

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83092; File No. SR-PEARL-2018-11)

April 23, 2018

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 602, Continuing Market Maker Registration

Pursuant to 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 13, 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 MIAX PEARL Rule 602, Continuing Market Maker Registration, to modify the Market Maker³ series registration process utilized by 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 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 Exchange rules. See Exchange Rule 100.

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 proposes to amend MIAX PEARL Rule 602, Continuing Market Maker Registration, to modify the Market Maker series registration process utilized by the Exchange. The Exchange believes this proposal would simplify and enhance the efficiency of the Market Maker series registration process, for both Market Makers and the Exchange. Other option exchanges generally have comparable Market Maker series registration processes.⁴

Current Registration Process

Once a Member⁵ has qualified as a Market Maker, such Market Maker may seek registration in individual series of options pursuant to Rule 602. Specifically, Rule 602(b) provides that “[a] Market Maker may become registered in a series by entering a registration

⁴ See, e.g., Cboe BZX Exchange, Inc. (“BZX Options”) Rules 22.3(a),(b) (Market Maker Registration); see also Nasdaq PHLX, LLC (“Phlx”) Rule 3212(b) (Registration as a Market Maker); Nasdaq Options Market (“NOM”), Chapter VII (Market Participants), Section 3(a),(b) (Continuing Market Maker Registration); NYSE American, LLC (“NYSE American”), Rule 923NY (Appointment of Market Makers).

⁵ The term “Member” means an individual or organization that is registered with the Exchange pursuant to Chapter II of the 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.

request via an Exchange approved electronic interface with the Exchange's Systems by 9:00 a.m. Eastern Time. Registration shall become effective on the day the registration request is entered.”⁶

Proposed Registration Process

The Exchange proposes to amend MIAX PEARL Rule 602(b) to modify the process by which a Market Maker becomes registered in a series. Specifically, the Exchange proposes to amend the rule text to state that registration may be requested by either utilizing the currently approved MIAX Express Order (“MEO”)⁷ interface, which requires series registration to be submitted prior to 9:00 a.m. Eastern Time of the current trading day, which registration request shall be submitted for every requested trading day, or an additional Exchange approved electronic interface, which requires series registration to be submitted prior to 6:00 p.m. Eastern Time of the business day immediately preceding the next trading day, which registration request shall persist until it is withdrawn. A Market Maker can withdraw a registration request by utilizing the same tool as it used to submit such request.

The purpose of this proposed change is to accommodate an additional Exchange approved electronic interface that the Exchange intends to make available to Market Makers for series registration, which additional electronic interface has a different submission deadline than the existing approved electronic interface, and which additional electronic interface allows the registration request to persist until a new request is submitted (whereas the existing electronic interface does not allow the registration request to persist -- it requires a Market Maker to resubmit for every trading day). The Exchange believes that adding more detail to the rule text

⁶ See Exchange Rule 602(b).

⁷ The term “MEO Interface” means a binary order interface used for submitting certain order types (as set forth in Rule 516) to the MIAX PEARL System. See Exchange Rule 100.

would make it clear to Market Makers that it is mandatory to utilize one of the two Exchange approved electronic interfaces for series registration, and that there are different submission deadlines and requirements for resubmission for each device. Accordingly, Market Makers would continue to self-register in a series, however the Market Maker would select the method to use, and thereby clearly understand when a series registration must be submitted for that particular method and the submission frequency related thereto. Market Makers may choose to use either Exchange approved electronic interface, or any combination of the two, to process their series registrations and withdrawals.

The Exchange believes that offering Market Makers an additional electronic interface for series registration will be beneficial for Market Makers because it will provide Market Makers with greater flexibility on how to perform series registration. The Exchange also believes that it will provide Market Makers with greater and more efficient access to the securities in which they want to make markets and disseminate competitive quotations, which would provide additional liquidity and enhance competition in those securities.

In addition, the Exchange also proposes to delete Rule 602(c), in its entirety. Presently, subsection (c) states that, “[a] Market Maker’s registration in a series shall be terminated if the Market Maker fails to enter quotations in the series within five (5) business days after the Market Maker’s registration in the series becomes effective.”⁸

The Exchange believes that Rule 602(c), when read in conjunction with certain other Exchange Rules, could potentially be interpreted to be inconsistent with such rules. In particular, Rule 604(a)(6) provides that Market Makers are expected to “maintain active markets” in all series in which they are registered. Rule 602(c) applies only to the first five days that a Market Maker is registered, whereas Rule 604(a)(6) continues for as long as the Market Maker is registered in a

⁸ See Rule 602(c).

series. When read together, the Exchange believes that there is potential for an inconsistent interpretation relating to a Market Maker's quoting obligations during the first five days after registering in a series. In the Exchange's view, the requirement to maintain active markets should be the same throughout the entire registration period. The Exchange notes that it will continue to be permitted to suspend or terminate a registered Market Maker under Rule 600(b) if it is found that the Market Maker has failed in its obligations to maintain active markets under Rule 604(a)(6) or fails its obligation to provide continuous two-sided quotes under Rule 605(d).⁹ Removing Rule 602(c) would simply remove the non-discretionary requirement that the Exchange must terminate a Market Maker's registration in a series if it does not enter quotations in the series within five business days of registration.

The Exchange currently conducts surveillance to monitor and enforce compliance with the "active markets" provision of Rule 604(a)(6) for all Market Makers. A registered Market Maker is subject to the Rule 604(a)(6) surveillance for the entire time the Market Maker is registered, including the first five days covered by Rule 602(c). If a registered Market Maker is found by surveillance not to be maintaining active markets in the option series in which it is registered, the Exchange will determine the appropriate course of action against such Market Maker. The Exchange may take actions of escalating severity against the offending Market Maker from suspending the Market Maker up to terminating the Market Maker in the options in which it fails to maintain active markets or bringing formal action.¹⁰

⁹ See Exchange Rule 600(b) ("The registration of any Member as a Market Maker may be suspended or terminated by the Exchange upon a determination that such Member has failed to properly perform as a Market Maker.").

¹⁰ See Exchange Rule 600(b).

The Exchange notes that its Market Maker series registration process is generally similar in structure to the comparable processes at other exchanges.¹¹ Additionally, the Exchange’s proposal to remove Rule 602(c) is based on the rules of another Exchange.¹² Accordingly, the Exchange believes that the proposed changes to Rule 602 are not material and raise no new or novel issues.

2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b)¹³ of the Securities Exchange Act of 1934 (the “Act”), in general, and furthers the objectives of Section 6(b)(5),¹⁴ 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, and to remove

¹¹ See e.g., BZX Options Rules 22.3(a) (“An Options Member that has qualified as an Options Market Maker may register to make markets in individual series of options”); NOM, Chapter VII, Section 3(a) (“An Options Participant that has qualified as an Options Market Maker may register to make markets in individual options.”). See also Phlx Rule 3212(b) (“A PSX Market Maker may become registered in an issue by entering a registration request via an Exchange approved electronic interface with PSX’s systems or by contacting PSX Market Operations. Registration shall become effective on the day the registration request is entered”); Phlx Rule 3220(a) (“A market maker may voluntarily terminate its registration in a security by withdrawing its two-sided quotation from PSX. A PSX Market Maker that voluntarily terminates its registration in a security may not re-register as a market maker for one (1) business day.”). See also BZX Options Rules 22.3(b) (“An Options Market Maker may become registered in a series by entering a registration request via an Exchange approved electronic interface with the Exchange’s systems by 9:00 a.m. Eastern time. Registration shall become effective on the day the registration request is entered”); NOM, Chapter VII, Section 3(b) (“An Options Market Maker may become registered in an option by entering a registration request via a Nasdaq approved electronic interface with Nasdaq’s systems. Registration shall become effective on the day the registration request is entered.”).

¹² See Securities Exchange Act Release No. 79039 (October 4, 2016), 81 FR 70198 (October 11, 2016)(SR-BatsBZX-2016-62).

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

impediments to and perfect the mechanism of a free and open market and a national market system.

The Exchange believes that the proposed rule change removes impediments to a free and open market because it would enable Market Makers to manage their series registration and the submission frequency related thereto, with more flexibility through the use of multiple electronic interfaces. The Exchange believes the proposed change would reduce the burden on both Market Makers and Exchange staff, which would result in a fair and reasonable use of resources to the benefit of all market participants. In particular, the proposal will enable Market Makers to have a choice of multiple electronic interfaces to perform series registration, and consequently will provide Market Makers with more efficient access to the securities in which they want to make markets and thus more quickly begin disseminating competitive quotations in those securities, which would provide additional liquidity and enhance competition in those securities.

In addition, the Exchange believes that the proposed deletion of sub-section (c) of Rule 602 promotes just and equitable principles of trade and provides clarity for the benefit of Market Makers and the marketplace as a whole by deleting rule text that could potentially be inconsistent with certain other Exchange rules. Additionally, the Exchange believes the proposal is consistent with Section 6(b)(1)¹⁵ in that it enables the Exchange to be so organized as to have the capacity to be able to carry out the purposes of the Exchange Act and to comply, and to enforce compliance by its exchange members and persons associated with its exchange members with the rules of the Exchange – in particular, the Exchange’s Market Maker

¹⁵ 15 U.S.C. 78f(b)(1).

obligations. Accordingly, the Exchange believes this proposal is consistent with Section 6(b) of the Exchange Act.¹⁶

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because it applies equally to a group of similarly situated market participants –Market Makers. The proposed rule change would reduce the burden on Market Makers to manage their series registration and thus provide liquidity to the Exchange.

Market Makers would still be subject to the same obligations with respect to their registration; the proposed rule change would make the registration process more efficient for such Market Makers. The Exchange believes that the proposed rule change would relieve any burden on, or otherwise promote, competition, as it would enable Market Makers to manage their registration with more flexibility through the use of multiple electronic interfaces. The Exchange believes this would provide Market Makers with more efficient access to the securities in which they want to make markets and thus more quickly begin disseminating competitive quotations in those securities, which would provide additional liquidity and enhance competition in those securities.

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;

¹⁶ 15 U.S.C. 78f(b).

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 Act¹⁷ and Rule 19b-4(f)(6)¹⁸ 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 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-2018-11 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.

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 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.

All submissions should refer to File Number SR-PEARL-2018-11. 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-2018-11 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.¹⁹

Eduardo A. Aleman
Assistant Secretary

¹⁹ 17 CFR 200.30-3(a)(12).