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July 3, 2013

**VIA ELECTRONIC SUBMISSION AND  
OVERNIGHT DELIVERY**

Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: NYSE Euronext Comment Letter dated June 25, 2013  
Regarding File Number SR-MIAX-2013-23**

Dear Ms. Murphy:

Miami International Securities Exchange, LLC ("MIAX" or "Exchange"), respectfully submits this comment letter in response to the comment letter from NYSE Euronext ("NYSE"), on behalf of its subsidiary options exchanges, NYSE Arca, Inc. ("NYSE Arca") and NYSE MKT LLC ("NYSE MKT") regarding our recent filing SR-MIAX-2013-23.<sup>1</sup>

**A. Proposal**

Before addressing the specifics of the comment letter, MIAX wants to thank NYSE MKT for taking the lead on the initial proposal (SR-NYSEMKT-2012-42) that the Exchange believes has been beneficial to the options industry. The expert drafting and negotiating skills of your Legal/Regulatory Staff with the Commission resulted in a commendable rule filing and corresponding rule language that incrementally advances the Short Term Options ("STOS") Program in a manner that has been a tremendous benefit to market participants. MIAX looks forward to the not too distant future when it may take the lead in developing beneficial proposals for the industry such as this one. MIAX wishes to take the time to note that in addition to the popular provision regarding 5 consecutive weeks of expirations, the proposal also contains a

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<sup>1</sup> See Letter from Janet McGuinness, EVP & Corporate Secretary, NYSE Euronext, to Ms. Elizabeth M. Murphy, Secretary, U.S. Securities Exchange Commission ("Commission"), dated June 25, 2013.

valuable provision that allows an Exchange to prudently limit and tailor the available series in the option to account for movement in the market and investor demand for option series:

“In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration month, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under Interpretations and Policies .02(a), that are between 10% and 30% above or below the price of the underlying security.”

This provision enables investors to roll existing option positions, and ensure that there are always series at least 10% but not more than 30% above or below the current price of the underlying security, thus providing investors with the flexibility they need to roll existing positions.

As for NYSE Euronext’s comment letter, MIAX finds it endearing that the two competing exchanges with a combined 24-28% market share on any given day, would take the time to comment on a competitive filing submitted by a new options exchange; a filing that seeks to afford market participants on MIAX the same flexibility in its Rules - to closely tailor their investment and hedging decisions in a greater number of series, thus allowing investors to better manage their risk exposure - as currently available on NYSE MKT and NYSE Arca.<sup>2</sup>

## **B. NYSE Euronext Comment Letter**

MIAX respectfully disagrees with NYSE Euronext’s suggestions that MIAX’s proposed expansion of the STOS, without the adoption of a quote mitigation plan, would be inconsistent with the objectives and purposes of the Act. Specifically, MIAX represents that: (i) the Exchange and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle additional traffic associated with trading of an expanded number of expirations that participate in the STOS Program; (ii) quote mitigation is not relevant when you have a low capacity utilization associated with high systems capacity and low trading volume; (iii) quote to trade ratio is a misleading indicator for quote mitigation purposes; (iv) the Exchange implements a cautious new listings policy that mitigates the number of classes and series listed on the Exchange; and (v) the Commission has not raised capacity concerns with the Exchange.

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<sup>2</sup> See Securities Exchange Act Release Nos. 68190 (November 8, 2012), 77 FR 68193 (November 15, 2012) (SR-NYSEArca-2012-95); 68191 (November 8, 2012), 77 FR 68194 (November 15, 2012) (SR-NYSEMKT-2012-42).



### **MIAX and OPRA Systems Capacity**

MIAX analyzed its capacity and represented that it and OPRA have the necessary systems capacity to handle the potential additional traffic associated with the trading of an expanded number of expirations that participate in the STOS Program.<sup>3</sup> The Exchange believes that NYSE Euronext is confusing the concept of 'capacity overload' with 'capacity utilization' while trying to infer that quote mitigation is a problem due to a low capacity utilization rate (*i.e.*, low ratio of trades to quotes). Quote mitigation is relevant when there is capacity overload due to too many quotes that essentially clog up the system and available system capacity. Quote mitigation is not relevant when there is a low capacity utilization rate and excess capacity that is not being used.

### **High Capacity with Low Volume**

MIAX operates one of, if not the fastest, most robust options exchange in the world. The MIAX System has the current unparalleled capacity to handle 24 million quotes per second.<sup>4</sup> While MIAX provides market participants with arguably the best options execution experience in the world, MIAX acknowledges that trading volume has been low as the Exchange seeks to gain traction in the industry. MIAX fully anticipates that market participants that value quality of execution, low latency, and system robustness in their best execution obligations will increasingly turn to MIAX to execute their option transactions. As such, the data provided by NYSE Euronext is misguided. Just because execution volume is low does not mean MIAX has a quote mitigation problem. MIAX currently has a low 'capacity utilization' rate with our current trade volume as a new Exchange; however MIAX also has a relatively high systems capacity and OPRA allocation available for use.

### **Quote to Trade Ratio is Misleading and Will Change Quickly**

The metric that NYSE Euronext proffers as a litmus test for quote mitigation is misleading and will change quickly as execution volume changes. As volume on the MIAX increases, the quote to trade ratio will change quickly and align more closely with other competing exchanges. For example, during the Month of June, MIAX's quote to trade ratio resulted in the following:

<b>Exchange</b>	<b>Message Total</b>	<b>% Message Share</b>	<b>Quote</b>	<b>Trade</b>	<b>Quote to Trade Ratio</b>
MIAX	10,325,543,107	6.34%	10,320,853,494	338,034	30,532

<sup>3</sup> See Securities Exchange Act Release No. 69658 (May 29, 2013), 78 FR 33454 (June 4, 2013) (SR-MIAX-2013-23).

<sup>4</sup> The average latency for a single quote is 27.6 microseconds for a full round trip. At the 99th percentile, the latency is 39.7 microseconds. At the 99.9th percentile, the latency is 56.4 microseconds. MIAX's unparalleled system throughput is in excess of 24 million quotes per second.



This marks a dramatic improvement during the month of June as both our % message share and trade volume increased from the month prior. The Exchange notes that the quote to trade ratio continuously improved throughout the month as trade volume gradually increased. For example, during the week of June 17<sup>th</sup> through June 21<sup>st</sup>, MIAX's quote to trade ratio resulted in the following:

Exchange	Message Total	%Message Share	Quote	Trade	Quote to Trade Ratio
MIAX	2,589,698,718	6.54%	2,588,515,647	106,618	24,278

For the week of June 17<sup>th</sup> through June 21<sup>st</sup>, the quote to trade ratio was approximately 50% less than the average for the month of May provided by NYSE Euronext, mainly because of an increase in execution volume on the Exchange. If over the next 6 months MIAX's execution volume of option transactions increases dramatically as market participants increasingly take advantage the exemplary options execution experience on MIAX, the Exchange's quote to trade ratio should be well below 8,000, consistent with other leading exchanges such as NYSE MKT and NYSE Arca.

### **Cautious New Listings Policy**

MIAX implements a cautious new listings policy that mitigates the number of classes and series listed on the Exchange. MIAX recognizes that it is the newest options exchange that has just completed an initial rollout as of the week ending April 19<sup>th</sup> by listing and trading options on the majority of the top 600 multiply-listed option classes. MIAX believes that with its current listings that it is competitive with comparable exchanges in the most popular multiply-listed option classes. However, MIAX only lists approximately 1/3 of the options classes listed on either NYSE MKT or NYSE Arca, mainly because MIAX has adopted a policy to only list options that are validly listed on other competing Exchanges in order to prudently manage the quote traffic in the most widely traded multiply-listed option series. In other words, MIAX implements a mitigation strategy on listings by not listing illiquid options classes and products not already traded elsewhere minimizing the impact on capacity.

NYSE Euronext's conclusory statement that MIAX's proposed expansion of the STOS, without the adoption of a quote mitigation plan, would be inconsistent with the objectives and purposes of the Act, has no merit or basis. Even though the Exchange may select up to 25 currently listed option classes in the STOS program, MIAX has not selected any classes to initially list in its STOS program and currently has no intention in the immediate future of being the only listings exchange in any multiply-listed options even with the proposal effective and operative.<sup>5</sup> Further, whether or not the Rules are updated to incorporate the language from SR-MIAX-2013-23 that is currently in NYSE MKT and NYSE Arca Rules, there would be no impact on our ability to list

<sup>5</sup> The Exchange notes that if a Member asks to list such an option class, the Exchange will actively consider doing so as required by Section 19 of the Act.

those options for competitive purposes that have been validly listed on NYSE MKT and NYSE Arca or any other option exchange pursuant to our Rules. The only impact would be on whether we could initially list on our own, not whether we could add them for competitive reasons. In addition, NYSE Euronext could easily have stated which provision of the Act our proposal is inconsistent if there was one.

### **Quote Mitigation Algorithm**

MIAX notes that the Exchange has a quote mitigation algorithm in place that is currently not deployed because MIAX has no current concerns about capacity overload and degradation of MIAX System performance.

### **Commission Action**

MIAX notes that the NYSE Euronext comment letter contains no arguments against the proposal itself which is immediately effective and operative upon filing, but merely promotes the thought that “MIAX should be required adopt a quote mitigation plan rather than simply relying on the OLPP plan to be sufficient to address the likely increase in quote traffic that would result from its proposed expansion of the STOS.”<sup>6</sup> If the Commission took the position that *all* option exchanges should incorporate such language as provided in NYSE MKT Rule 970.1NY or NYSE Arca Rule 6.86, Commentary .03, then MIAX would be willing to adopt such a provision. However, the Commission has on several occasions recently within the past year been onsite at MIAX, both before and after the launch of MIAX in December 2012. No such concerns regarding capacity were ever raised by Commission staff.

Once again, MIAX appreciates that NYSE Euronext took the time to comment on an immediately effective, and operative upon filing, MIAX 19b-4 rule change that essentially copies

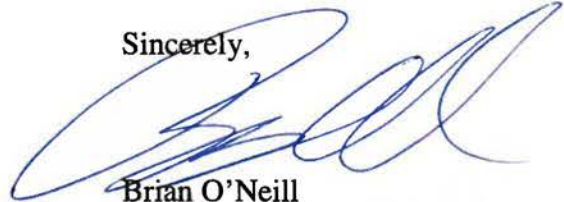
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<sup>6</sup> See NYSE Euronext Letter, page 2.

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what other competing exchanges can also do under their rules, including NYSE MKT and NYSE Arca.<sup>7</sup> MIA X also appreciates the Commission's consideration of our response. Should the Commission or the Staff have any questions, please feel free to contact Richard Rudolph at 609-897-1487.

Sincerely,



Brian O'Neill  
Vice President and Senior Counsel

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<sup>7</sup> See Securities Exchange Act Release Nos. 68190 (November 8, 2012), 77 FR 68193 (November 15, 2012) (SR-NYSEArca-2012-95); 68191 (November 8, 2012), 77 FR 68194 (November 15, 2012) (SR-NYSEMKT-2012-42). See also Securities Exchange Act Release Nos. 68242 (November 15, 2012), 77 FR 69908 (November 21, 2012) (SR-CBOE-2012-110); 68318 (November 29, 2012), 77 FR 72426 (December 5, 2012) (SR-ISE-2012-90).