

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82721; File No. SR-PEARL-2018-01)

February 15, 2018

Self-Regulatory Organizations; MIAX PEARL LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 517A, Aggregate Risk Manager for EEMs (“ARM-E”), and Rule 517B, Aggregate Risk Manager for Market Makers (“ARM-M”)

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 February 6, 2018, MIAX PEARL, LLC (“MIAX PEARL” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is filing a proposal to amend Exchange Rule 517A, Aggregate Risk Manager for EEMs (“ARM-E”), and Rule 517B, Aggregate Risk Manager for Market Makers (“ARM-M”).

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Rule 517A, Aggregate Risk Manager for EEMs (“ARM-E”), and Rule 517B, Aggregate Risk Manager for Market Makers (“ARM-M”), to enhance the Aggregate Risk Manager (“ARM”) protections available to Members³ on the Exchange. Specifically, the Exchange proposes to adopt a single side protection (“SSP”) feature, which is an additional, optional, and more granular feature of the ARM protection that is currently offered by the Exchange. Accordingly, the Exchange proposes to modify (i) Interpretations and Policies of Rule 517A, to adopt new subsection .02, EEM Single Side Protection; and (ii) Interpretations and Policies .01, of Rule 517B, to adopt new subsection (c), Market Maker Single Side Protection.

The Exchange currently offers a number of risk protection mechanisms to its Members. One important risk protection mechanism is the ARM. The purpose of the ARM is to remove the Member from the market, once certain pre-determined trading limit thresholds (set up in advance by the Member) have been triggered, to limit the risk exposure of the Member.

The Exchange now proposes to further enhance the ARM to introduce an SSP feature. The SSP feature, which is optional, will provide an additional level of granularity to the ARM, as

³ The term “Member” means an individual or organization that is registered with the Exchange pursuant to Chapter II of the MIAX PEARL Rules for purposes of trading on the Exchange as an “Electronic Exchange Member” or “Market Maker.” Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

this protection will apply only to quotes⁴ and orders on the same side (bid or offer) of an individual option.⁵ Members who avail themselves of the SSP feature will have even greater precision to tailor their risk tolerance level.

To implement the SSP feature for Electronic Exchange Members⁶ the Exchange proposes to adopt new subsection .02 to Interpretations and Policies of Rule 517A, entitled EEM Single Side Protection. Subsection .02 will provide that an EEM may determine to engage the EEM Single Side Protection (“SSP”) feature for orders delivered via the MEO Interface⁷ by MPID.⁸ If engaged, if the full remaining size of an EEM’s order, in an individual option, is exhausted by a trade, the System⁹ will trigger the SSP. When triggered, the System will cancel all open orders and block all new inbound orders delivered via the MEO Interface, for that particular side of that individual option for that MPID. The System will provide a notification message to the EEM that the SSP has been triggered. The block will remain in effect until the EEM notifies the

⁴ The term “quote” or “quotation” means a bid or offer entered by a Market Maker as a firm order that updates the Market Maker’s previous bid or offer, if any. When the term order is used in these Rules and a bid or offer is entered by the Market Maker in the option series to which such Market Maker is registered, such order shall, as applicable, constitute a quote or quotation for purposes of these Rules. See Exchange Rule 100.

⁵ The term “individual option” means an option contract that is either a put or a call, covering a specific underlying security and having a specific exercise price and expiration date. See Exchange Rule 100.

⁶ The term “Electronic Exchange Member” or “EEM” means the holder of a Trading Permit who is a Member representing as agent Public Customer Orders or Non-Customer Orders on the Exchange and those non-Market Maker Members conducting proprietary trading. Electronic Exchange Members are deemed “members” under the Exchange Act. See Exchange Rule 100.

⁷ The term “MEO Interface” means a binary order interface used for submitting certain order types (as set forth in Rule 516) to the MIAX PEARL System. See Exchange Rule 100.

⁸ The term “MPID” means unique market participant identifier. See Exchange Rule 100.

⁹ The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

Exchange (in a manner required by the Exchange and communicated to Members by Regulatory Circular)¹⁰ to reset the SSP (“SSP Reset”). The SSP feature is optionally available and may be enabled for an EEM’s MPID. Additionally, the Exchange notes that Intermarket Sweep Orders¹¹ are not eligible for EEM Single Side Protection.

To implement the SSP feature for Market Makers,¹² the Exchange proposes to adopt new subsection (c) to Interpretations and Policies .01 of Rule 517B, entitled Market Maker Single Side Protection. Subsection (c) will provide that a Market Maker may determine to engage the Market Maker Single Side Protection (“SSP”) feature for orders delivered via the MEO Interface by MPID. If engaged, if the full remaining size of a Market Maker’s order, in an individual option, is exhausted by a trade, the System will trigger the SSP. When triggered, the System will cancel all open orders and block all new inbound orders delivered via the MEO Interface, for that particular side of that individual option for that MPID. The System will provide a notification message to the Market Maker that the SSP has been triggered. The block will remain in effect until the Market Maker notifies the Exchange (in a manner required by the Exchange and communicated to Members by Regulatory Circular)¹³ to reset the SSP (“SSP Reset”). The SSP feature is optionally available and may be enabled for a Market Maker’s MPID. Additionally,

¹⁰ The Exchange notes that the manner by which Members will be required to notify the Exchange to remove the block will be similar to that of MIAX Options. See MIAX Options Regulatory Circular 2018-04, January 24, 2018.

¹¹ An Intermarket Sweep Order or “ISO”, as defined in Rule 1400(h), is a limit order that is designated by a Member as an ISO in the manner prescribed by the Exchange, and is executed within the System by Members without respect to Protected Quotations of other Eligible Exchanges as defined in Rule 1400(p) and (f). ISOs are immediately executable within the System and shall not be eligible for routing. See Exchange Rule 516(f).

¹² The term “Market Maker” or “MM” means a Member registered with the Exchange for the purpose of making markets in option contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI of the MIAX PEARL Rules. See Exchange Rule 100.

¹³ See supra note 10.

the Exchange notes that Intermarket Sweep Orders are not eligible for Market Maker Single Side Protection.

The Exchange notes that the proposed rule change is substantially similar to a rule that is currently operative on the Exchange's affiliate, MIAX Options Exchange ("MIAX Options").¹⁴ MIAX Options has two types of Members;¹⁵ MIAX Options Market Makers¹⁶ and MIAX Options Electronic Exchange Members.¹⁷ The Aggregate Risk Manager protections available on MIAX Options are available only to Market Makers of the Exchange. Further, on MIAX Options, the only interface connection that allows Market Makers of the Exchange to provide quotations¹⁸ to the market is the MIAX Express Interface ("MEI") connection.¹⁹ Therefore, SSP

¹⁴ See Securities Exchange Act Release No. 82394 (December 22, 2017), 82 FR 61638 (December 28, 2017) (SR-MIAX-2017-49). (The Exchange notes that its proposal is based on the amendment to MIAX Options Rule 612).

¹⁵ The term MIAX Options "Member" means an individual or organization approved to exercise the trading rights associate with a Trading Permit. MIAX Options Members are deemed "members" under the Exchange Act. See MIAX Options Exchange Rule 100.

¹⁶ The term MIAX Options "Market Makers" refers to "Lead Market Makers", "Primary Lead Market Makers" and "Registered Market Makers" on MIAX Options Exchange collectively. See MIAX Options Exchange Rule 100.

¹⁷ The term MIAX Options "Electronic Exchange Member" means the holder of a Trading Permit who is not a Market Maker. Electronic Exchange Members are deemed "members" under the Exchange Act. See MIAX Options Exchange Rule 100.

¹⁸ The term "quote" or "quotation" means a bid or offer entered by a Market Maker that is firm and may update the Market Maker's previous quote, if any. The Rules of the Exchange provide for the use of different types of quotes, including Standard quotes and eQuotes, as more fully described in MIAX Options Exchange Rule 517. A Market Maker may, at times, choose to have multiple types of quotes active in an individual option. See MIAX Options Exchange Rule 100.

¹⁹ The MIAX Express Interface is a connection to MIAX systems that enables Market Makers to submit simple and complex electronic quotes to MIAX. See MIAX Options Fee Schedule, Section 5)d)ii), footnote 26.

on MIAX Options is limited to MIAX Options Market Makers that send Standard quotes²⁰ and select eQuotes²¹ to the MIAX Options Exchange via an MEI connection.

Similarly, MIAX PEARL has two types of Members; Market Makers²² and Electronic Exchange Members.²³ The MEO Interface on MIAX PEARL is analogous to the MEI Interface on MIAX Options. However, on MIAX PEARL, both Market Makers and EEMs may connect to the System using the MEO Interface. Therefore, the Exchange is proposing to amend Exchange Rule 517A, Aggregate Risk Manager for EEMs (“ARM-E”), and also Exchange Rule 517B, Aggregate Risk Manager for Market Makers (“ARM-M”).

On MIAX PEARL, the proposed rule provides that when the SSP is triggered the System will cancel all open orders submitted via the MEO interface and block all new inbound orders. Intermarket Sweep Orders are not eligible for SSP and are not canceled or blocked when the SSP is triggered. On MIAX Options, the rule text provides that when the SSP is triggered the System²⁴ will cancel all Standard quotes and block all new inbound Standard quotes, IOC

²⁰ A Standard quote is a quote submitted by a Market Maker that cancels and replaces the Market Maker’s previous Standard quote, if any. See MIAX Options Exchange Rule 517(a)(1).

²¹ An eQuote is a quote with a specific time in force that does not automatically cancel and replace a previous Standard quote or eQuote. See MIAX Options Exchange Rule 517(a)(2).

²² See supra note 12.

²³ See supra note 6.

²⁴ The term “System” means the automated trading system used by the Exchange for the trading of securities. See MIAX Options Exchange Rule 100.

eQuotes,²⁵ and FOK eQuotes²⁶ for that particular side of that individual option for that MPID.²⁷ The proposed rule will provide the same functionality currently offered on MIAX Options,²⁸ however due to technical differences between the MIAX Options interface (MEI) and the MIAX PEARL interface (MEO), the proposed rule text is not identical to that of MIAX Options.

To maintain consistency in the functionality between MIAX Options and MIAX PEARL, and to promote the operation of a fair and orderly market, the Exchange is excluding Intermarket Sweep Orders from the SSP functionality on MIAX PEARL.²⁹ MIAX PEARL and MIAX Options have a number of common Members and where feasible the Exchange strives to provide consistency between the markets so as to avoid confusion among the Members.

The Exchange has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional message traffic that may arise from the cancellation of open orders as a result of SSP being triggered.

The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 60 days following the operative date of the proposed rule. The implementation date will be no later than 60 days following the issuance of

²⁵ An immediate or cancel or “IOC” eQuote is an eQuote submitted by a Market Maker that must be matched with another quote or order for an execution in whole or in part upon receipt by the System. Any portion of the IOC eQuote not executed will be immediately canceled. See MIAX Options Exchange Rule 517(a)(2)(iv).

²⁶ A fill or kill or “FOK” eQuote is an eQuote submitted by a Market Maker that must be matched with another quote or order for an execution in its entirety at a single price upon receipt into the System or will be immediately cancelled. See MIAX Options Exchange Rule 517(a)(2)(v).

²⁷ MIAX Options has a separate Intermarket Sweep eQuote that is not eligible for SSP and that is not canceled or blocked when the SSP is triggered. See MIAX Options Exchange Rule 517(a)(2)(vi).

²⁸ See MIAX Options Exchange Rule 612, Aggregate Risk Manager (ARM).

²⁹ See supra note 27.

the Regulatory Circular.

2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act³⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act³¹ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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.

The Exchange believes the proposed changes remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, protect investors and the public interest by providing Members with an additional risk management tool. Members who are Market Makers have a heightened obligation on the Exchange and are obligated to submit continuous two-sided quotations in a certain number of series in their appointed classes for a certain percentage of time in each trading session,³² rendering them vulnerable to risk from market conditions. Additionally, EEMs may also submit a large volume of orders that rest on the book also rendering them vulnerable to risk from market conditions.

The ability of a Member to engage the SSP feature of ARM is a valuable tool in assisting Members in risk management. Without adequate risk management tools Members could reduce the size of their quotations and orders which could undermine the quality of the markets available to customers and other market participants. The proposed rule change removes

³⁰ 15 U.S.C. 78f(b).

³¹ 15 U.S.C. 78f(b)(5).

³² See Exchange Rule 605.

impediments to and is designed to perfect the mechanisms of a free and open market by giving Members the ability to further refine their risk protections from an option class level to a single side of an individual option. Accordingly, the SSP feature is designed to provide Members with greater control over their quotations and orders in the market, thereby removing impediments to and helping to perfect the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest. In addition, providing Members with more tools for managing risk will facilitate transactions in securities because, as noted above, Members will have more confidence that protections are in place that reduce the risks from market events. As a result, the new functionality has the potential to promote just and equitable principles of trade.

The Exchange believes the proposed changes remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, protect investors and the public interest, and promote a fair and orderly market by excluding Intermarket Sweep Orders from the SSP functionality. Intermarket Sweep Orders are used to prevent locked and crossed markets from occurring³³ and it is in the public interest for markets to remain uncrossed to promote competition and price discovery.

The Exchange notes that the proposed rule change will not relieve Exchange Market Makers of their continuous quoting obligations under Exchange Rule 605 or any other obligation under the Rules of the Exchange, or any obligations arising under Reg NMS Rule 602.³⁴ Nor will the proposed rule change prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet their continuous quoting obligation each trading day.

³³ See supra note 11.

³⁴ 17 CFR 242.602.

Additionally, the Exchange notes that a similar rule is currently operative on the Exchange's affiliate, MIAX Options.³⁵ MIAX PEARL and MIAX Options have a number of common members and where feasible the Exchange strives to offer similar functionality to reduce the potential for confusion by its members that are also members of MIAX Options.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed rule change will foster competition by providing Members with the ability to specifically customize their use of the Exchange's risk management tools in order to compete for executions and order flow.

Additionally, the Exchange believes that the proposed rule change should promote competition as it is designed to allow Members greater flexibility and control of their risk exposure to protect them from market conditions that may increase their risk exposure in the market. The Exchange does not believe the proposed rule change will impose a burden on intra-market competition as the optional risk protection feature is equally available to all Members of the Exchange.

For all the reasons stated, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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.

³⁵ See supra note 28.

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

Because the 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 from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act³⁶ and Rule 19b-4(f)(6) thereunder.³⁷

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act³⁸ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)³⁹ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the Exchange may immediately implement risk protections similar to those found on MIAX Options. The Exchange states that MIAX PEARL and MIAX Options have a number of common Members and where feasible it intends to implement similar risk protections to provide consistency between markets so as to avoid confusion among Members. For this reason, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore,

³⁶ 15 U.S.C. 78s(b)(3)(A).

³⁷ 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of 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.

³⁸ 17 CFR 240.19b-4(f)(6).

³⁹ 17 CFR 240.19b-4(f)(6)(iii).

the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.⁴⁰

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 change should be approved or disapproved.

IV. Solicitation of Comments

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

Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-PEARL-2018-01 on the subject line.

Paper comments:

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

⁴⁰ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

All submissions should refer to File Number SR-PEARL-2018-01. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-PEARL-2018-01 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.⁴¹

Eduardo A. Aleman
Assistant Secretary

⁴¹ 17 CFR 200.30-3(a)(12).