

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83060; File No. SR-PEARL-2018-10)

April 18, 2018

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Exchange Rule 503, Openings on the Exchange

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 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, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange is filing a proposal to amend Exchange Rule 503, Openings on the Exchange.

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 the proposed rule change. The text of these statements may be examined at the places specified

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

1. Purpose

The Exchange proposes to amend Exchange Rule 503, Openings on the Exchange. Specifically, the Exchange proposes to amend subsection (b)(1)(i) and (b)(1)(ii) to make clarifying changes to add additional detail to the rule text which describes the two different scenarios that the Exchange uses to direct its Opening Process.³ Additionally, the Exchange proposes to amend subsection (b)(2) and (b)(3) to make additional clarifying changes to align the rule text to the changes proposed in subsection (b)(1)(i) and (ii).

Currently, the Exchange has two separate sets of criteria, either of which must be satisfied in order to begin the Opening Process; one for when there is a possible trade on MIAX PEARL⁴ and one for when there is not.⁵ Specifically, Rule 503(b)(1)(i) states that to begin the Opening Process, “[i]f there is a possible trade on MIAX PEARL, a Valid Width NBBO⁶ must be present.” The Exchange now proposes to amend this sentence to remove the phrase “a possible trade” and replace it with a more comprehensive description of scenarios which, if present, would require the presence of a Valid Width NBBO to begin the Opening Process, to better align the rule text to the current Exchange functionality. The Exchange therefore proposes

³ See Exchange Rule 503(a)(1).

⁴ See Exchange Rule 503(b)(1)(i).

⁵ See Exchange Rule 503(b)(1)(ii).

⁶ See Exchange Rule 503(a)(4).

to amend subsection (b)(1)(i) to state, “[i]f there is locking or crossing interest on MIAX PEARL, or interest that locks or crosses the NBBO,⁷ a Valid Width NBBO must be present.”

The following example demonstrates interest on MIAX PEARL that locks or crosses the NBBO.

Example 1

MIAX PEARL receives a Customer Do Not Route (“DNR”)⁸ to sell 100 @ \$.05 prior to the opening.

At 9:30 A.M. MIAX PEARL receives ABBO⁹ market data from one other exchange.

ABBO: \$.05 x \$5.00

NBBO: \$.05 x \$5.00

The interest to sell @ \$.05 on MIAX PEARL locks the NBBO.

The interest on MIAX PEARL is not routable and there is no other interest available on MIAX PEARL in this scenario. The Exchange’s rules require a Valid Width NBBO¹⁰ to be present to begin the Opening Process. The Exchange believes that requiring the presence of a Valid Width NBBO as a condition precedent to starting the Opening Process ensures that there is a sufficient quoted market in the options series which in turn will ensure that the Exchange’s

⁷ The term “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

⁸ A Do Not Route or “DNR” order is an order that will never be routed outside of the Exchange regardless of the prices displayed by away markets. See Exchange Rule 516(g).

⁹ The term “ABBO” or “Away Best Bid or Offer” means the best bid(s) or offer(s) disseminated by other Eligible Exchanges (defined in Rule 1400(f)) and calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

¹⁰ The Exchange notes that the current calculation of a Valid Width NBBO on MIAX PEARL requires the disseminated quotes of at least two other exchanges and the quotes of at least one MIAX PEARL Market Maker.

Opening Process determines a valid Opening Price.¹¹ The Exchange believes this requirement provides a level of price protection to orders on its Book¹² and will limit transactions from occurring at the opening at potentially erroneous prices.

Similarly, the Exchange also proposes to amend subsection (b)(1)(ii) to remove the phrase, “no trade is possible” and replace it with a more comprehensive description of the conditions which would result in the Exchange using its second set of criteria, which is not changing under this proposal, whereby any one of the conditions may be satisfied in order to begin the Opening Process. The Exchange therefore proposes to amend subsection (b)(1)(ii) to state, “[i]f there is no locking or crossing interest on MIAX PEARL or interest that locks or crosses the NBBO, then the Exchange will open dependent upon one of the following: (A) A Valid Width NBBO is present; or (B) A certain number of other options exchanges (as determined by the Exchange and posted by MIAX PEARL on its website) have disseminated a firm quote on OPRA; or (C) A certain period of time (as determined by the Exchange and posted by MIAX PEARL on its website) has elapsed.”

Additionally, the Exchange proposes to amend the heading of subsection 503(b)(2) to align the rule text to the proposed changes discussed above. Currently, the heading reads, “Opening Process Where There is a Possible Trade on MIAX PEARL.” The Exchange proposes to amend this heading to state, “Opening Process Where There is Locking or Crossing Interest on MIAX PEARL or Interest that Locks or Crosses the NBBO.” Further, the Exchange proposes to amend the heading of subsection 503(b)(3) to align the rule text to the proposed changes discussed above. Currently, the heading reads, “Opening Process Where There is No Possible

¹¹ See Exchange Rule 503(b)(2)(i).

¹² The term “Book” means the electronic book of buy and sell orders and quotes maintained by the System. See Exchange Rule 100.

Trade on MIAX PEARL.” The Exchange now proposes to amend this heading to state, “Opening Process Where There is No Locking or Crossing Interest on MIAX PEARL and no Interest that Locks or Crosses the NBBO.” The Exchange believes that these proposed changes harmonize the rule text with the proposed amendments to subsection (b)(1)(i) and (ii).

The Exchange notes that the proposed changes are clarifying changes only that will not alter the current behavior of the Exchange’s Opening Process. The Opening Process where there is locking or crossing interest on MIAX PEARL or interest that locks or crosses the NBBO will remain unchanged.¹³ Likewise, the Opening Process for where there is no locking or crossing interest on MIAX PEARL and no interest that locks or crosses the NBBO will remain unchanged. Orders in the System will be handled at the conclusion of the Opening Process in time sequence, beginning with the order with the oldest time stamp and may, in whole or in part, be placed on the Book, cancelled, executed, managed in accordance with Rule 515, or routed in accordance with Rule 529.¹⁴

The proposed rule change provides additional clarification and better aligns the rule text to how the Opening Process operates in production, and provides consistency in the Exchange’s rules concerning the operation of the Exchange’s Opening Process.

2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act¹⁵ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁶ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and

¹³ See Exchange Rule 503(b)(2)(i)-(iv).

¹⁴ See Exchange Rule 503(b)(3).

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 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.

The Exchange believes that the proposed changes to its rulebook add additional detail and provide further clarification to Members, investors, and the Public, regarding the operation of the Exchange's Opening Process. The Exchange believes it is in the interest of investors and the public to accurately describe the behavior of the Exchange's System in its rules as this information may be used by investors to make decisions concerning the submission of their orders. Transparency and clarity are consistent with the Act because it removes impediments to and helps perfect the mechanism of a free and open market and a national market system, and, in general, protects investors and the public interest by accurately describing the behavior of the Exchange's System.

Currently the rule requires the presence of a Valid Width NBBO to begin the Opening Process when there is locking or crossing interest on the Exchange (a possible trade), the additional rule text requires the presence of a Valid Width NBBO to begin the Opening Process when there is interest that locks or crosses the NBBO, which similarly serves to protect routable and non-routable interest on the Book. The Exchange believes that requiring a Valid Width NBBO to be present prior to beginning the Opening Process when there is locking or crossing interest on the Exchange, or interest that locks or crosses the NBBO, ensures that the option series is being sufficiently quoted to allow meaningful price discovery. The Exchange's current Valid Width NBBO calculation requires the disseminated quotes of at least two other exchanges

and the quotes of at least one MIAX PEARL Market Maker.¹⁷ The Exchange believes that using quotes from competing options exchanges, in addition to quotes from its own Market Maker, ensures that the Exchange can calculate a valid Opening Price.¹⁸ The Exchange believes that its Valid Width NBBO requirement contributes to the operation of a fair and orderly market, and in general, protects investors and the public interest by reducing the chance that the Exchange could execute opening transactions at a potentially erroneous Opening Price.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change does not alter any functionality of the Exchange's System and is designed to add additional clarity and detail to the Exchange's rules.

The Exchange does not believe that the proposed rule change will impose any burden on inter-market competition as the Rules apply equally to all Exchange Members. The proposed rule change is not a competitive filing and is intended to enhance the protection of investors by ensuring that there is a sufficient quoted market from which the Exchange can determine a valid Opening Price. Additionally, the proposed rule change provides additional detail and clarity to the Exchange's rulebook regarding the Exchange's Opening Process.

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.

¹⁷ See supra note 10.

¹⁸ See supra note 11.

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 Act¹⁹ and Rule 19b-4(f)(6)²⁰ thereunder.

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

IV. Solicitation of Comments

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

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-PEARL-2018-10 on the subject line.

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 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.

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-PEARL-2018-10. 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-2018-10 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.²¹

Eduardo A. Aleman
Assistant Secretary

²¹ 17 CFR 200.30-3(a)(12).