

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80724; File No. SR-PEARL-2017-22)

May 18, 2017

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend MIAX PEARL Rules 503 and 515

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 5, 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 Exchange Rule 503, Openings on the Exchange, and Rule 515, Execution of Orders.

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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, to adopt new rule text clarifying the treatment of orders that remain in the System<sup>3</sup> after the completion of the Opening Process.<sup>4</sup> Additionally, the Exchange proposes to amend Exchange Rule 515 by removing the provision which states that when the System opens a series for trading by disseminating the Exchange's best bid and offer, non-routable orders, or Do Not Route ("DNR") orders,<sup>5</sup> that are in the System and that cross the ABBO,<sup>6</sup> will be cancelled and not included in the Managed Interest Process.<sup>7</sup>

Exchange Rule 503 provides that the Opening Process may open a series for trading on the Exchange (i) where there is a possible trade on the Exchange ("opening on a trade"); and (ii) where there is no possible trade on the Exchange ("opening on a quote"). Exchange Rule

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<sup>3</sup> The term "System" means the automated trading system used by the Exchange for the trading of Securities. See Exchange Rule 100.

<sup>4</sup> See Exchange Rule 503(a)(1).

<sup>5</sup> 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. A DNR order may execute on the Exchange at a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR order will be handled in accordance with the Managed Interest Process described in Rule 515(d)(2). See Exchange Rule 516.

<sup>6</sup> 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.

<sup>7</sup> See Exchange Rule 515(d)(2).

503(b)(2) discusses the Opening Process when the series opens on a trade. More specifically, Rule 503(b)(2)(iii) discusses how the Exchange handles unexecuted orders that remain in the System after the conclusion of the Opening Process, stating that, “[s]uch orders will be handled ... 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.”

Exchange Rule 503(b)(3) discusses the Opening Process when there is no possible trade on the Exchange, or when the series opens on a quote. However, this rule is silent on how orders that remain in the System after the conclusion of the Opening Process are handled. The Exchange proposes to adopt new rule text in Rule 503(b)(3) similar to that of Rule 503(b)(2)(iii) to codify existing behavior and explicitly state that, “[o]rders 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.” This proposed amendment provides consistency in the Exchange’s rules concerning the handling of unexecuted orders at the conclusion of the Opening Process.

Additionally, the Exchange proposes to eliminate paragraph (vi) in its entirety from Exchange Rule 515(d)(2) which currently states that when the System opens without an opening transaction, and instead opens by disseminating the Exchange’s best bid and offer among quotes and orders that exist in the System at that time as described in Rule 503(b)(3), non-routable orders then in the System that cross the ABBO will be cancelled and are not included in the Managed Interest Process. Proposed Rule 503(b)(3) provides that when the series opens on a quote, any orders, including non-routable orders, that remain in the System at the conclusion of

the Opening Process are re-introduced in time priority, oldest first. The proposed rule change provides that orders remaining in the System at the conclusion of the Opening process, including non-routable orders, will be included in the Managed Interest Process under Rule 515, as described below. Therefore, current paragraph (vi) of Exchange Rule 515(d)(2) is no longer necessary, and may be removed from the rule.<sup>8</sup>

The Exchange believes that the codification of the treatment of orders that remain in the System at the completion of the Opening Process reflects the Exchange's intention to provide uniform treatment for all non-routable orders that remain in the System after the Opening Process concludes. Additionally, the proposed treatment of non-routable orders that cross the ABBO when the series opens on a quote, aligns to the current treatment of non-routable orders that cross the ABBO when the series opens on a trade, in that these orders will be subject to the Managed Interest Process.

The Exchange notes that certain MIAX PEARL Rules were based upon the rules of the Exchange's affiliate, Miami International Securities Exchange, LLC ("MIAX Options"), and that current MIAX PEARL Rule 515(d)(2)(iv) [sic] is identical (save for an internal rule reference) to MIAX Options Rule 515(c)(1)(ii)(B). However, when the MIAX Options Exchange opens on a trade, orders that cross the opening price are cancelled,<sup>9</sup> whereas on MIAX PEARL, orders that cross the opening price are re-introduced in time priority, and may be included in the Managed Interest Process. The Exchange's proposal to amend its rule is designed to provide consistent

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<sup>8</sup> The Commission notes that elimination of paragraph (vi) from Exchange Rule 515(d)(2) would allow non-routable orders then in the System that cross to ABBO to be placed on the Book, cancelled, executed, managed in accordance with Rule 515, or routed in accordance with Rule 529 when the system opens with a quote.

<sup>9</sup> See MIAX Options Rule 503(f)(2)(vii)(B)(5).

treatment of non-routable orders that remain in the System after the conclusion of the Opening Process on MIAX PEARL.

The Managed Interest Process for Non-Routable Orders described in Rule 515 provides that if the limit price of an order locks or crosses the current opposite side NBBO<sup>10</sup> and the PBBO<sup>11</sup> is inferior to the NBBO, the System will display the order one Minimum Price Variation (“MPV”)<sup>12</sup> away from the current opposite side NBBO, and book the order at a price that will lock the current opposite side NBBO. Should the NBBO price change to an inferior price level, the order’s Book price will continuously re-price to lock the new NBBO and the managed order’s displayed price will continuously re-price one MPV away from the new NBBO until (A) the order has traded to and including its limit price, (B) the order has traded to and including its price protection price limit at which time any remaining contracts are cancelled, (C) the order is fully executed or (D) the order is cancelled.<sup>13</sup>

This proposal should eliminate any investor confusion arising from the cancellation of some non-routable orders versus the management of others, depending upon whether the Exchange opened on a quote or a trade respectively. The proposed rule change should also assist market participants in making decisions concerning order routing by simplifying and clarifying the relationship between the Exchange’s Opening Process and the Managed Interest Process for Non-Routable Orders. Additionally, the proposed change provides consistency in the Exchange’s Rules concerning orders that remain in the System at the conclusion of the Opening Process.

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<sup>10</sup> 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.

<sup>11</sup> The term “PBBO” means the best bid or offer on the PEARL Exchange. See Exchange Rule 100.

<sup>12</sup> See Exchange Rule 510.

<sup>13</sup> See Exchange Rule 515(d)(2)(ii).

## 2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>14</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>15</sup> 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 believes its proposal codifying the Exchange's handling of orders after the Opening Process is complete promotes transparency and clarity in the Exchange's rules. The transparency and accuracy resulting from the codification of this functionality is consistent with the Act because it 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 accurately describing the steps taken by the System when a series opens on a quote and on a trade.

The Exchange believes its proposal to provide equal treatment to non-routable orders that remain in the System after the conclusion of the Opening Process to be one that protects investors and the public interest by eliminating the potential for confusion that could arise as a result of non-routable orders that cross the ABBO being cancelled when the series opens on a quote, while non-routable orders that cross the ABBO remain in the System and are subject to the Managed Interest Process when the series opens on a trade.

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<sup>14</sup> 15 U.S.C. 78f(b).

<sup>15</sup> 15 U.S.C. 78f(b)(5).

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 perfects 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.

MIAX PEARL participants should have a better understanding of the Exchange's treatment of orders remaining in the System at the conclusion of the Opening Process. The codification and clarification of the System's functionality is designed to promote just and equitable principles of trade by providing a clear and objective description to all participants of how orders will be handled, and should assist investors in making decisions concerning their orders.

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 Exchange does not believe that the proposed rule changes will impose any burden on intra-market competition as the Rules apply equally to all Exchange Members.

The Exchange does not believe that the proposed rule changes will impose any burden on intra-market competition as the proposal is one that promotes order handling efficiency on the Exchange.

For the reasons stated, the Exchange does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance 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 Act<sup>16</sup> and Rule 19b-4(f)(6)<sup>17</sup> thereunder.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>18</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>19</sup> 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 Exchange states that a recent rule change to permit Post-Only Orders<sup>20</sup> to participate in the Opening Process

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>17</sup> 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.

<sup>18</sup> 17 CFR 240.19b-4(f)(6).

<sup>19</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>20</sup> See Exchange Rule 516(j). Post-Only Orders are non-routable. Id.

became operative on the Exchange on May 3, 2017.<sup>21</sup> The Exchange represents that this change may result in an increase in the number of non-routable orders in the System at the conclusion of the Opening Process, and these orders may be cancelled under the current rule. The Exchange believes that the proposed rule change may reduce potential confusion by providing consistent treatment to non-routable orders when the Exchange opens on a trade or a quote. Accordingly, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>22</sup>

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

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<sup>21</sup> See Securities Exchange Act Release No. 80384 (April 6, 2017), 82 FR 17700 (April 12, 2017) (SR-PEARL-2017-16).

<sup>22</sup> 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).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-PEARL-2017-22 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-2017-22. 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-2017-22 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.<sup>23</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>23</sup> 17 CFR 200.30-3(a)(12).