

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94851; File No. SR-PEARL-2022-15)

May 4, 2022

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt Exchange Rule 532, Order Price Protection Mechanisms and Risk Controls

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 April 21, 2022 MIAX PEARL, LLC (“MIAX Pearl” or the “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 proposes to adopt new Exchange Rule 532, Order Price Protection Mechanisms and Risk Controls, and a new Max Put Price Protection feature in new proposed Rule 532.

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 adopt new Exchange Rule 532, Order Price Protection Mechanisms and Risk Controls. The Exchange proposes to adopt a new Managed Protection Override feature, and a new Max Put Price Protection feature in new proposed Rule 532.

Proposal

Max Put Price Protection (“MPPP”)

The Exchange proposes to adopt a new price protection for put³ options by establishing a maximum price at which a put option may trade.⁴ To determine the maximum price the Exchange will add a pre-set value of \$0.10 to the strike price of the put option. Buy orders from an Electronic Exchange Member (“EEM”)⁵ that are priced through the maximum trading price limit will trade up to, and including, the maximum trading price limit, and will then be placed on

³ The term “put” means an option contract under which the holder of the option has the right, in accordance to the terms and provisions of the option, to sell to the Clearing Corporation the number of units of the underlying security covered by the option contract. See Exchange Rule 100.

⁴ The Exchange notes its affiliate Exchange, the MIAX Options Exchange, recently adopted this protection. See Securities Exchange Act Release No. 94353 (March 3, 2022), 87 FR 13339 (March 9, 2022) (SR-MIAX-2021-58).

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.

the Book⁶ and managed to the appropriate trading price limit as described in Rule 515(d)(2), or cancelled if the Managed Protection Override (“MPO”) (as described below) is enabled. Sell orders from an EEM that are priced higher than the maximum trading price limit will be rejected.

Buy orders from a Market Maker (“MM”)⁷ that are priced through the maximum trading price limit will trade up to, and including, the maximum trading price limit, then will be placed on the Book and managed to the appropriate trading price limit as described in Rule 515(d)(2). Sell orders from a Market Maker that are priced higher than the maximum trading price limit will be displayed.

Example Max Put Price Protection for a Buy Market Order

An order to buy 10 XYZ Jan 5 Put @ market⁸ is received from an EEM.

The current market is:

PBBO⁹ 0.50 (10) x 5.50 (10)

The price protection is:

Put Price Variance (PPV) = \$0.10

Max Put Price Protection = (Strike + PPV) = \$5.10

The Max Put Price Protection establishes the maximum trading price limit at which an order can trade. Because the buy order is priced through the Max Put Price Protection of \$5.10, the order is subject to management pursuant to 515(d)(2) and is posted to the Book at \$5.10.

⁶ The term “Book” means the electronic book of buy and sell orders and quotes maintained by the System. See Exchange Rule 100.

⁷ The term “Market Maker” or “MM” means a Member registered with the Exchange for the purposes of making markets in option contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI or the MIAX Pearl Rulebook. See Exchange Rule 100.

⁸ A market order is an order to buy or sell a stated number of option contracts at the best price available at the time of execution. A Market Maker may not submit a market order. See Exchange Rule 516(b).

⁹ The term “PBBO” means the best bid or offer on MIAX Pearl. See Exchange Rule 100.

PBBO 5.10 (10) x 5.50 (10)

Example Max Put Price Protection for a Sell Limit Order

An order to sell 10 XYZ Jan 5 Put @ \$5.25 is received from an EEM.

The current market is:

PBBO 0.50 (10) x 5.50 (10)

The price protection is:

Put Price Variance (PPV) = \$0.10

Put Option = XYZ Jan 5 Put

Max Put Price Protection = (Strike + PPV) = \$5.10

Because the sell order is priced higher than the Max Put Price Protection of \$5.10, the order is rejected.

For the purposes of the Max Put Price Protection, the Exchange treats an order to sell a put option priced above the maximum trading price limit received from Electronic Exchange Members differently than a similar order received from a Market Maker. Members that are Market Makers have a heightened obligation on the Exchange and are obligated to maintain a two-sided market in those option series in which the Market Maker is registered to trade.¹⁰ Further, Market Makers are required to submit continuous bids and offers for the options series in their appointed classes for a certain percentage of time in each trading session.¹¹ As such, the Exchange treats Market Maker orders differently than EEM orders, and will not reject an order to sell a put option from a Market Maker that is priced higher than the maximum trading price limit.

Managed Protection Override (“MPO”)

The Exchange proposes to adopt a new Managed Protection Override feature which will work in conjunction with the Max Put Price Protection. Members must contact the Exchange’s

¹⁰ See Exchange Rule 604(a)(1).

¹¹ See Exchange Rule 605.

Help Desk¹² to enable the Managed Protection Override feature. When the Max Put Price Protection is triggered, and if the Managed Protection Override feature has been enabled, the order subject to the Max Put Price Protection will be cancelled. The Managed Protection Override is currently only available for the Max Put Price Protection proposed herein.

The Exchange believes that offering Members the option to have their orders either managed by the Exchange or cancelled when the Max Put Price Protection is triggered gives Members greater flexibility and control over their orders while retaining the risk protection functionality. If the Managed Protection Override is enabled the Exchange will return the unexecuted order to the Member for further analysis and evaluation. If the Managed Protection Override is not enabled the Exchange will manage the unexecuted order on behalf of the Member.

2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act¹³ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁴ 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.

¹² The term “Help Desk” means 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.

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

Max Put Price Protection

The Exchange believes that the Max Put Price Protection feature promotes just and equitable principles of trade, 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 a risk protection mechanism to prevent trades from occurring at potentially unwanted or erroneous prices. The Exchange believes that the Max Put Price Protection feature promotes a fair and orderly market by mitigating the potential risks associated with orders trading at potentially erroneous prices.

The Exchange believes that its proposal to accept and display a Market Maker order to sell a put that is priced higher than the maximum trading price limit promotes a free and open market and national market system as Market Makers on the Exchange have heightened obligations on the Exchange that Electronic Exchange Members do not, that requires Market Makers to submit continuous bids and offers in the series to which they are appointed in order to enhance the depth, liquidity, and competitiveness of the market.¹⁵

Managed Protection Override

The Exchange believes that the Managed Protection Override feature promotes just and equitable principles of trade, 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 a mechanism by which Members may determine the way their orders are handled when a risk protection is triggered. The Exchange believes that it has an effective way to manage orders on the Exchange so that they do not execute at potentially erroneous prices, however the Exchange believes that giving Members the option to have their orders cancelled if

¹⁵ See supra notes 10 and 11.

a risk protection is triggered protects investors and the public interest. When the Exchange cancels an order, a Member can make a decision on what to do with that order based on the then current market conditions and may choose to re-submit the order at the same or different limit price. Specifically, the Exchange believes the proposed change will remove impediments to and perfect the mechanism of a free and open market by providing market participants with the option to either manage their own orders or have the Exchange manage their orders when a price protection is triggered which will promote fair and orderly markets, increase overall market confidence, and promote the protection of investors.

The Exchange believes that offering Members the option to have orders either managed by the Exchange or cancelled when the Max Put Price risk protection is triggered gives Members greater flexibility and control over their orders to buy puts while retaining the risk protection functionality. If the Managed Protection Override is enabled the Exchange will return the unexecuted order to the Member for further analysis and evaluation. If the Managed Protection Override is not enabled the Exchange will manage the unexecuted order on behalf of the Member.

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.

Specifically, the Exchange does not believe that the proposed changes will impose any burden on intra-market competition as the rules of the Exchange apply equally to all MIAX Pearl Members. The Max Put Price Protection is applicable to all MIAX Pearl Members that submit an order to buy a put option. Additionally, any MIAX Pearl Member may elect to enable the

Managed Protection Override functionality to allow the Exchange to cancel their order when the Max Put Price Protection risk protection is triggered.

The Exchange does not believe that its proposal to provide dissimilar treatment for sell put orders priced above the maximum trading price limit submitted by EEMs and MMs will impose any burden on intra-market competition as Market Makers have heightened obligations on the Exchange and are required to submit continuous bids and offers in the series to which they are appointed.

In addition, the Exchange does not believe the proposal will impose any burden on inter-market competition as the proposal is intended to protect investors by providing additional price protection functionality. The Exchange's proposal may promote inter-market competition as the Exchange's proposal adds additional price protection features and functionality that may attract additional order flow to the Exchange, thereby promoting inter-market 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.

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 Act¹⁶ and Rule 19b-4(f)(6)¹⁷ thereunder.

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 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,

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-2022-15 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-2022-15. 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

or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-2022-15, 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.¹⁸

J. Matthew DeLesDernier
Assistant Secretary

¹⁸ 17 CFR 200.30-3(a)(12).