SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82197; File No. SR-PEARL-2017-37)

December 1, 2017

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate
Effectiveness of a Proposed Rule Change to Amend MIAX PEARL Rules 517A, Aggregate Risk
Manager for EEMs ("ARM-E"), and 517B, Aggregate Risk Manager for Market Makers
("ARM-M")

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 November 28, 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, 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 Rules 517A, Aggregate Risk

Manager for EEMs ("ARM-E"), and 517B, Aggregate Risk Manager for Market Makers

("ARM-M").

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

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[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.   <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

      1**.**   <u>Purpose</u>

The Exchange proposes to amend Exchange Rule 517A, ARM-E, to add additional detail to subsection (b), and to adopt new rule text in Interpretations and Policies .01, to state that immediate-or-cancel ("IOC") Orders[3] are not EEM ARM Eligible Orders.[4] The Exchange also proposes to amend Exchange Rule 517B, ARM-M, to add additional detail to subsection (b), and to adopt new rule text in Interpretations and Policies .02, to state that immediate-or-cancel ("IOC") Orders are not MM ARM Eligible Orders.[5]

<u>ARM-E</u>

ARM-E protects MIAX PEARL Electronic Exchange Members ("EEMs")[6] and assists them in managing risk by maintaining a counting program ("EEM Counting Program")[7] for each participating EEM who has submitted an order in an EEM Specified Option Class[8] using a

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[3]   An immediate-or-cancel order is an order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. <u>See</u> Exchange Rule 516(e).

[4]   <u>See</u> Exchange Rule 517A(a).

[5]   <u>See</u> Exchange Rule 517B(a).

[6]   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. <u>See</u> Exchange Rule 100.

[7]   <u>See</u> Exchange Rule 517A(a).

[8]   An "EEM Specified Option Class" is a class which the EEM has designated as a class to be protected via ARM-E. <u>See</u> Exchange Rule 517A(a).

specified market participant identifier ("MPID")[9] of the EEM and delivered via the MEO Interface[10] (an "EEM ARM Eligible Order"). The EEM Counting Program counts the number of contracts executed by an EEM from an EEM ARM Eligible Order (the "EEM ARM Contracts") within a specified time period that has been established by the EEM (the "EEM Specified Time Period").[11] The EEM Specified Time Period cannot exceed 15 seconds.[12] The Exchange currently provides that contracts executed as a result of an immediate-or-cancel ("IOC") order submitted by such EEM are not included in a specific EEM's EEM Counting Program.[13]

The EEM may also establish for each EEM Specified Option Class an EEM Allowable Engagement Percentage (the "EEM Allowable Engagement Percentage"),[14] which is a number of contracts, divided by the size of the orders, executed within the Specified Time Period, equal to or over which the ARM-E will be triggered. When an execution of an EEM ARM Contract from an EEM ARM Eligible Order occurs, the System[15] will look back over the EEM Specified Time Period to determine whether the sum of contract executions from such EEM ARM Eligible Order during such EEM Specified Time Period triggers the ARM-E.[16]

The System will engage the ARM-E in a particular EEM Specified Option Class when the EEM Counting Program has determined that an EEM has executed during the EEM Specified

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[9]   The term "MPID" means unique market participant identifier. See Exchange Rule 100.

[10]   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.

[11]   See Exchange Rule 517A(a).

[12]   Id.

[13]   See Exchange Rule 517A, Interpretations and Policies .01.

[14]   See Exchange Rule 517A(c).

[15]   The term "System" means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

[16]   See Exchange Rule 517A(c).

Time Period a number of EEM ARM Contracts from an EEM ARM Eligible Order equal to or above their EEM Allowable Engagement Percentage. ARM-E will then, until the EEM sends a notification to the System of the intent to reengage and submits a new order in the EEM Specified Option Class: (i) automatically cancel the EEM ARM Eligible Orders in all series of that particular EEM Specified Option Class and (ii) reject new orders by the EEM in all series of that particular EEM Specified Option Class submitted using the MEO Interface.[17]

The Exchange now proposes to allow EEMs to submit orders with a time in force of immediate-or-cancel to the Exchange during the time that the ARM-E is engaged by amending Interpretations and Policies .01 to adopt new rule text to state, "[i]mmediate-or-Cancel ("IOC") Orders submitted by an EEM using the MEO Interface are not EEM ARM Eligible Orders." The Exchange also proposes to remove the existing text in Interpretations and Policies .01 in its entirety which states, "[t]he System does not include in a specific EEM's EEM Counting Program contacts executed as a result of an immediate-or-cancel ("IOC") order submitted by such EEM." By adopting text that explicitly states that IOC orders submitted by an EEM using the MEO Interface are not EEM ARM Eligible Orders, there is no longer a need to indicate that contracts executed as a result of an IOC order submitted by an EEM are not included in the Counting Program, as only EEM ARM Eligible Orders will be included in the EEM Counting Program.

Additionally, Rule 517A(b) provides that when the ARM-E is engaged, the System will, (i) automatically cancel the EEM ARM Eligible Orders in all series of that particular EEM Specified Option Class and (ii) reject new orders by the EEM in all series of that particular EEM Specified Option Class submitted using the MEO Interface. The Exchange now proposes to

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[17]   See Exchange Rule 517A(b).

amend subsection (b)(ii) to state that the System will reject EEM ARM Eligible Orders

submitted by the EEM, thereby allowing IOC orders to be submitted to the Exchange for trading

when ARM-E is engaged.

ARM-M

ARM-M protects MIAX PEARL Market Makers[18] and assists them in managing risk by

maintaining a counting program ("MM Counting Program") for each Market Maker who has

submitted an order in an option class (an "MM Option Class") delivered via the MEO Interface

(an "MM ARM Eligible Order").[19] The MM Counting Program counts the number of contracts

executed by a Market Maker from an MM ARM Eligible Order (the "MM ARM Contracts")

within a specified time period that has been established by the Market Maker or as a default

setting, as defined below (the "MM Specified Time Period").[20] The MM Specified Time Period

cannot exceed 15 seconds whether established by the Market Maker or as a default setting.[21]

The Exchange currently provides that contracts executed as a result of an immediate-or-cancel

("IOC") order submitted by such MM are not included in a specific MM's MM Counting

Program.[22]

The Market Maker may also establish for each MM Option Class an MM Allowable

Engagement Percentage. When an execution of an MM ARM Contract from an MM ARM

Eligible Order occurs, the System will look back over the MM Specified Time Period to

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[18]   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 MIAX PEARL
       Rules. See Exchange Rule 100.

[19]   See Exchange Rule 517B(a).

[20]   Id.

[21]   Id.

[22]   See Exchange Rule 517B, Interpretations and Policies .02.

determine whether the sum of contract executions from such MM ARM Eligible Order during such MM Specified Time Period triggers the ARM-M.[23]

The System will engage the ARM-M in a particular MM Option Class when the MM Counting Program has determined that a Market Maker has executed during the MM Specified Time Period a number of MM ARM Contracts from an MM ARM Eligible Order equal to or above their MM Allowable Engagement Percentage. The ARM-M will then, until the Market Maker sends a notification to the System of the intent to reengage and submits a new order in the MM Option Class: (i) automatically cancel the MM ARM Eligible Orders in all series of that particular MM Option Class and (ii) reject new orders by the Market Maker in all series of that particular MM Option Class submitted using the MEO Interface.[24]

The Exchange now proposes to allow Market Makers to submit orders with a time in force of immediate-or-cancel to the Exchange during the time that the ARM-M is engaged by amending Interpretations and Policies .02 to state, "[i]mmediate-or-Cancel ("IOC") Orders submitted by a Market Maker using the MEO Interface are not MM ARM Eligible Orders." The Exchange also proposes to remove the existing text in Interpretations and Policies .02 in its entirety which states, "[t]he System does not include in a specific MM's MM Counting Program contacts executed as a result of an immediate-or-cancel ("IOC") order submitted by such MM." By adopting text that explicitly states that IOC orders submitted by a Market Maker using the MEO Interface are not MM ARM Eligible Orders, there is no longer a need to indicate contracts executed as a result of an IOC order submitted by a Market Maker are not included in the Counting Program, as only MM ARM Eligible Orders will be included in the MM Counting Program.

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[23] See Exchange Rule 517B(c).

[24] See Exchange Rule 517B(b).

Additionally, Rule 517B(b) provides that when the ARM-M is engaged, the System will (i) automatically cancel the MM ARM Eligible Orders in all series of that particular MM Option Class and (ii) reject new orders by the Market Maker in all series of that particular MM Option Class submitted using the MEO Interface. The Exchange now proposes to amend subsection (b)(ii) to state that the System will reject new MM ARM Eligible Orders submitted by the Market Maker, thereby allowing IOC orders to be submitted to the Exchange for trading when ARM-M is engaged.

ARM-E and ARM-M are designed to mitigate the exposure risk of resting orders on the Exchange. In the Exchange's experience an IOC order is an order that is designed to target specific, identifiable liquidity resting on the Book[25] that the entering Member desires to trade with. Thus, a Member entering an IOC order does not require the risk management protection of either the ARM-E or ARM-M, as the Member entering the IOC order has made an affirmative decision to attempt to execute that transaction. The Exchange believes Members should not be prevented from submitting these types of orders to the Exchange during the time that the Aggregate Risk Manager is engaged as contracts executed using these types of orders are not included in either the EEM or MM Counting Program.[26]

The Exchange believes this proposal will allow Members to continue to be protected from the risks that the Aggregate Risk Manager is designed to mitigate, and also allow Members to continue to submit certain orders which Members desire to submit even during the time that the Aggregate Risk Manager is engaged. The Exchange believes allowing Members the ability to send IOC orders to the Exchange will improve liquidity and order execution on the Exchange.

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[25]   The term "Book" means the electronic book of buy and sell orders and quotes maintained by the System. See Exchange Rule 100.

[26]   See supra note 11 and 19.

The Exchange notes that the proposed rule change is similar to a rule that is currently operative on the Exchange's affiliate, MIAX Options Exchange ("MIAX Options"). Specifically, Interpretations and Policies .01 to MIAX Options Rule 612, Aggregate Risk Manager, states that eQuotes[27] will remain in the System available for trading when the Aggregate Risk Manager is engaged. IOC Orders on MIAX PEARL are analogous to eQuotes on MIAX Options as eQuotes also have limited time-in-force durations. For example, eQuotes on MIAX Options[28] may be Auction or Cancel ("AOC"),[29] Opening Only ("OPG"),[30] Immediate or Cancel ("IOC"),[31] or Fill or Kill ("FOK").[32] MIAX PEARL and MIAX Options have a

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[27] An eQuote is a quote with a specific time in force that does not automatically cancel and replace a previous Standard quote or eQuote. An eQuote can be cancelled by the Market Maker at any time, or can be replaced by another eQuote that contains specific instructions to cancel an existing eQuote. See MIAX Options Exchange Rule 517(a)(2).

[28] MIAX Options provides for a Day eQuote in its rules, however this type of eQuote has not yet been enabled for trading on the MIAX Options Exchange. See MIAX Options Exchange Rule 517(a)(i).

[29] An Auction or Cancel or "AOC" eQuote is a quote submitted by a Market Maker to provide liquidity in a specific Exchange process . . . with a time in force that corresponds with the duration of that event and will automatically expire at the end of that event. See MIAX Options Exchange Rule 517(a)(2)(ii). The Exchange notes the current length of an auction on MIAX Options is 100 milliseconds and that the duration of an auction may be no less than 100 milliseconds and no more than 1 second. See MIAX Options Exchange Rule 515A(a)(2)(i)(C).

[30] An opening only or "OPG" eQuote is a quote that can be submitted by a Market Maker only during the Opening . . . OPG eQuotes will automatically expire at the end of the Opening Process. See MIAX Options Exchange Rule 517(a)(2)(iii).

[31] An immediate or cancel or "IOC" eQuote is an eQuote submitted by a Market Maker that must be matched with another quote or order for an execution in whole or in part upon receipt into the System. Any portion of the IOC eQuote not executed will be immediately canceled. See MIAX Options Exchange Rule 517(a)(2)(iv).

[32] A fill or kill or "FOK" eQuote is an eQuote submitted by a Market Maker that must be matched with another quote or order for an execution in its entirety at a single price upon receipt into the System or will be immediately cancelled. See MIAX Options Exchange Rule 517(a)(a)(v).

number of common Members and where feasible the Exchange strives to provide consistency between the markets so as to avoid confusion among Members.

The Exchange will announce the implementation date of the proposed rule change by Regulatory Circular to be published no later than 60 days following the operative date of the proposed rule. The implementation date will be no later than 60 days following the issuance of the Regulatory Circular.

2. Statutory Basis

MIAX PEARL believes that its proposed rule change is consistent with Section 6(b) of the Act[33] in general, and furthers the objectives of Section 6(b)(5) of the Act[34] 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.

The Exchange believes that its proposal would promote just and equitable principles of trade by permitting Members to use an order type that is not an ARM Eligible Order during the time that the ARM is engaged. Additionally, the Exchange believes this proposal will promote just and equitable principles of trade by allowing Members to continue to be protected from the risks that the Aggregate Risk Manager is designed to mitigate, and also allow Members to continue to submit certain orders which Members desire to submit even during the time the Aggregate Risk Manager is engaged. ARM-E and ARM-M are designed to mitigate the exposure risk of resting orders. An IOC order is an order that is designed to target specific,

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[33]   15 U.S.C. 78f(b).

[34]   15 U.S.C. 78f(b)(5).

identifiable liquidity resting on the Book that the entering Member desires to trade with and thus

the Member entering the IOC order does not require the risk management protection of either the

ARM-E or ARM-M, as the Member entering the IOC order has made an affirmative decision to

attempt to execute that transaction. Therefore, the Exchange believes Members should not be

prevented from submitting these types of Orders to the Exchange during the time that the

Aggregate Risk Manager is engaged. The Exchange believes allowing Members the ability to

send IOC orders to the Exchange while the Aggregate Risk Manager is engaged promotes just

and equitable principles of trade by improving liquidity and order execution on the Exchange.

The Exchange believes its proposal will result in increased liquidity on the Exchange

which will contribute to the operation of a fair and orderly market. The proposed treatment of

IOC orders during the time that the ARM is engaged is substantially similar to the treatment of

eQuotes on the Exchange's affiliate, MIAX Options.[35]

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 believes that the proposed rule change will foster competition on the Exchange by

providing EEMs and Market Makers with the ability to submit IOC orders during the time that

the ARM is engaged and compete for executions.

The Exchange does not believe the proposed rule change will impact inter-market

competition as the proposal is not designed to address competitive issue and is limited in scope

to the behavior of Members of the Exchange.

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[35]   See MIAX Options Rule 612, Interpretations and Policies .01.

For the reasons stated, the Exchange does not believe that 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[36] and Rule 19b-4(f)(6)[37] 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.

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[36]   15 U.S.C. 78s(b)(3)(A).

[37]   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.

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-2017-37 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-2017-37. 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 react 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-2017-37 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.[38]

Eduardo A. Aleman
Assistant Secretary

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[38]   17 CFR 200.30-3(a)(12).