

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-95000; File No. SR-PEARL-2022-22)

May 27, 2022

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 519, MIAX Pearl Order Monitor (“MOM”)

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 May 13, 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 amend Exchange 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”) to (i) establish an Exchange default Threshold Setting for market orders³ to sell an option when the national best bid is zero; (ii) provide that an Electronic Exchange Member (“EEM”)⁴ may supply their own pre-set value to be used as the Threshold Setting; (iii) reorganize the rule text for ease of reference; and (iv) adopt new rule text to add additional detail regarding the Exchange’s process for evaluating and reevaluating market orders to sell.

Background

Currently, in order to avoid the occurrence of potential obvious or catastrophic errors on the Exchange the MIAX Pearl Order Monitor will prevent certain orders from executing or being placed on the Book⁵ at prices outside pre-set standard limits. Beginning after the Opening Process⁶ is complete, the MIAX Pearl Order Monitor will be operational each trading day until

³ 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. See Exchange Rule 516(a).

⁴ 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.

⁵ The term “Book” means the electronic book of buy and sell orders and quotes maintained by the System. See Exchange Rule 100.

⁶ See Exchange Rule 503.

the close of trading.⁷ Exchange Rule 519(a)(1)(i) provides that if the Exchange upon initial receipt or reevaluation evaluates a market order from an EEM to sell an option when the national best bid is zero and the Exchange’s disseminated offer is equal to or less than \$0.10, the System⁸ will convert the market order to sell to a limit order to sell with a limit price of one Minimum Trading Increment.⁹ In this case, such sell orders will automatically be placed on the Book in time priority and will be displayed at the appropriate Minimum Price Variation.¹⁰ Exchange Rule 519(a)(1)(ii) provides that if the Exchange upon initial receipt or reevaluation evaluates a market order from an EEM to sell an option when the national best bid is zero and the national best offer is greater than \$0.10, the System will cancel the market order to sell.

Proposal

The Exchange now proposes to allow an Electronic Exchange Member to determine their own pre-set value to be used as the threshold setting (“Threshold Setting”) that the Exchange will use when evaluating market orders to sell when the national best bid is zero and the national best offer is less than, equal to, or greater than, the Threshold Setting. EEM Members are not constrained by the Exchange in determining their Threshold Setting and may set the threshold at any value in accordance to their business and risk tolerances. EEM Members will communicate their desired threshold value to the Exchange’s Help Desk¹¹ in a form and manner to be

⁷ See Exchange Rule 519(a).

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

⁹ See Exchange Rule 510(b).

¹⁰ See Exchange Rule 510(a).

¹¹ The term “Help Desk” means the Exchange’s control room consisting of Exchange staff authorized to make certain determinations on behalf of the Exchange. The Help Desk shall report to and be supervised by a senior executive of the Exchange. See Exchange Rule 100.

determined by the Exchange and communicated to Members via Regulatory Circular. The Exchange will establish a default Threshold Setting of \$0.10 (the current setting) and communicate its value to Members via Regulatory Circular.¹²

The Exchange proposes to adopt new subparagraph (i) to paragraph (a)(1) of Rule 519 to provide that, for the purposes of this Rule an EEM may establish a pre-set value to be used as the Threshold Setting by communicating its value to the Exchange's Help Desk in a form and manner to be determined by the Exchange and communicated via Regulatory Circular. The Exchange will establish a default Threshold Setting of \$0.10 and communicate its value to Members via Regulatory Circular. If an EEM does not establish a Threshold Setting the Exchange default value will be used. Currently, the Exchange uses a value of \$0.10 as its threshold value for purposes of evaluating or reevaluating market orders to sell when the national best bid is zero.¹³

The Exchange proposes to adopt new subparagraph (ii) to paragraph (a)(1) of Rule 519 to provide that, if the Exchange receives a market order from an EEM to sell an option when the national best bid is zero and the national best offer is less than or equal to the Threshold Setting, the System will convert the market order to sell, to a limit order to sell, with a limit price of one Minimum Trading Increment.¹⁴ The Exchange proposes to use the national best offer as the reference price in determining how to handle a market order to sell when the national best bid is zero as the national best offer better represents the current market conditions. This provision is consistent with the operation of the current rule, however the Threshold Setting used for

¹² The Exchange proposes to convert its current \$0.10 threshold setting to the Exchange default Threshold Setting.

¹³ See Exchange Rule 519(a)(i) and (ii).

¹⁴ See Exchange Rule 510, Minimum Price Variations and Minimum Trading Increments.

evaluation purposes under the Exchange’s proposal may now be either the Exchange’s default setting of \$0.10 or the Member’s Threshold Setting.

The Exchange proposes to adopt new subparagraph (iii) to paragraph (a)(1) of Rule 519 to provide that, if the Exchange reevaluates¹⁵ a market order from an EEM to sell an option when the resulting national best bid is zero and either the trade price, route price, or national best offer is less than or equal to the Threshold Setting, the System will convert the market order to sell, to a limit order to sell, with a limit price of one Minimum Trading Increment. In the event the Exchange receives a market order to sell and the Exchange is zero bid but an away market is not, the Exchange will route the order to that away exchange at the away market price, the “route price.” For the purposes of this rule, the execution price of a trade in the subject series is considered the “trade price.” The Exchange uses the route price, trade price, or national best offer to determine the proper disposition of a market order to sell when the national best bid becomes zero.

Current paragraph (i) describes the initial evaluation and reevaluation process of a market order to sell whereas each process is given separate treatment under this proposal. Specifically, new proposed paragraph (ii) describes the initial evaluation process of a market order to sell when the national best bid is zero and new proposed paragraph (iii) describes the reevaluation process of a market order to sell when the national best bid becomes zero. The Exchange believes this format provides additional clarity to the Exchange’s rules regarding its order handling process when the Exchange reevaluates a market order to sell when the national best bid becomes zero.

¹⁵ A reevaluation of an order occurs when the order has been routed to an away exchange and is returned to the Exchange partially, or completely, unfilled.

The Exchange proposes to adopt new subparagraph (iv) to paragraph (a)(1) of Rule 519 to provide that, in either case of (ii) or (iii) above, such sell orders will automatically be placed on the Book in time priority and will be displayed at the appropriate Minimum Price Variation.¹⁶ The Exchange notes that this language is identical to the current rule text.¹⁷

The Exchange proposes to adopt new subparagraph (v) to paragraph (a)(1) of Rule 519 to provide that, if the Exchange receives a market order from an EEM to sell an option when the national best bid is zero and the national best offer is greater than the Threshold Setting, the System will reject the order. This provision is consistent with the operation of the current rule, however under the Exchange's proposal the Threshold Setting used for evaluation purposes may now be either the Exchange default setting of \$0.10 or the Member's Threshold Setting.

The Exchange proposes to adopt new subparagraph (vi) to paragraph (a)(1) of Rule 519 to provide that, if the Exchange reevaluates a market order from an EEM to sell an option when the resulting national best bid is zero and both (A) the trade price or route price, and (B) the national best offer are greater than the Threshold Setting, the System will reject the order or cancel any unexecuted balance of the order. The Exchange uses the route price or trade price, in conjunction with the national best offer to determine the proper disposition of a market order to sell when the national best bid becomes zero. The Exchange believes considering both the route price or trade price, and the national best offer, provides a clear indication of the current market conditions when either the route price or trade price and the national best offer is greater than the Threshold Setting and allows the Exchange to make the proper determination regarding the disposition of the order.

¹⁶ Id.

¹⁷ See Exchange Rule 519(a)(1)(i).

The proposed rule text provides additional detail regarding the System's behavior when the Exchange reevaluates a market order from an EEM to sell and the national best bid is zero. Example 1 below describes the System processing when the national best bid is below the Threshold Setting, and Example 2 describes the System processing when the national best bid is above the Threshold Setting.

Example 1

MPV: \$0.05

Exchange default Threshold Setting: \$0.10

EEM selected Threshold Setting: \$0.25

PBBO¹⁸ (0) 0.00 x 5.00 (10)

ABBO¹⁹ (10) 0.10 x 0.15 (10)

NBBO²⁰ (10) 0.10 x 0.15 (10)

Market order to sell 20 contracts is received by the Exchange.

The Exchange routes the order to the 0.10 bid on the away exchange by sending a limit order to sell 10 at \$0.10 (the route price).

The order is executed on the away exchange, sell 10 at \$0.10, and the away market becomes zero bid.

PBBO: (0) 0.00 x 5.00 (10)

¹⁸ The term "PBBO" means the best bid or offer on MIAX Pearl. See Exchange Rule 100.

¹⁹ 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(g)) and calculated by the Exchange based on market information received by the Exchange from OPRA. See Exchange Rule 100.

²⁰ 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.

ABBO: (0) 0.00 x 0.15 (10)

NBBO: (0) 0.00 x 0.15 (10)

Using the EEM selected Threshold Setting of \$0.25 to reevaluate the order, the remainder of the order (10 contracts) would be converted to a limit order to sell and placed on the Exchange as the national best offer (0.15) (and the route price of \$0.10) is less than or equal to the EEM selected Threshold Setting of \$0.25. The 10 contracts would then be displayed on the Exchange at an offer price of one minimum trading increment or \$0.05.

PBBO: (0) 0.00 x 0.05 (10)

ABBO: (0) 0.00 x 0.15 (10)

NBBO: (0) 0.00 x 0.05 (10)

If the Exchange default Threshold Setting was used for the evaluation, the remainder of the order would be cancelled as the national best offer (0.15) is greater than the Exchange default Threshold Setting of \$0.10.

Example 2

MPV: \$0.05

Exchange default Threshold Setting: \$0.10

Member selected Threshold Setting: \$0.25

PBBO (0) 0.00 x 5.00 (10)

ABBO (10) 0.40 x 0.50 (10)

NBBO (10) 0.40 x 0.50 (10)

Market order to sell 20 contracts is received by the Exchange. The Exchange is zero bid for that series and routes the order to the away exchange by sending a limit order to sell 10 at \$0.40 (the route price).

The order is executed on the away exchange, sell 10 at \$0.40, and the away market becomes zero bid.

PBBO: (0) 0.00 x 5.00 (10)

ABBO: (0) 0.00 x 0.50 (10)

NBBO: (0) 0.00 x 0.50 (10)

Using the Member selected Threshold Setting of \$0.25 to reevaluate the order, the remainder of the order (10 contracts) would be cancelled as both (i) the route price (\$0.40) and (ii) the national best offer (\$0.50) are greater than the Threshold Setting (\$0.25).

2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act²¹ in general, and furthers the objectives of Section 6(b)(5) of the Act²² 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.

²¹ 15 U.S.C. 78f(b).

²² 15 U.S.C. 78f(b)(5).

The Exchange believes its proposal promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest by allowing EEMs to establish the threshold setting for the evaluation of market orders to sell when the national best bid is zero. The Exchange believes that allowing EEMs to determine the threshold setting provides greater flexibility and allows the EEM to tailor the threshold setting to the business and risk tolerances of the Member.

The Exchange believes its proposal to allow EEMs the flexibility to establish their own pre-set value to be used for evaluation purposes of market orders to sell when the national best bid is zero allows EEMs to align their risk protections with their risk tolerance. EEMs have the discretion to set their pre-set value to whatever value best aligns to their risk profile, which may be as low as \$0.00.²³ The Exchange provides EEMs the ability to tailor risk protection functionality to the risk profile of the EEM, and has allowed EEMs to customize their risk protection setting for other risk protections offered on the Exchange. Specifically, the Exchange allows EEMs to set the maximum size of an order for the purposes of the MIAX Pearl Order Monitor Size Protection, and if the EEM does not designate the maximum size, the Exchange provides a default value.²⁴ Additionally, the Exchange provides Members the option to set a

²³ The Exchange notes that the Nasdaq Phlx does not have a threshold evaluation and, in the case where the bid price for any options series is \$0.00, a Market Order accepted into the System to sell that series shall be considered a Limit Order to sell at a price equal to the minimum trading increment as defined in Nasdaq Phlx Options 3, Section 3. Orders will be placed on the Limit Order book in the order in which they were received by the System. With respect to Market Orders to sell which are submitted prior to the Opening Process and persist after the Opening Process, those orders are posted at a price equal to the minimum trading increment as defined in Options 3, Section 3. See Nasdaq Phlx Options 3, Section 10(b).

²⁴ See Exchange Rule 519(b).

price protection limit on a per order basis, and orders received without a price protection limit receive the Exchange defined default value.²⁵ The current proposal to allow EEMs to determine a pre-set value to be used as the Threshold Setting continues the Exchange's approach of allowing a Member to customize its risk protections to better align to the risk tolerance of the Member.

The Exchange believes its proposal to reorganize the current rule text to describe each scenario separately (i.e., evaluation of a market order to sell when the national best bid is zero and the national best offer is less than or equal to the Threshold Setting (proposed paragraph (ii)); reevaluation of a market order to sell when the national best bid becomes zero and the national best offer is less than or equal to the Threshold Setting (proposed paragraph (iii)); initial evaluation of a market order to sell when the national best bid is zero and the national best offer is greater than the Threshold Setting (proposed paragraph (v)); and reevaluation of a market order to sell when the national best bid becomes zero and the national best offer is greater than the Threshold Setting (proposed paragraph (vi))) better organizes the rule text. The Exchange believes discussing each scenario separately and describing the evaluations that are performed by the System to determine the proper disposition of the order provides transparency and clarity in the Exchange's rules.

The Exchange believes its proposal promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest by providing additional detail regarding the Exchange's process for reevaluating market orders from an EEM to sell when the national best bid becomes zero. The Exchange believes it is in the best interest of

²⁵ See Exchange Rule 515(c).

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 how market orders to sell in zero bid series are handled on the Exchange. It is in the public interest for rules to be accurate and concise so as to eliminate the potential for confusion.

Additionally, the Exchange believes its proposal promotes just and equitable principles of trade, removes impediments to and perfects the mechanisms of a free and open market and a national market system, and in general, protects investors and the public interest by re-organizing the rule text for ease of reference. The Exchange believes that Exchange rules should be clear and transparent so as to avoid the potential for confusion.

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 its proposal will impose any burden on intra-market competition as all EEMs that submit market orders to the Exchange will be treated equally and the Rules of the Exchange apply equally to all Exchange Members. Additionally, the proposal allows each EEM to determine the pre-set value to be used as the Threshold Setting and allows each EEM to align their Threshold Setting to their risk tolerance.

The Exchange does not believe that its proposal will impose any burden on inter-market competition as the Exchange's proposal is not a competitive filing but one that provides additional detail regarding the Exchange's process for reevaluating market orders from an EEM

to sell when the national bid becomes zero. Additionally, the Exchange's proposal is similar to the rules of at least one other options exchange.²⁶

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 Act²⁷ and Rule 19b-4(f)(6)²⁸ 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

²⁶ See Cboe Rule 5.34(a)(1)(A) which provides that if the System receives a sell market order in a series after it is open for trading with an NBB of zero: (i) if the NBO in the series is less than or equal to \$0.50, then the System converts the market order to a limit order with a limit price equal to the minimum trading increment applicable to the series and enters the order into the Book with a timestamp based on the time it enters the Book. If the order has a Time-in-Force of GTC or GTD that expires on a subsequent day, the order remains on the Book as a limit order until it executes, expires, or the User cancels it. (ii) if the NBO in the series is greater than \$0.50, then the System cancels or rejects the market order, or routes the market order to PAR for manual handling, subject to a User's instructions.

²⁷ 15 U.S.C. 78s(b)(3)(A).

²⁸ 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.

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-2022-22 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-2022-22. 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. 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-2022-22, 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.²⁹

J. Matthew DeLesDernier,
Assistant Secretary.

²⁹ 17 CFR 200.30-3(a)(12).