

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84592; File No. SR-PEARL-2018-23)

November 14, 2018

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the MIAX PEARL Fee Schedule

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 October 31, 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 the MIAX PEARL Fee Schedule (the “Fee Schedule”).

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 the Add/Remove Tiered Rebates/Fees set forth in Section 1)a) of the Fee Schedule that apply to MIAX PEARL Market Makers³ to (i) add a new, alternative Volume Criteria to Tier 2 based upon the total monthly volume executed by a MIAX PEARL Market Maker in SPY, QQQ, and IWM options (“SPY/QQQ/IWM options”) volume on MIAX PEARL, expressed as a percentage of total consolidated national volume in SPY/QQQ/IWM options; (ii) amend the “Definitions” section of the Fee Schedule to add the following definition, “SPY/QQQ/IWM TCV” and (iii) amend the explanatory paragraph beneath the tables in Section 1)a) of the Fee Schedule, as described below.

The Exchange currently assesses transaction rebates and fees to all market participants which are based upon the total monthly volume executed by the Member⁴ on MIAX PEARL in the relevant, respective origin type (not including Excluded Contracts)⁵ expressed as a

³ “Market Maker” means a Member registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange. See the Definitions Section of the Fee Schedule and Exchange Rule 100.

⁴ “Member” means an individual or organization that is registered with the Exchange pursuant to Chapter II of the Exchange 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 the Definitions Section of the Fee Schedule and Exchange Rule 100.

⁵ “Excluded Contracts” means any contracts routed to an away market for execution. See the Definitions Section of the Fee Schedule.

percentage of TCV.⁶ In addition, the per contract transaction rebates and fees are applied retroactively to all eligible volume for that origin type once the respective threshold tier (“Tier”) has been reached by the Member. The Exchange aggregates the volume of Members and their Affiliates.⁷ Members that place resting liquidity, i.e., orders resting on the book of the MIAX PEARL System,⁸ are paid the specified “maker” rebate (each a “Maker”), and Members that execute against resting liquidity are assessed the specified “taker” fee (each a “Taker”). For

⁶ “TCV” means total consolidated volume calculated as the total national volume in those classes listed on MIAX PEARL for the month for which the fees apply, excluding consolidated volume executed during the period time in which the Exchange experiences an “Exchange System Disruption” (solely in the option classes of the affected Matching Engine (as defined below)). The term Exchange System Disruption, which is defined in the Definitions section of the Fee Schedule, means an outage of a Matching Engine or collective Matching Engines for a period of two consecutive hours or more, during trading hours. The term Matching Engine, which is also defined in the Definitions section of the Fee Schedule, is a part of the MIAX PEARL electronic system that processes options orders and trades on a symbol-by-symbol basis. Some Matching Engines will process option classes with multiple root symbols, and other Matching Engines may be dedicated to one single option root symbol (for example, options on SPY may be processed by one single Matching Engine that is dedicated only to SPY). A particular root symbol may only be assigned to a single designated Matching Engine. A particular root symbol may not be assigned to multiple Matching Engines. The Exchange believes that it is reasonable and appropriate to select two consecutive hours as the amount of time necessary to constitute an Exchange System Disruption, as two hours equates to approximately 1.4% of available trading time per month. The Exchange notes that the term “Exchange System Disruption” and its meaning have no applicability outside of the Fee Schedule, as it is used solely for purposes of calculating volume for the threshold tiers in the Fee Schedule. See the Definitions Section of the Fee Schedule.

⁷ “Affiliate” means (i) an affiliate of a Member of at least 75% common ownership between the firms as reflected on each firm’s Form BD, Schedule A, or (ii) the Appointed Market Maker of an Appointed EEM (or, conversely, the Appointed EEM of an Appointed Market Maker). An “Appointed Market Maker” is a MIAX PEARL Market Maker (who does not otherwise have a corporate affiliation based upon common ownership with an EEM) that has been appointed by an EEM and an “Appointed EEM” is an EEM (who does not otherwise have a corporate affiliation based upon common ownership with a MIAX PEARL Market Maker) that has been appointed by a MIAX PEARL Market Maker, pursuant to the process described in the Fee Schedule. See the Definitions Section of the Fee Schedule.

⁸ The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

opening transactions and ABBO uncrossing transactions, per contract transaction rebates and fees are waived for all market participants. Finally, Members are generally assessed lower transaction fees and generally receive lower rebates for order executions in standard option classes in the Penny Pilot Program⁹ (“Penny classes”) than for order executions in standard option classes which are not in the Penny Pilot Program (“Non-Penny classes”), where Members generally are assessed higher transaction fees and generally receive higher rebates.

Transaction rebates and fees in Section 1)a) of the Fee Schedule are currently assessed for MIAX PEARL Market Makers according to the following table:

			Per Contract Rebates/Fees for Penny Classes		Per Contract Rebates/Fees for Non-Penny Classes	
Origin	Tier	Volume Criteria	Maker	Taker	Maker**	Taker**
All MIAX PEARL Market Makers	1	0.00% - 0.15%	(\$0.25)	\$0.50	(\$0.30)	\$1.10
	2	Above 0.15% - 0.40%	(\$0.40)	\$0.50	(\$0.30)	\$1.10
	3	Above 0.40% - 0.65%	(\$0.40)	\$0.48	(\$0.60)	\$1.09
	4	Above 0.65% - 1.00% or Above 2.25% in SPY	(\$0.47)	\$0.47	(\$0.65)	\$1.08
	5	Above 1.00% - 1.40%	(\$0.48)	\$0.45	(\$0.70)	\$1.07
	6	Above 1.40%	(\$0.48)	\$0.44	(\$0.85)	\$1.06

The Exchange proposes to add a new, alternative Volume Criteria to Tier 2 based upon the total monthly volume executed by a MIAX PEARL Market Maker collectively in SPY/QQQ/IWM options on MIAX PEARL, expressed as a percentage of total consolidated national volume in SPY/QQQ/IWM options. Pursuant to this alternative Volume Criteria, a Market Maker can now reach the Tier 2 threshold if the Market Maker’s total executed monthly volume, not including Excluded Contracts, in SPY/QQQ/IWM options on MIAX PEARL is

⁹ See Securities Exchange Act Release No. 79778 (January 12, 2017), 82 FR 6662 (January 19, 2017) (SR-PEARL-2016-01).

above 0.45% of total consolidated national monthly volume in SPY/QQQ/IWM options. To be clear, volume that is from resting liquidity (Maker) and taking liquidity (Taker) in SPY/QQQ/IWM options is counted towards this alternative Volume Criteria, and the 0.45% threshold does not have to be reached individually in each of the three symbols. Accordingly, a Market Maker could now qualify for Tier 2 rebates and fees which will then be applicable to all volume executed by the MIAX PEARL Market Maker on MIAX PEARL. The two Volume Criteria available for Tier 2 are now based upon either: (a) the total monthly volume executed by the Market Maker in all options classes on MIAX PEARL, not including Excluded Contracts, (as the numerator), expressed as a percentage of (divided by) TCV (as the denominator); or (b) the total monthly volume executed by the MIAX PEARL Market Maker collectively in SPY/QQQ/IWM options on MIAX PEARL, not including Excluded Contracts, (as the numerator), expressed as a percentage of (divided by) SPY/QQQ/IWM TCV (as the denominator). Once either Volume Criteria threshold in Tier 2 is reached by the Market Maker, the Tier 2 per contract rebates and fees will apply to all volume in all options classes executed by that MIAX PEARL Market Maker on MIAX PEARL. The Exchange does not propose to make any changes to the currently existing Tier 2 Volume Criteria threshold of above 0.15% to 0.40% or to the corresponding Maker rebates or Taker fees. Instead, the Exchange is simply adding an alternative method by which a MIAX PEARL Market Maker can reach Tier 2.

With the proposed changes, Section 1)a) of the Fee Schedule for Market Maker orders shall be the following:

			Per Contract Rebates/Fees for Penny Classes		Per Contract Rebates/Fees for Non-Penny Classes	
Origin	Tier	Volume Criteria	Maker	Taker	Maker**	Taker**
All MIAX PEARL Market Makers	1	0.00% - 0.15%	(\$0.25)	\$0.50	(\$0.30)	\$1.10
	2	Above 0.15% - 0.40% or Above 0.45% in SPY/QQQ/IWM	(\$0.40)	\$0.50	(\$0.30)	\$1.10
	3	Above 0.40% - 0.65%	(\$0.40)	\$0.48	(\$0.60)	\$1.09
	4	Above 0.65% - 1.00% or Above 2.25% in SPY	(\$0.47)	\$0.47	(\$0.65)	\$1.08
	5	Above 1.00% - 1.40%	(\$0.48)	\$0.45	(\$0.70)	\$1.07
	6	Above 1.40%	(\$0.48)	\$0.44	(\$0.85)	\$1.06

In addition to modifying the MIAX PEARL Market Maker table to insert the new, alternative Volume Criteria threshold in Tier 2, and in order to provide a clear explanation of the requirements for achieving that alternative Volume Criteria threshold in Tier 2, the Exchange is proposing to (i) amend the explanatory paragraph beneath the tables in Section 1)a) of the Fee Schedule, and (ii) add a new definition of “SPY/QQQ/IWM TCV” to the Definitions Section of the Fee Schedule. The amended explanatory paragraph will clarify that (except as otherwise set forth in the Fee Schedule) the new, alternative Volume Criteria threshold in Tier 2 for MIAX PEARL Market Makers measures volume in SPY/QQQ/IWM options on MIAX PEARL not including Excluded Contracts, as the numerator, and the SPY/QQQ/IWM TCV as the denominator. The new definition of SPY/QQQ/IWM TCV in the Definitions Section shall provide the following: “SPY/QQQ/IWM TCV” means total consolidated volume in SPY, QQQ, and IWM calculated as the total national volume in SPY, QQQ, and IWM for the month for which the fees apply, excluding consolidated volume executed during the period of time in which the Exchange experiences an Exchange System Disruption (solely in SPY, QQQ, or IWM options).

The Exchange believes that the proposed alternative Volume Criteria threshold in Tier 2 for MIAX PEARL Market Makers will provide another opportunity for those Market Makers that concentrate their trading activity in specific options classes such as SPY/QQQ/IWM options to reach a higher tier. The Exchange believes that creating this alternative Volume Criteria will extend the Tier 2 fee incentives to Market Makers that concentrate their trading activity by sending significant volume in SPY/QQQ/IWM options as compared to other Market Makers that do trade in the broad range of products listed on the Exchange.

The proposed change is scheduled to become operative November 1, 2018.

2. Statutory Basis

The Exchange believes that its proposal to amend its Fee Schedule is consistent with Section 6(b) of the Act¹⁰ in general, and furthers the objectives of Section 6(b)(4) of the Act,¹¹ in that it is an equitable allocation of reasonable dues, fees and other charges among Exchange members and issuers and other persons using its facilities, and 6(b)(5) of the Act,¹² 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 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's proposal to adopt the new, alternative Volume Criteria for Tier 2 based on SPY, QQQ, and IWM volume executed on the Exchange is reasonable, equitable, and not unfairly discriminatory, as it is a form of pricing based upon trading activity in a select group of

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(4).

¹² 15 U.S.C. 78f(b)(1) and (b)(5).

symbols, which is a common practice on many U.S. options exchanges as a means to incentivize order flow to be sent to an exchange for execution in actively traded options classes. The Exchange’s affiliate, Miami International Securities Exchange, LLC (“MIAX Options”), offers differentiated pricing for transactions in options underlying certain select symbols.¹³ Other options exchanges’ fee schedules distinguish by symbol and specifically assess different fees and rebates for transactions in select symbols for the same market participants.¹⁴

The Exchange is offering an alternative Tier 2 Volume Criteria threshold based on SPY/QQQ/IWM options volume in Tier 2 because the Exchange believes that incentivizing Market Makers that concentrate their trading activity in SPY/QQQ/IWM options will consequently increase order flow sent to the Exchange, which will benefit all market participants through increased liquidity, tighter markets and order interaction.

The Exchange believes that the proposed non-substantive changes to (i) amend the “Definitions” section of the Fee Schedule and (ii) amend the explanatory paragraph beneath the tables in Section 1)a) of the Fee Schedule, will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system because it will add more detail and clarity to the Fee Schedule with respect to the application of the proposed method to reach the alternative Tier 2 Volume Criteria threshold. As such, the proposed change 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 a national market system. In particular, the Exchange believes that the proposed rule change will provide greater clarity to Members and the public

¹³ See MIAX Options Fee Schedule, Section 1)a)iii).

¹⁴ See Cboe Options Exchange Fee Schedule; see also Nasdaq PHLX LLC Pricing Schedule, Chapter B, Section I; see further Nasdaq ISE, LLC Fee Schedule, Sections I and II.

regarding the Exchange's Rules, and it is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

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

MIAX PEARL 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. The proposed rule change should enable the Exchange to attract and compete for order flow with other exchanges and will encourage Market Makers to submit more volume.

Further, the Exchange believes that the proposed alternative Volume Criteria threshold in Tier 2 based on SPY/QQQ/IWM options volume applicable to MIAX PEARL Market Makers will continue to provide incentives to those Market Makers that concentrate their trading activity in SPY/QQQ/IWM options to send additional SPY, QQQ, and IWM orders and creates more opportunity for additional liquidity to the market.

The Exchange does not believe that the proposed rule change to make non-substantive clarifications to its rules will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed clarification to the rule text is not designed to address any competitive issues but rather is designed to add additional clarity to Members and the public regarding the Exchange's Rules, and it is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. In such an environment, the Exchange must continually adjust its rebates and fees to remain competitive with other exchanges and to attract order flow. The Exchange believes that the proposed rule change reflects this competitive environment because it modifies the

Exchange's fees in a manner that encourages market participants to continue to provide liquidity and to send order flow to the Exchange.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act,¹⁵ and Rule 19b-4(f)(2)¹⁶ 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-2018-23 on the subject line.

¹⁵ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁶ 17 CFR 240.19b-4(f)(2).

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-2018-23. 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-2018-23 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.¹⁷

Eduardo A. Aleman
Assistant Secretary

¹⁷ 17 CFR 200.30-3(a)(12).