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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84887; File No. SR-PEARL-2018-25]

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Exchange Rule 519, MIAX PEARL Order Monitor

December 20, 2018

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 December 12, 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 519, MIAX PEARL Order Monitor (“MOM”).

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 519, MIAX PEARL Order Monitor ("MOM"). Specifically, the Exchange proposes to amend subsection (a)(3) to adopt new subsection (a)(3) and new subsection (a)(4) to reorganize the rule text for simplicity and to make clarifying changes to add additional detail to align the rule to the System's³ behavior.

Current subsection (a)(3), Limit Orders to Buy Or Sell, provides that the System will reject an incoming limit order from a Market Maker⁴ or an EEM⁵ that crosses the contra-side NBBO⁶ by at least (i) 50% of the opposite side NBBO where the minimum crossing price is \$0.25, or (ii) \$2.50, whichever is less. The rule provides the following examples to illustrate those situations where lower priced limit orders are rejected because they cross the NBBO by at least 50%: (A) (1) if the NBBO on the offer side is \$4.00, an order to buy options for \$6.00 or more will be rejected; and (2) if the NBBO on the bid side is \$4.00, an order to sell options for

³ The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

⁴ 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 the MIAX PEARL Rules. See Exchange Rule 100.

⁵ 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.

⁶ 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.

\$2.00 or less will be rejected. (B) The following are examples of those situations where higher priced limit orders are rejected because they cross the NBBO by \$2.50 or more: (1) if the NBBO on the offer side is \$12.00, an order to buy options for \$14.50 or more will be rejected and (2) if the NBBO on the bid side is \$12.00, an order to sell options for \$9.50 or less will be rejected.

(C) The following examples illustrate the effect of the qualifier that the minimum crossing price of a limit order that crosses the NBBO by at least 50% must be at least \$0.25: (1) if the NBBO on the offer side is \$0.10, an order to buy options for \$0.15 will not be rejected because the minimum crossing price is not \$0.25 even though the order crosses the contra-side NBBO by 50%; and (2) if the NBBO on the offer side is \$0.50, an order to buy options for \$0.75 or more will be rejected because it crosses by 50% of the opposite side NBBO and it meets the minimum price of \$0.25.

The Exchange now proposes to amend current subsection (3) to create a separate subsection for limit orders to buy (proposed subsection (3)), and for limit orders to sell (proposed subsection (4)). The Exchange believes that creating separate subsections dedicated to buys and sells will provide clarity and additional detail to the Exchange's rule.

Proposed subsection (3), Limit Orders to Buy, will provide that for options with a National Best Offer ("NBO") greater than \$0.50 the System will reject an incoming limit order from a Market Maker or an EEM that has a limit price equal to or greater than the NBO by the lesser of (i) \$2.50, or (ii) 50% of the NBO price. This provision is identical in operation as the current rule provision. The proposed rule will also provide that for options with an NBO less than or equal to \$0.50 the System will reject an incoming limit order from a Market Maker or an EEM that has a limit price that is equal to or greater than the NBO price by \$0.25. This

provision clarifies the current provision and more accurately defines the concept of crossing price which is used in the current rule.

Similar to the current rule, examples are included in the proposed rule to demonstrate the operation of the rule in different circumstances. The proposed examples provide that (A) if the NBO is \$12.00 an incoming limit order to buy options for \$14.50 or more will be rejected; and (B) if the NBO is \$0.10 an incoming limit order to buy options for \$0.15 will not be rejected; whereas if the NBO is \$0.10 an incoming limit order to buy options for \$0.35 will be rejected as the limit price of the order is \$0.25 greater than the NBO. Proposed example A provides an example of an order being rejected when the order's limit price (\$14.50) is greater than the NBO (\$12.00) by the lesser of \$2.50 or 50% of the NBO price (\$6.00). Proposed example B demonstrates how the MOM protection works when the NBO of the option is \$0.50 or less. If the NBO is \$0.10 an incoming limit order to buy options for \$0.15 will not be rejected as the order's limit price is not \$0.25 greater (\$0.35) than the NBO price. Example B also demonstrates the scenario where an order with a limit price \$0.25 greater than the NBO will be rejected.

Proposed subsection (4) Limit Orders to Sell, will provide that for options with a National Best Bid ("NBB") equal to or greater than \$0.25 the System will reject an incoming limit order from a Market Maker or an EEM that has a limit price equal to or less than the NBB by the lesser of (i) \$2.50, or (ii) 50% of the NBB price. The current rule similarly provides that the System will reject an incoming limit order from a Market Maker or an EEM that crosses the contra-side NBBO by at least 50% of the opposite side NBBO, but that also has a minimum crossing price of \$0.25. When the NBB is \$0.25 or less it is not feasible for an incoming limit order to be priced 50% through the NBB and also have a crossing price of \$0.25. Therefore, the Exchange is proposing to add rule text to clarify that for options with an NBB of \$0.25 or less

the System will accept any incoming limit order to sell from a Market Maker or an EEM. When the NBB is greater than \$0.50 any incoming limit order to sell priced 50% through the NBB will be for an amount greater than \$0.25 and will be rejected. The Exchange now proposes to align the rule text to the current System behavior in certain instances where the NBB is greater than \$0.25 but less than \$0.50. Within this NBB range, the Exchange may receive an order that is priced greater than 50% through the NBB but that does not reach the \$0.25 threshold. For example, an incoming limit order to sell with a limit price of \$0.10, when the NBB is \$.30, is priced more than 50% through the NBB, but is only \$0.20 away from the NBB. The Exchange's System currently rejects this order and the Exchange is proposing to amend its rule to remove the \$0.25 crossing price condition as the Exchange believes that orders that cross the NBB by at least 50% when the NBB is greater than \$0.25 should be rejected. This provision provides clarity and additional detail regarding the handling of incoming limit orders to sell that are received when the NBB is greater than or less than \$0.25.

Additionally, the proposed rule will include examples to demonstrate the operation of the rule in different circumstances. The proposed examples provide that (A) if the NBB is \$12.00 an incoming limit order to sell options for \$9.50 or less will be rejected; and (B) if the NBB is \$0.30 an incoming limit order to sell options for \$0.15 will be rejected; whereas if the NBB is \$0.30 an incoming limit order to sell options for \$0.20 will not be rejected as the limit price of the order is not less than 50% of the NBB price. Proposed example A provides an example of an order being rejected when the order's limit price (\$9.50) is less than the NBB (\$12.00) by the lesser of \$2.50 or 50% of the NBB price (\$6.00). Proposed example B demonstrates how the MOM protection works when the NBB of the option is greater than \$0.25.

The Exchange believes its proposed changes provide additional detail and clarity to the Exchange's rules concerning order protections for incoming limit orders to buy and sell.

2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act⁸ 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 that the proposed changes to its rulebook add additional detail and provide further clarification to Members,⁹ investors, and the public, regarding the Exchange's order monitoring functionality. 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.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

⁹ 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.

Currently the Exchange's rule discusses the operation of the MIAX PEARL Order Monitor on incoming limit orders to buy or incoming limit orders to sell in a single paragraph.¹⁰ The Exchange now proposes to provide separate rule text specifically discussing the MIAX PEARL Order Monitor process for incoming limit orders to buy (proposed paragraph (a)(3)) and for incoming limit orders to sell (proposed paragraph (a)(4)). The Exchange believes that the proposed changes promote just and equitable principles of trade and removes impediments to and perfects the mechanism of a free and open market and a national market system and, in general, protects investors and the public interest by providing additional detail and clarity in the Exchange's rules. Further, the Exchange believes that providing a clear line of delineation for the treatment of orders received when the NBB is less than or greater than \$0.25 benefits investors and the public by establishing clear and unambiguous thresholds regarding the acceptance or rejection of orders. Further, the Exchange's proposal provides transparency and clarity in the rules and is 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. In particular, the Exchange believes that the proposed rule changes will provide greater 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.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The

¹⁰ See Exchange Rule 518(a)(3).

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 the rule clearly and accurately describes the scenarios when a limit order to buy or a limit order to sell will be rejected by the Exchange's System. Additionally, the proposed rule change provides examples of hypothetical scenarios to provide additional detail and clarity to the Exchange's rulebook.

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 Act¹¹ and Rule 19b-4(f)(6)¹² 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

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 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.

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-2018-25 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-2018-25. 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-2018-25 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.¹³

Brent J. Fields,
Secretary.

¹³ 17 CFR 200.30-3(a)(12).

