allocation at the Conclusion of a Complex Liquidity Exposure Auction, to provide that orders and quotes executed in a cLEP Auction will be allocated first in price priority based upon their original limit price, orders subject to MSPP are allocated using their protected price, and thereafter in accordance with the Complex Auction allocation procedures described in subsection (d)(7)(i) – (vi) of this Rule.

Parity Price Protection

The Exchange proposes to amend paragraph (g), Parity Price Protection, of Interpretations and Policies .01 of Exchange Rule 518, to add a reference to the Managed Protection Override. The rule, as proposed to be amended, will provide that Married-Put and Buy-Write interest to sell (sell put and sell stock; or sell call and buy stock) that is priced below the parity protected price for the strategy will be placed on the Strategy Book at the parity protected price for the strategy, or cancelled if the Managed Protection Override is enabled. This provision allows the Parity Price Protection functionality to operate in conjunction with the Managed Protection Override feature which cancels an order when its price protection feature is triggered. The Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[80] The Exchange believes that offering Members the option to have orders either managed by the Exchange or cancelled when a risk protection is triggered gives Members greater flexibility and control over their orders while retaining the risk protection functionality.

IIP/URIP/RIP

Currently the Exchange uses the following methods to determine whether a complex order is qualified to initiate a Complex Auction:

Initial Improvement Percentage ("IIP")

For complex orders received prior to the opening of all individual components of a complex strategy, the System[81] will calculate an IIP value, which is a defined percentage of the current dcEBBO bid/ask differential once all of the components of the complex strategy have opened. Such percentage will be defined by the Exchange and communicated to Members[82] via Regulatory Circular.[83] If a Complex Auction-eligible order is priced equal to, or improves, the IIP value[84] and is also priced equal to, or improves, other complex orders and/or quotes resting at the top of the Strategy Book, the complex order will be eligible to initiate a Complex Auction.[85]

---

80 See Interpretations and Policies .01(g) of MIAX Options Exchange Rule 518.

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

82 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.

83 See MIAX Emerald Regulatory Circular 2019-68, Complex Auction Initiating Percentages (August 13, 2019) available at https://www.miaxoptions.com/sites/default/files/circular-files/MIAX_Emerald_RC_2019_68.pdf.

84 The Initial Improvement Percentage ("IIP") is currently set to 70%. See Id.

85 See Policy .03(a) of Exchange Rule 518.

Upon Receipt Improvement Percentage ("URIP")

Upon receipt of a complex order when the complex strategy is open, the System will calculate a URIP value, which is a defined percentage of the current dcEBBO bid/ask differential. Such percentage will be defined by the Exchange and communicated to Members via Regulatory Circular.[86] If a Complex Auction-eligible order is priced equal to, or improves, the URIP value[87] and is also priced to improve other complex orders and/or quotes resting at the top of the Strategy Book, the complex order will be eligible to initiate a Complex Auction.[88]

Re-evaluation Improvement Percentage ("RIP")

Upon evaluation of a complex order resting at the top of the Strategy Book, the System will calculate a Re-evaluation Improvement Percentage ("RIP") value, which is a defined percentage of the current dcEBBO bid/ask differential. Such percentage will be defined by the Exchange and communicated to Members via Regulatory Circular.[89] If a complex order resting at the top of the Strategy Book is priced equal to, or improves, the RIP value,[90] the complex order will be eligible to initiate a Complex Auction.[91]

---

86 See supra note 83.

87 The Upon Receipt Improvement Percentage ("URIP") is currently set to 70%. See supra note 83.

88 See Policy .03(b) of Exchange Rule 518.

89 See supra note 83.

90 The Reevaluation Improvement Percentage ("RIP") is currently set to 80%. See supra note 83.

91 See Policy .03(c) of Exchange Rule 518.

Proposal

The Exchange now proposes to replace the dcEBBO bid/ask differential with the cNBBO[92] bid/ask differential in the calculations described above for IIP, URIP, and RIP, respectively. The dcEBBO is calculated using the displayed price for each component of a complex strategy from the Simple Order Book[93] on the Exchange, whereas the cNBBO is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy.[94] The Exchange believes that using the cNBBO will reduce the number of auctions generated by the Exchange System which do not receive responses or result in price improvement for the initiating order. The cNBBO, which includes the best away markets as well as the EBBO for each component of a complex strategy, will always be equal to or better than the dcEBBO, which includes the EBBO for each component of a complex strategy. The component prices contained in the cNBBO provide a more accurate indicator of the overall market interest in each component, and therefore, provides a more accurate indicator of the overall market interest in the complex strategy. The Exchange believes that this will result in a reduction of the overall number of Complex Auctions initiated on the Exchange but will in turn increase the percentage of Complex Auctions that result in price improvement, as the auction start price will be more closely aligned to prevailing market prices. The Exchange notes that this proposal is substantively identical (the only difference being the naming convention used by

---

92 The Complex National Best Bid or Offer ("cNBBO") is calculated using the NBBO for each component of a complex strategy to establish the best net bid and offer for a complex strategy. For stock-option orders, the cNBBO for a complex strategy will be calculated using the NBBO in the individual option component(s) and the NBBO in the stock component. See Exchange Rule 518(a)(2).

93 The "Simple Order Book" is the Exchange's regular electronic book of orders and quotes. See Exchange Rule 518(a)(15).

94 See supra note 9.

each exchange, whereas MIAX Options used the dcMBBO prior to changing to the cNBBO and MIAX Emerald uses the dcEBBO) to rules currently operative on the Exchange's affiliate, MIAX Options.[95]

Miscellaneous

The Exchange proposes to rename paragraph (e), Wide Market Conditions, SMAT Events and Halts, of Interpretations and Policies .05 of Exchange Rule 518, to new paragraph (a), as a result of the removal of the preceding paragraphs (a), (b), (c), and (d) from Interpretations and Policies .05 of Exchange Rule 518, which have been relocated to new proposed Rule 532. Additionally, the Exchange proposes to make a number of non-substantive changes in Rule 518 to correct internal cross references that have changed as a result of this proposal.

Implementation

The Exchange will announce the implementation of these changes in a Regulatory Circular to be published no later than 90 days following the operative date of the proposed rule. The implementation date will be no later than 90 days following the issuance of the Regulatory Circular.

2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act[96] in general, and furthers the objectives of Section 6(b)(5) of the Act[97] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and

---

[95] See Interpretations and Policies .03(a),(b), and (c) of MIAX Options Exchange Rule 518.

[96] 15 U.S.C. 78f(b).

[97] 15 U.S.C. 78f(b)(5).

equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

Managed Protection Override

The Exchange believes that the Managed Protection Override feature promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by providing a mechanism by which Members may determine the way their orders are handled when a risk protection is triggered. The Exchange believes that enabling the Butterfly Spread Variance ("BSV") Price Protection, Calendar Spread Variance ("CSV") Price Protection, Vertical Spread Variance ("VSV") Price Protection, Parity Price Protection, and MAX Put Price Protection, to work in conjunction with the Managed Protection Override benefits Members by providing Members an option as to the treatment of their order when a risk protection is engaged. The Exchange believes that it has an effective way to manage orders on the Exchange so that they do not execute at potentially erroneous prices, however the Exchange believes that giving Members the option to have their orders cancelled if a risk protection is triggered protects investors and the public interest. Cancelling an order allows Members to make a decision on what to do with their order based on the then current market conditions. A Member may choose to re-submit the order at the same or different limit price. Specifically, the Exchange believes the proposed change will remove impediments to and perfect the mechanisms of a free and open market by providing Members with the option to either manage their own orders or have the Exchange manage their orders when a price protection is triggered which will promote fair and orderly markets, increase overall market confidence, and promote the protection of investors. Additionally, the Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[98]

Max Put Price Protection

The Exchange believes that the proposed Max Put Price Protection feature promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by providing a risk protection mechanism that establishes a maximum price at which a put option may trade. The Max Put Price Protection is designed to prevent trades from occurring at potentially unwanted or erroneous prices. Additionally, the Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[99]

Butterfly Spread Price Variance ("BSV") Price Protection

The Exchange believes that the proposed Butterfly Spread Price Variance ("BSV") Price Protection feature promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by providing a risk protection mechanism that will establish minimum and maximum trading values to prevent an order from trading at a potentially unwanted or erroneous price.

Additionally, the Exchange believes that making the Butterfly Spread Variance ("BSV") Price Protection eligible for the Managed Protection Override feature benefits Members as it

---

[98] See MIAX Options Exchange Rule 532.

[99] See MIAX Options Exchange Rule 532(a)(1).

gives them the option to have their order cancelled if the Butterfly Spread Variance Price Protection is triggered and the Managed Protection Override feature is enabled. Cancelling orders back to Members allows them to make a decision on what to do with their order based on the then current market conditions and a Member may choose to re-submit the order at the same or different limit price. Specifically, the Exchange believes the proposed change will remove impediments to and perfect the mechanism of a free and open market by providing market participants with the option to either manage their own orders or have the Exchange manage their orders when a price protection is triggered which will promote fair and orderly markets, increase overall market confidence, and promote the protection of investors.

Calendar Spread Variance ("CSV") Price Protection / Vertical Spread Variance ("VSV") Price Protection

The Exchange believes that amending the Calendar Spread Variance ("CSV") and the Vertical Spread Variance ("VSV") Price Protection feature to enable the Managed Protection Override feature promotes just and equitable principles of trade, removes impediments to and perfects the mechanism of a free and open market and a national market system and, in general, protects investors and the public interest by providing Members the option of having the Exchange manage their order when a price protection is triggered, or having their order cancelled when a price protection is triggered, if the Managed Protection Override is enabled. The Exchange believes cancelling an order in this scenario benefits Members as it allows them to make a decision on what to do with their order based on the then current market conditions and a Member may choose to re-submit the order at the same or different limit price. Specifically, the Exchange believes the proposed change will remove impediments to and perfect the mechanism of a free and open market by providing market participants with the option to either manage their own orders or have the Exchange manage their orders when a price protection is triggered which will promote fair and orderly markets, increase overall market confidence, and promote the protection of investors.

The Exchange believes that amending the Calendar Spread Price Variance ("CSV") and Vertical Spread Variance ("VSV") Price Protection protects investors and the public interest and helps maintain fair and orderly markets by mitigating potential risks associated with market participants entering sell orders and offer eQuotes at clearly unintended prices and trading at prices that are extreme and potentially erroneous. Extending the existing price protections to sell orders and offer eQuotes will assist in the maintenance of a fair and orderly market and protect investors by rejecting sell orders and offer eQuotes that are priced to sell below the minimum trading limit established by the Exchange. The Exchange believes this will promote just and equitable principles of trade and ultimately protect investors. Additionally, the Exchange notes that this proposed rule change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[100]

MIAX Strategy Price Protection ("MSPP")

The Exchange believes that the adoption of the MIAX Strategy Price Protection ("MSPP") promotes just and equitable principles of trade, and facilitates transactions in securities, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest, by providing an order price protection that establishes a minimum and maximum trading value to prevent potentially unwanted or erroneous executions from occurring. The Exchange believes that when the MSPP is priced less aggressively than the limit price of the complex order that executing the order, up to and including its MSPP for buy orders, or down to and including its MSPP for sell

---

[100] See MIAX Options Exchange Rule 532(b)(3)(iii) and (b)(4)(iii).

orders, and cancelling any unexecuted portion of the order, protects investors and the public interest. Cancelling orders back to Members allows them to make a decision on what to do with their order based on the then current market conditions and a Member may choose to re-submit the order at the same or different limit price. Specifically, the Exchange believes the proposed change will remove impediments to and perfect the mechanism of a free and open market by providing market participants with the option to either manage their own orders or have the Exchange manage their orders when a price protection is triggered which will promote fair and orderly markets, increase overall market confidence, and promote the protection of investors. Additionally, this proposed change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[101]

Parity Price Protection

The Exchange believes that amending Interpretations and Policies .01(g), Parity Price Protection, of Exchange Rule 518, to provide that an order will be cancelled if the Managed Protection Override is enabled promotes just and equitable principles of trade, and facilitates transactions in securities, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest, by providing Members and the public additional detail and clarity in the Exchange's rules. It is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion. Additionally, the Exchange notes that this proposed change is identical to a rule currently operative on the Exchange's affiliate, MIAX Options.[102]

---

101 See MIAX Options Exchange Rule 532(b)(5).

102 See Interpretations and Policies .01(g) of MIAX Options Exchange Rule 518.

Miscellaneous

The Exchange believes the proposed change to correct internal cross references within the Exchange's Rulebook promotes just and equitable principles of trade and removes impediments to and perfects the mechanism of a free and open market and a national market system because the proposal ensures that the Exchange's rules are accurate. The Exchange notes that the proposed changes to correct internal cross references and to make minor non-substantive edits does not alter the application of each rule. As such, the proposed amendments would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and national market system. In particular, the Exchange believes that the proposed rule changes will provide greater clarity to Members and the public regarding the Exchange's Rules. It is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

The Exchange believes this proposal promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest by providing new price protection features for MIAX Emerald Members. Additionally, the description of the System's functionality is designed to promote just and equitable principles of trade by providing a clear and accurate description to all participants of how the price protection process is applied and should assist investors in making decisions concerning their orders. Further, the Exchange believes that the price protection features and functionality provides market participants with an appropriate level of risk protection to their orders and contributes to the maintenance of a fair and orderly market.

The Exchange believes that its proposal to use the cNBBO instead of the dcEBBO in the calculation used to determine whether a complex order is qualified to initiate a Complex Auction promotes just and equitable principles of trade and removes impediments to and perfects the mechanisms of a free and open market and a national market system and, in general, protects investors and the public interest as using the cNBBO provides a better measure of the current market and is more likely to result in price improvement for the initiating order as the cNBBO is calculated using the NBBO (which in turn is calculated by taking the best prices of all exchanges into consideration) for each component of a complex strategy to establish the best net bid and offer for a complex strategy, and therefore is more representative of the prevailing market interest and market prices. The example below demonstrates the difference between the current and proposed calculations.

Example 1

(Current Auction Evaluation Based on dcEBBO)

Reevaluation Improvement Percentage (RIP) for a complex order at the best price on the Strategy Book[103] subject to dcEBBO.

RIP = 80%

EBBO:[104] Option A 2.00 x 2.10

EBBO: Option B 1.05 x 1.20

---

103 The "Strategy Book" is the Exchange's electronic book of complex orders and complex quotes. See Exchange Rule 518(a)(17).

104 The term "EBBO" means the best bid or offer on the Exchange. See Exchange Rule 100.

Strategy +1A -1B = (2.00-1.20) x (2.10-1.05)

dcEBBO = 0.80 x 1.05

A complex order is resting on the Strategy Book to buy 1 Strategy at a price of 1.00. Upon reevaluation of the Strategy Book it is determined the complex order to buy at 1.00 improves the Strategy bid by 0.20; (1.00-0.80). The improvement percentage is then calculated as the 0.20 improvement divided by the Strategy bid/offer spread; (1.05-0.80), in this case resulting in 80% improvement. Because the 80% improvement equals the configured RIP of 80% an auction is initiated.

Example 2

(Proposed Auction Evaluation Based on cNBBO)

Reevaluation Improvement Percentage (RIP) for a complex order at the best price on the Strategy Book subject to cNBBO.

RIP = 80%

NBBO: Option A 2.05 x 2.10

NBBO: Option B 1.05 x 1.10

Strategy +1A -1B = (2.05-1.10) x (2.10-1.05)

cNBBO = 0.95 x 1.05

A complex order is resting on the Strategy Book to buy 1 Strategy at a price of 1.00. Upon reevaluation of the Strategy Book it is determined the complex order to buy at 1.00 improves the

Strategy bid by 0.05; (1.00-0.95). The improvement percentage is then calculated as the 0.05 improvement divided by the Strategy bid/offer spread; (1.05-0.95), in this case resulting in 50% improvement. Because the 50% improvement is less than the configured RIP of 80% an auction is not initiated.

The Exchange believes that using the cNBBO in its calculation to determine whether a complex order is qualified to initiate a Complex Auction will reduce the number of Complex Auctions initiated by the Exchange System which do not receive responses. Using the cNBBO instead of the dcEBBO better reflects the current state of the market and may result in Complex Auctions that receive responses which in turn may result in price improvement for the initiating order.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Intra-Market Competition

Specifically, the Exchange does not believe that the proposed changes will impose any burden on intra-market competition as the rules of the Exchange apply equally to all MIAX participants. The Butterfly Spread Variance ("BSV") Price Protection, Calendar Spread Variance ("CSV") Price Protection, and Vertical Spread Variance ("VSV") Price Protection, Parity Price Protection, and Max Put Price protection are all available for any MIAX Emerald Member that submits orders or quotes to the Exchange. Any MIAX Member transacting on the Exchange will benefit from the risk protections proposed herein. Additionally, any Member may elect to enable the Managed Protection Override feature to allow the Exchange to cancel their orders when a risk protection is triggered.

Additionally, the Exchange does not believe that the proposed rule change to replace the dcEBBO value with the cNBBO value in the calculation used to determine whether a complex order is qualified to initiate a Complex Auction will impose any burden on intra-market competition. As all complex orders submitted to the Exchange will be uniformly evaluated under the Exchange's rules, and the rules of the Exchange apply equally to all Members.

Inter-Market Competition

The Exchange does not believe the proposal will impose any burden on inter-market competition as the proposal is intended to protect investors by providing additional price protection functionality and further enhancements and provide additional transparency to the Exchange's risk protections. The Exchange's proposal may promote inter-market competition as the Exchange's proposal adds additional price protection features and functionality that may attract additional order flow to the Exchange, thereby promoting inter-market competition.

The Exchange believes its proposal to adopt to use the cNBBO in the calculation to determine whether to initiate a Complex Auction better reflects current market prices and may result in the initiation of Complex Auctions which result in price improvement for the initiating order. The Exchange believes the proposed rule change will enhance competition among the various markets for complex order execution, potentially resulting in more active complex order trading on all exchanges. Additionally, the Exchange believes that this change will result in a reduction of the overall number of Complex Auctions initiated on the Exchange but will in turn increase the percentage of auctions that result in price improvement, as the auction start price will be more closely aligned to prevailing market prices.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act[105] and Rule 19b-4(f)(6)[106] 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

---

105 15 U.S.C. 78s(b)(3)(A).

106 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.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-EMERALD-2022-30 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-EMERALD-2022-30. 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 such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. 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-2022-30 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.[107]

Sherry R. Haywood,

Assistant Secretary

---

[107] 17 CFR 200.30-3(a)(12).