

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82812; File No. SR-PEARL-2018-05)

March 6, 2018

Self-Regulatory Organizations; MIAX PEARL, LLC ; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 403, Withdrawal of Approval of Underlying Securities

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 February 21, 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 403, Withdrawal of Approval of Underlying Securities, to allow the Exchange to delist an option class if open for trading on another national securities exchange, and to not open for trading or restrict securities with open interest to closing transactions, if open for trading solely on the Exchange.

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.

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

<sup>2</sup> 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 seeks to amend Rule 403 to add Interpretations and Policies .02, to allow the Exchange to delist an option class if it is open for trading on another securities exchange; restrict option series to closing transactions when an option class is open for trading solely on the Exchange and the underlying security continues to meet the requirements for approval; restrict series with open interest to closing transactions, provided that, opening transactions by Market Makers executed to accommodate closing transactions of other market participants may be permitted; and to delist the option class when all series within that class have expired. The Exchange believes the ability to restrict option series to closing transactions when an option class is open for trading solely on the Exchange and the underlying security continues to meet the requirements for approval will allow the Exchange to delist option series in a timely and efficient manner. The Exchange believes the proposed rule amendment is necessary in connection with the listing and trading of option classes that are open for trading solely on the Exchange,

including, but not limited to, cash-settled index option products.<sup>3</sup> The proposed rule change is based on a proposal recently submitted by Cboe Exchange, Inc. (“Cboe”).<sup>4</sup>

Currently, whenever the Exchange determines that an underlying security previously approved for Exchange options transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, the Exchange will not open for trading any additional series of options of the class covering that underlying security and may prohibit any opening transactions in series of options of that class previously opened (except that opening transactions by Market Makers executed to accommodate closing transactions of other market participants may be permitted). The Exchange seeks to add Interpretations and Policies .02 to provide that when an option class is trading on another exchange, MIAX PEARL may delist such option class immediately, regardless of whether the option class continues to meet the requirements for approval. When an option class that no longer meets the requirements for approval is trading solely on the Exchange, the Exchange may not add any additional series, may restrict series with open interest to closing transactions, and may delist any series without open interest. However, when an option class continues to meet the requirements for approval and is trading solely on the Exchange, the Exchange may not restrict series with open interest to closing transactions; instead, the Exchange may only delist series with no open interest and determine to not open for trading any additional series in that option class, and may delist the option class when all series within that class have expired.

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<sup>3</sup> MIAX PEARL recently submitted a filing to list cash-settled index option products, which, if approved, will be applicable to this proposed rule amendment. See SR-PEARL-2018-02 (filed February 8, 2018).

<sup>4</sup> See Securities Exchange Act Release No. 82346 (December 18, 2017), 82 FR 60778 (December 22, 2017)(SR-CBOE-2017-076).

There are various business reasons why the Exchange may choose to no longer list an option class (e.g., lack of trading interest, lack of market-making interest, etc.). The Exchange believes restricting such classes to closing transactions will allow open interest to be closed in a timelier and more efficient manner. When seeking to delist an option class the Exchange believes that restricting series to closing transactions is a better way to transition the class to a delisted state than the current method of not adding additional series and allowing market participants to continue to add new positions in the existing series. Restricting trading to closing transactions encourages market participants to close transactions, which helps to limit any potential negative effects associated with delisting a class. For example, restricting trading to closing transactions helps prevent market participants from adding new positions that cannot be rolled into the following expiration (a common options strategy).

The Exchange notes that this proposal is consistent with the manner in which Rule 403 operates in relation to option classes with underlying securities that no longer meet the requirements for approval—additional series are not added, series with open interest are restricted to closing only, and series without open interest are delisted. As proposed, when the Exchange seeks to delist an option class with an underlying security that continues to meet the requirements for approval the Exchange will not open additional series in the option class and will restrict trading to closing transactions.

Allowing Market Makers to facilitate closing transactions of other market participants will help market participants close positions in classes that will be delisted by the Exchange, which helps to protect investors and the public interest. It is reasonable to restrict series to closing only pursuant to current Rule 403 when underlying securities no longer meet requirements for approval.

The Exchange believes it is also reasonable to restrict series to closing when the options class no longer satisfies business justifications for listing the class.

The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 90 days following the operative date of the proposed rule. The implementation date will be no later than 90 days following the issuance of the Regulatory Circular.

The Exchange notes that this filing is substantially similar to a companion MIAX Options filing, amending Rule 403 to allow the Exchange to delist an option class if open for trading on another national securities exchange, and to not open for trading or restrict securities with open interest to closing transactions, if open for trading solely on the Exchange.

## 2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act<sup>5</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>6</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. Additionally, the Exchange believes the proposed rule change is consistent with Section 6(b)(5)<sup>7</sup> requirements that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> Id.

In particular, when seeking to delist an option class – whether or not the underlying security continues to meet the requirements for approval – the Exchange believes that restricting series to closing transactions is a better way to transition the class to a delisted state than the current method of not adding additional series and allowing market participants to continue to add new positions in the existing series. Restricting trading to closing transactions encourages market participants to close transactions, which helps to limit any potential negative effects associated with delisting a class and helps to protect customers and the public interest.

The Exchange notes that this proposal is consistent with the manner in which Rule 403 operates in relation to option classes with underlying securities that no longer meet the requirements for approval—additional series are not added, series with open interest are restricted to closing only, and series without open interest are delisted. As proposed, when the Exchange seeks to delist an option class with an underlying security that continues to meet the requirements for approval the Exchange will not open additional series in the option class and will restrict trading to closing transactions. Also consistent with current Rule 403, opening transactions by Market Makers executed to accommodate closing transactions of other market participants may be permitted. Allowing Market Makers and market participants to facilitate closing transactions will help close positions in classes that will be delisted by the Exchange, which helps to protect investors and the public interest. It is reasonable to restrict series to closing only pursuant to current Rule 403 when underlying securities no longer meet requirements for approval. The Exchange believes it is also reasonable to restrict series to closing when the option class no longer satisfies business justifications for listing the class.

The Exchange also believes the proposed changes promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a

national market system because the proposed rule is designed to allow the Exchange to facilitate transactions in products solely listed on the Exchange in a uniform manner. Additionally, the proposed amendment would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national exchange system because the proposed amendment would make the rules of Exchange consistent with other options exchanges which trade index options.<sup>8</sup> In particular, the Exchange believes that the proposed changes will provide greater clarity to Members<sup>9</sup> and the public regarding the Exchange's Rules as they pertain to index options. It is in the public interest for rules to be uniform and consistent across options exchanges so as to eliminate 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 proposed rule change is consistent with the manner in which Rule 403 operates in relation to option classes with underlying securities that no longer meet the requirements for approval – additional series are not added, series with open interest are restricted to closing only, and series without open interest are delisted. Also consistent with current Rule 403, opening transactions by Market Makers executed to accommodate closing transactions of other market participants may be permitted. Allowing Market Makers to facilitate closing transactions of other market participants will help close positions in classes that will be delisted by the Exchange, which helps to protect investors and the public interest and does not impose any burden on

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<sup>8</sup> See supra notes 3 and 4.

<sup>9</sup> The term “Member” means an individual or organization that is registered with the Exchange, pursuant to Exchange rules, for the purposes of trading on the Exchange as an “Electronic Exchange Member” or “Market Maker.” See Exchange Rule 100.

competition that is not necessary or appropriate in furtherance of the purposes of the Act. Additionally, the proposed rule change is consistent with the rules of other options exchanges that currently list for trading index options, therefore, the Exchange believes that this proposed rule change will add clarity and uniformity to the rule governing index options.<sup>10</sup>

The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition as the Rules apply equally to all Exchange Members.

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>11</sup> and Rule 19b-4(f)(6)<sup>12</sup> 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 otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

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<sup>10</sup> See supra note 3.

<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</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.



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](mailto:rule-comments@sec.gov). Please include File Number SR-PEARL-2018-05 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-2018-05. 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-2018-05, 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>13</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).