SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-89213; File No. SR-MIAX-2020-11)

July 1, 2020

Self-Regulatory Organizations; Miami International Securities Exchange, LLC; Order Approving a Proposed Rule Change to Amend Exchange Rule 518, Complex Orders, to Adopt New Interpretation and Policy .08, Related Futures Cross Orders

I. Introduction

On May 11, 2020, Miami International Securities Exchange, LLC ("MIAX" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to provide for the trading of Related Futures Cross ("RFC") orders. The proposed rule change was published for comment in the Federal Register on May 20, 2020.[3] The Commission received no comment letters regarding the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to amend MIAX Rule 518, Complex Orders, to adopt new Interpretation and Policy .08 to provide for the trading of RFC orders. An RFC order is comprised of a SPIKES options[4] combo coupled with a contra-side order or orders totaling an equal number of SPIKES option combo orders, which is identified to MIAX as being part of an exchange of option

---

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 88872 (May 14, 2020), 85 FR 30779 ("Notice").

4 The SPIKES Index ("SPIKES" or "Index") measures expected 30-day volatility of the SPDR S&P 500 ETF Trust ("SPY"). See Securities Exchange Act Release No. 84417 (October 12, 2018), 83 FR 52865 (October 18, 2018) (File No. SR-MIAX-2018-14) (approving the listing and trading of SPIKES Index options).

contracts for related futures positions.[5] For purposes of proposed MIAX Rule 518(a), an exchange of option contracts for related futures positions is a transaction entered into by market participants seeking to swap option positions with related futures positions with related exposures.[6] A related futures position is a position in a futures contract with either the same underlying as, or a high degree of price correlation to, the underlying of the option combo in the RFC order so that the execution of the option combos in the RFC order would serve as an appropriate hedge for the related future positions.[7] In an exchange of contracts for related positions, one party(ies) must be the buyer(s) of (or the holder(s) of) the long market exposure associated with the options positions and the seller(s) of corresponding futures contracts and the other party(ies) must be the seller(s) of (or holder(s) of) the short market exposure associated with the options positions and the buyer(s) of the corresponding futures contracts.[8] The quantity of the option contracts executed as part of the RFC order must correlate to the quantity represented by the related futures position portion of the exchange.[9] The transaction involving the related futures position of the exchange must comply with all applicable rules of the designated contract market on which the futures are listed for trading.[10] An RFC order may be executed only during Regular Trading Hours and contemporaneously with

---

5 See proposed MIAX Rule 518, Interpretation and Policy .08(a). For purposes of proposed MIAX Rule 518(a), a SPIKES options combo is a two-legged order with one leg to purchase (sell) SPIKE calls and another leg to sell (purchase) the same number of SPIKE puts with the same expiration date and strike price. See proposed MIAX Rule 518, Interpretation and Policy .08(a)(4).

6 See proposed MIAX Rule 518(a)(5).

7 See proposed MIAX Rule 518(a)(5)(a).

8 See proposed MIAX Rule 518(a)(5)(b).

9 See id.

10 See proposed MIAX Rule 518(a)(7).

the execution of the related futures position portion of the exchange.[11] The Exchange notes that the proposal is limited to a single class of a proprietary product listed only on the Exchange.[12]

To execute an RFC order, an Electronic Exchange Member ("EEM")[13] must submit the RFC order to the System, which may execute automatically on entry without exposure.[14] An EEM may execute an RFC order only if: (i) each option leg executes at a price that complies with MIAX Rule 518(c), provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (ii) each option leg executes at a price at or between the NBBO for the applicable series; and (iii) the execution price is better than the price of any complex order resting in the Strategy Book, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.[15] The System cancels an RFC order if it cannot execute.[16]

Because there currently are no futures on the SPIKES Index, market participants that wish to hedge a position in SPIKES options using futures must use a highly correlated related instrument, such as VIX futures.[17] The Exchange notes that although SPIKES is highly correlated to VIX, there

---

11 See proposed MIAX Rule 518(a)(6).

12 See Notice, 85 FR at 30781.

13 An EEM is a Trading Permit who is not a Market Maker. EEMs are deemed "members" under the Exchange Act. The System is the automated trading system used by the Exchange for the trading of securities. See MIAX Rule 100.

14 See proposed MIAX Rule 518(a)(1). The Exchange notes that a Qualified Contingent Cross Order is similarly executed as a clean cross. See Notice, 85 FR at 30781, n. 14 (citing MIAX Rule 516(j)). See also MIAX Rules 515(h)(4) (execution of Complex Qualified Contingent Cross ("cQCC") Orders) and 518(b)(6) (defining cQCC Orders).

15 See proposed MIAX Rule 518(a)(2).

16 See id.

17 MIAX notes that SPIKES is over 99% correlated to VIX. VIX futures trade on the Chicago Futures Exchange. See Notice, 85 FR at 30779-80.

is some basis risk between the two products, which can be exacerbated during times of market volatility.[18] As described more fully in the Notice, a market participant that has hedged a SPIKES options position with VIX futures could eliminate the basis risk in that position by exchanging the VIX futures position for a hedge comprised of SPIKES option combos, a synthetic equivalent to the VIX futures position that does not carry basis risk.[19] A market participant seeking to reduce margin and capital requirements could exchange a position in SPIKES options combos for a corresponding VIX futures position.[20] The Exchange proposes to adopt RFC orders to facilitate these trades.[21] The Exchange has put in place a regulatory review plan to ensure that RFC orders are executed in conjunction with an exchange of contracts for related positions as required by the proposed rule.[22]

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act,[23] and the rules and regulations thereunder applicable to a national

---

18 Basis risk is the financial risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. See Notice, 85 FR at 30779, n. 6. The Exchanges notes that the SPIKES settlement value is determined using the opening prices on MIAX of SPY options that expire in 30 days, while the VIX settlement value is determined using the opening prices on the Cboe Exchange of SPX options that expire in 30 days. Although SPY and SPX are highly correlated, variances in supply and demand can cause the settlement prices of the SPIKES and VIX Indexes to diverge. See Notice, 85 FR at 30779-80.

19 See id.

20 See id. at 30780.

21 See id.

22 See id. at 30781.

23 15 U.S.C. 78f.

securities exchange.[24] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[25] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and that the rules are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. RFC orders would allow market participants trading SPIKES options to eliminate basis risk by exchanging a VIX futures hedge for SPIKES options combos, or to manage capital and margin requirements by exchanging positions in SPIKES options combos with corresponding positions in VIX futures, as described above. The Commission notes that an RFC order may execute automatically without exposure only if: (i) each option leg executes at a price that complies with MIAX Rule 518(c), provided that no option leg executes at the same price as a Priority Customer Order in the Simple Book; (ii) each option leg executes at a price at or between the NBBO for the applicable series; and (iii) the execution price is better than the price of any complex order resting in the Strategy Book, unless the RFC order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order.[26] In addition, the transaction involving the related futures position of an RFC order must comply with all

---

24 In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

25 15 U.S.C. 78f(b)(5).

26 See proposed MIAX Rules 518(a)(1) and (2). The Commission notes that cQCC Orders also may execute automatically upon entry. See MIAX Rule 518(b)(6).

applicable rules of the designated contract market on which the futures are listed for trading.[27] The Exchange has put in place a regulatory review plan to ensure that RFC orders are executed in conjunction with an exchange of contracts for related positions as required by the proposed rule.[28]

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[29] that the proposed rule change (SR-MIAX-2020-11) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[30]

J. Matthew DeLesDernier
Assistant Secretary

---

27 See proposed MIAX Rule 518(a)(7).

28 See Notice, 85 FR at 30781.

29 15 U.S.C. 78s(b)(2).

30 17 CFR 200.30-3(a)(12).