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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79947; File No. SR-PEARL-2017-03]

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend MIAX PEARL Rules 100, 404, 519C and Adopt MIAX PEARL 1018
February 2, 2017

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 January 24, 2017, 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 MIAX PEARL Rules 100, 404, 519C, and to adopt new MIAX PEARL Rule 1018, in order to bring MIAX PEARL Rules up to date with recent changes that have been made to the rules of the Exchange’s affiliate, Miami International Securities Exchange, LLC (“MIAX Options”).

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 MIAX PEARL Rules 100, 404, 519C, and to adopt MIAX PEARL Rule 1018, in order to bring the MIAX PEARL Rules up to date with the changes that were made to the rules of MIAX Options while MIAX PEARL's Form 1 Application to register as a national securities exchange was pending approval.

Background

MIAX PEARL plans to commence operations as a national securities exchange registered under Section 6 of the Act³ on February 6, 2017. As described more fully in MIAX PEARL's Form 1 application,⁴ the Exchange is an affiliate of MIAX Options. MIAX PEARL Rules, in their current form, were filed as Exhibit B to its Form 1 on August 12, 2016, and at that time, the above mentioned rules, were substantially similar to the rules of the MIAX Options exchange. In the time between when the Exchange filed its Form 1 and the time the Exchange received its approval order, MIAX Options made several changes to its rule book. In order to ensure

³ 15 U.S.C. 78f.

⁴ See Securities Exchange Act Release No. 79543 (December 13, 2016), 81 FR 92901 (December 20, 2016) (File No. 10-227) (order approving application of MIAX PEARL, LLC for registration as a national securities exchange.)

consistent operation of both MIAX PEARL and MIAX Options through having consistent rules, the Exchange proposes to amend MIAX PEARL Rules as described below.

Series of Option Contracts Open for Trading

The Exchange proposes to expand the Short Term Option Series Program outlined in Rule 404, Interpretations and Policies .02, to allow the listing and trading of SPDR S&P 500 ETF Trust (“SPY”) options with Wednesday expirations. These changes would make MIAX PEARL Rule 404 consistent with MIAX Options Rule 404 and are identical to changes made by MIAX Options when it modified its rule.⁵ The Exchange further notes that the MIAX Options filing was a competitive filing based on a filing submitted by the BOX Options Exchange, LLC (“BOX”), which was approved by the Commission.⁶

Currently, under the Short Term Option Series Program the Exchange may open for trading on any Thursday or Friday that is a business day (“Short Term Option Opening Date”) series of options on that class that expire at the close of business on each of the next five Fridays that are business days, and are not Fridays in which monthly option series or Quarterly Options Series expire (“Short Term Option Expiration Dates”). The Exchange is now proposing to amend MIAX PEARL Rule 404, Interpretations and Policies .02, to permit the listing of SPY options expiring on Wednesdays. Specifically, the Exchange is proposing that it may open for trading on any Tuesday or Wednesday that is a business day, series of SPY options that expire on any Wednesday of the month that is a business day, and is not a Wednesday on which Quarterly Options Series expire (“Wednesday SPY Expirations”). The proposed Wednesday SPY Expiration series would be similar to the current Short Term Options Series, with certain

⁵ See Securities Exchange Act Release No. 78772 (September 6, 2016), 81 FR 62784 (September 12, 2016) (SR-MIAX-2016-31).

⁶ See Securities Exchange Act Release No. 78668 (August 24, 2016), 81 FR 59696 (August 30, 2016) (order approving SR-BOX-2016-28).

exceptions.⁷ The Exchange notes that Wednesday expirations are not a novel a proposition as other option exchanges list and trade Wednesday SPY Expirations.⁸

The Exchange represents that it has an adequate surveillance program in place to detect manipulative trading in Wednesday SPY Expirations in the same way it monitors trading in the current Short Term Option Series. Additionally, the Exchange represents that it has the necessary system capacity to support the new options series.

Definitions

The Exchange proposes to amend Exchange Rule 100, which sets forth the definition of Short Term Option Series. The definition set forth in Rule 100 is redundant to the terms for Short Term Option Series set forth in Rule 404, Interpretations and Policies .02. As a result, the Exchange believes that amending Rule 100 by including an internal cross reference to Rule 404, Interpretations and Policies .02 and by deleting redundant language would result in a clearer definition and would make the Rulebook more precise. Additionally, this change is identical to changes made by MIAX Options when it modified its rule.⁹

Mass Cancellation of Trading Interest

The Exchange also proposes to amend Exchange Rule 519C, Mass Cancellation of Trading Interest, to align the process and procedure of cancelling orders and quotes from the order book to that of MIAX Options. The proposed rule change will amend the first paragraph for clarity and ease of reference and adopt new section (b) to provide that Exchange staff, upon

⁷ The Commission notes that these exceptions are further discussed in MIAX-2016-31, supra note 5.

⁸ See MIAX Options Rule 404; BOX Rule 5050; and ISE Rule 504.

⁹ See Securities Exchange Act Release No. 78772 (September 6, 2016), 81 FR 62784 (September 12, 2016) (SR-MIAX-2016-31).

request from a Member,¹⁰ may remove all of the Member's quotations¹¹ and cancel all of the Member's orders¹² in the System¹³ and block new incoming quotations and orders from entering the System. The block will remain in effect until the Member contacts Exchange staff¹⁴ to have the block removed.

The Exchange proposes to add a new heading entitled "Cancel" to the first paragraph, and proposes to identify the first paragraph with the letter "(a)" for clarity and ease of reference. Additionally, the Exchange proposes to make a clarifying change to the wording of the first paragraph. The paragraph currently states that, "[a] Member may cancel all of its quotations and/or all or any subset of its orders [...]." The Exchange proposes to replace the word "cancel" with "remove" and to insert the word "cancel" after "and/or," as this language more accurately describes the actions being performed by the Exchange. Additionally, the Exchange is proposing to insert language indicating that a Member may effect the removal of its quotations and/or the cancellation of its orders, "by firm name or by Market Participant Identifier ("MPID")".¹⁵

¹⁰ The term "Member" means an individual or organization that is registered with the Exchange pursuant to Chapter II of 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.

¹¹ 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 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.

¹² The term "order" means a firm commitment to buy or sell option contracts. See Exchange Rule 100.

¹³ The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

¹⁴ The Exchange's Help Desk would receive such communication. The Help Desk is the Exchange's control room consisting of Exchange staff authorized to make certain trading determinations on behalf of the Exchange. The Help Desk shall report to and be supervised by a senior executive officer of the Exchange. See Exchange Rule 100.

¹⁵ The term "MPID" means unique market participant identifier. See Exchange Rule 100.

MIAX PEARL currently offers two Membership types, Market Maker (“MM”)¹⁶ and Electronic Exchange Member (“EEM”).¹⁷ Market Makers self-assign the series for which they choose to act as a Market Maker¹⁸ and have an obligation to maintain a two-sided market, pursuant to Rule 605(d)(1), in those series in which they register to trade.¹⁹ Exchange Rule 605, Market Maker Quotations, details various requirements associated with a Market Maker’s quotes, such as “Size Associated with Quotes”, “Firm Quotes”, and “Continuous Quotes”.²⁰ A “quote” on the Exchange is defined as, “[...] 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 [...]”.²¹ Currently, there is not a separate Market Maker quote transaction available on the Exchange. The Exchange’s definition of a quote further provides that, “[w]hen 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.”²²

The proposal would allow a Member to submit a request to remove all of its outstanding quotations, as described above, and cancel all of its open orders and block all new inbound

¹⁶ The term “Market Maker” or “MM” means a Member registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI of MIAX PEARL Rules. See Exchange Rule 100.

¹⁷ 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.

¹⁸ See Exchange Rule 602.

¹⁹ See Exchange Rule 604(a)(1).

²⁰ See Exchange Rule 605.

²¹ See Exchange Rule 100.

²² See Exchange Rule 100.

quotations and orders by firm name or Market Participant Identifier (“MPID”). The form of such requests includes, but is not limited to, email or a phone call from authorized individuals. The removal of quotes and the cancellation of orders as described herein does not disconnect Members from the Exchange’s System.

The proposed changes would make MIAX PEARL Rule 519C, Mass Cancellation of Trading Interest, consistent with MIAX Options Rule 519C, Mass Cancellation of Trading Interest, and are identical to changes made by MIAX Options when it modified its rule.²³

Expedited Suspension Proceeding

MIAX PEARL incorporates certain chapters of the MIAX Options Rulebook into its rulebook in their entirety by reference. Specifically, MIAX Options Rulebook, Chapter III, Business Conduct, is incorporated by reference, and contains Rule 322, Disruptive Quoting and Trading Activity Prohibited, which was adopted by MIAX Options to prohibit disruptive quoting and trading on MIAX Options.²⁴ In connection with this rule, MIAX Options adopted new MIAX Options Rule 1018, Expedited Suspension Proceeding, to permit MIAX Options to take prompt action to suspend Members or their clients that violate MIAX Options Rule 322.²⁵ The Exchange now proposes to adopt new Rule 1018, Expedited Suspension Proceeding, to align the rules of MIAX Options and MIAX PEARL.

The Exchange proposes to adopt new Rule 1018, to set forth procedures for issuing suspension orders, immediately prohibiting a Member from conducting continued disruptive quoting and trading activity on the Exchange. Importantly, these procedures would also provide

²³ See Securities Exchange Act Release Nos. 78023 (June 8, 2016), 81 FR 38751 (June 14, 2016) (SR-MIAX-2016-14) (adoption of Rule 519C); 78974 (September 29, 2016), 81 FR 69090 (October 5, 2016) (SR-MIAX-2016-34) (amendment of Rule 519C).

²⁴ See MIAX Options Rule 322.

²⁵ See MIAX Options Rule 1018.

the Exchange the authority to order a Member to cease and desist from providing access to the Exchange to a client of the Member that is conducting disruptive quoting and trading activity in violation of Rule 322. The Exchange notes that the proposed change would make MIAX PEARL Rule 1018 consistent with MIAX Options Rule 1018 and is identical to the rule text adopted by MIAX Options when it adopted its rule.²⁶

2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act²⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act²⁸ 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 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 is proposing to amend Rule 404, Series of Option Contracts Open for Trading. The Exchange believes the Short Term Option Series Program has been successful to date and that Wednesday SPY Expirations simply expand the ability of investors to hedge risk against market movements stemming from economic releases or market events that occur throughout the month in the same way that the Short Term Option Series Program has expanded the landscape of hedging. Similarly, the Exchange believes Wednesday SPY Expirations should create greater trading and hedging opportunities and flexibility, and provide customers with the ability to more closely tailor their investment objectives. The Exchange believes that allowing

²⁶ See Securities Exchange Act Release No. 79182 (October 28, 2016), 81 FR 76639 (November 3, 2016) (SR-MIAX-2016-40).

²⁷ 15 U.S.C. 78f(b).

²⁸ 15 U.S.C. 78f(b)(5).

Wednesday SPY Expirations and monthly SPY expirations in the same week would benefit investors and minimize investor confusion by providing Wednesday SPY Expirations in a continuous and uniform manner.

The Exchange is also proposing to amend Rule 100, Definitions, which sets forth the definition of Short Term Option Series. The definition set forth in current Rule 100 is redundant to the terms for Short Term Option Series set forth in Rule 404, Interpretations and Policies .02. As a result, the Exchange believes that amending Rule 100 by including an internal cross reference to Rule 404, Interpretations and Policies .02 and deleting redundant language would result in a clearer definition and would make the Rulebook more precise and user friendly. Clarity and transparency of the Exchange's rules benefits investors and the public by eliminating the potential for confusion.

The Exchange is also proposing to amend Rule 519C, Mass Cancellation of Trading Interest, to add another risk protection tool for Members and provide that the Exchange may take action on their behalf. The proposed rule protects investors and the public interest by increasing the number of risk protection tools available to Members on the Exchange. The Exchange is also making minor non-substantive amendments to the rule which organize the rule text for clarity and clarifies the actions being performed by the Exchange, and are intended to remove impediments to and perfect the mechanisms of a free and open market by adding precision and ease of reference to the Exchange's rules, thus promoting transparency and clarity for Exchange Members.

The Exchange is also proposing to adopt Rule 1018, Expedited Suspension Proceeding, which will provide the Exchange a mechanism to promptly initiate expedited suspension proceedings in the event the Exchange believes that it has sufficient proof that a violation of Rule 322 has occurred and is ongoing. The Exchange believes that the proposal is consistent with

Sections 6(b)(1) and 6(b)(6) of the Act,²⁹ which require that the rules of an exchange enforce compliance with, and provide appropriate discipline for, violations of the Commission and Exchange rules. The Exchange also believes that the proposal is consistent with the public interest, and the protection of investors, or otherwise in furtherance of the purposes of the Act because the proposal helps to strengthen the Exchange's ability to carry out its oversight and enforcement responsibilities as a self-regulatory organization in cases where awaiting the conclusion of a full disciplinary proceeding is unsuitable in view of the potential harm to Members and their customers.

Also, the Exchange notes that if this type of conduct is allowed to continue on the Exchange, the Exchange's reputation could be harmed because it may appear to the public that the Exchange is not acting to address the behavior. The expedited process would enable the Exchange to address the behavior with greater speed.

The Exchange notes that it has defined the prohibited disruptive quoting and trading activity by modifying the traditional definitions of layering³⁰ and spoofing³¹ to eliminate an express intent element that would not be proven on an expedited basis and would instead require a thorough investigation into the activity. As noted, the Exchange believes it is necessary for the protection of investors to make such modifications in order to adopt an expedited process rather than allowing disruptive quoting and trading activity to occur for several years.

²⁹ 15 U.S.C. 78f(b)(1) and 78f(b)(6).

³⁰ "Layering" is a form of market manipulation in which multiple, non-bona fide limit orders are entered on one side of the market at various price levels in order to create the appearance of a change in the levels of supply and demand, thereby artificially moving the price of a security. An order is then executed on the opposite side of the market at the artificially created price, and the non-bona fide orders are cancelled.

³¹ "Spoofing" is a form of market manipulation that involves the market manipulator placing non-bona fide orders that are intended to trigger some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading bona fide orders.

The Exchange believes that this proposal will provide the Exchange with the necessary means to enforce against such behavior in an expedited manner while providing Members with the necessary due process. The Exchange believes that its proposal is consistent with the Act because it provides the Exchange with the ability 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 from such ongoing behavior. Further, the Exchange believes that adopting a rule applicable to market participants is consistent with the Act because the Exchange believes that this type of behavior should be prohibited for all Members. While this behavior may not be as prevalent on the options markets today, the Exchange does not believe the possibility of such behavior in the future would not have the same market impact and thereby warrant an expedited process.

The Exchange believes that the proposal is consistent Section 6(b)(7) of the Act,³² which requires that the rules of an exchange “provide a fair procedure for the disciplining of members and persons associated with members... and the prohibition or limitation by the exchange of any person with respect to access to services offered by the exchange or a member thereof.” Finally, the Exchange believes the proposal is consistent with Sections 6(d)(1) and 6(d)(2) of the Act,³³ which require that the rules of an exchange with respect to a disciplinary proceeding or proceeding that would limit or prohibit access to or membership in the exchange require the exchange to: provide adequate and specific notice of the charges brought against a member or person associated with a member, provide an opportunity to defend against such charges, keep a record, and provide details regarding the findings and applicable sanctions in the event a determination to impose a disciplinary sanction is made. The Exchange believes that each of

³² 15 U.S.C. 78f(b)(7).

³³ 15 U.S.C. 78f(d)(1) and 78f(d)(2).

these requirements is addressed by the notice and due process provisions included within Rule 1018. Importantly, the Exchange will use the authority only in clear and egregious cases when necessary to protect investors, other Members and the Exchange, and in such cases, the Respondent will be afforded due process in connection with the suspension proceedings.

The Exchange believes the proposal removes impediments to and perfects the mechanisms of a free and open market. Specifically, the Exchange believes that although MIAX PEARL rules may, in certain instances, intentionally differ from MIAX Options rules, the proposed changes will promote uniformity with MIAX Options with respect to rules that are intended to be identical but which were not modified while MIAX PEARL's Form 1 application was pending approval. The Exchange believes that it will reduce the potential for confusion by its members that are also members of MIAX Options if it commences operations with only those differences between MIAX PEARL and the MIAX Options Exchange rules that are intentional.

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.

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

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 Act³⁴ and Rule 19b-4(f)(6)³⁵ thereunder.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act³⁶ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)³⁷ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. In its filing with the Commission, the Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. The Commission notes that waiver of the operative delay will allow the proposed rules to become operative before the Exchange intends to commence operations as a national exchange on February 6, 2017. The Commission notes that the proposed rule change is based on substantively identical rules of MIAX Options and thus raises no new novel or substantive issues. Accordingly, the Commission hereby waives the operative delay and designates the proposal operative upon filing.³⁸

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

³⁴ 15 U.S.C. 78s(b)(3)(A).

³⁵ 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.

³⁶ 17 CFR 240.19b-4(f)(6).

³⁷ 17 CFR 240.19b-4(f)(6)(iii).

³⁸ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2017-03 on the subject line.

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-2017-03. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-PEARL-2017-03 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.³⁹

Robert W. Errett
Deputy Secretary

³⁹ 17 CFR 200.30-3(a)(12).

