

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82349; File No. SR-PEARL-2017-38)

December 19, 2017

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt a New Type of MIAX Express Orders Interface Port Known as a MEO Purge Port and to Amend MIAX PEARL Rule 519C, Mass Cancellation of Trading Interest, to Adopt a New Purge Message, as well as to Amend its Fee Schedule to identify the New MEO Purge Port

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 December 15, 2017, MIAX PEARL, LLC (“MIAX PEARL” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items 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 Rule 519C, Mass Cancellation of Trading Interest, to adopt new rule text to reflect the proposed MEO Purge Port functionality, as well as to make clarifying changes to existing rule text to more accurately describe current functionality. The Exchange is also proposing to amend its Fee Schedule to identify the New MEO Purge Ports.

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.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to offer Members³ that connect to the Exchange using the MIAX Express Orders interface (“MEO Interface”)⁴ a new type of connection port, named MEO Purge Port, to be used as a dedicated port for sending purge messages to the Exchange. The Exchange also proposes to amend its Fee Schedule to identify the new MEO Purge Port. Finally, the Exchange proposes to amend Exchange Rule 519C, Mass Cancellation of Trading Interest, to adopt new rule text to reflect the proposed MEO Purge Port functionality, as well as to make clarifying changes to existing rule text to more accurately describe current functionality.

Members connect to the Exchange’s System⁵ via their assigned MEO ports. Currently, the Exchange offers Members three different types of MEO port connections. The first is a Full

³ The term “Member” means an individual or organization that is registered with the Exchange pursuant to Chapter II of the MIAX PEARL 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.

⁴ 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.

⁵ The term “System” means the automated trading system used by the Exchange for the trading of securities. See Exchange Rule 100.

Service MEO Port - Bulk⁶ which supports all MEO input message types and binary bulk order entry; the second is a Full Service MEO Port - Single⁷ which supports all MEO input messages and binary order entry on a single order-by-order basis, but not bulk orders; the third is a Limited Service MEO Port⁸ which supports all MEO input message types, but does not support bulk order entry and only supports limited order types, as specified by the Exchange via Regulatory Circular. The Exchange limits Members to two (2) Full Service MEO Ports of either type per Matching Engine⁹ and allows up to eight (8) Limited Service MEO Ports per Matching Engine.¹⁰

The proposed MEO Purge Ports are a new, optional type of MEO port dedicated solely to handling purge messages which would enable a Member, by MPID,¹¹ to (i) remove all or a subset of its quotations¹² in the System and (ii) block all or a subset of new inbound quotations

⁶ See MIAX PEARL Fee Schedule, Definitions.

⁷ See MIAX PEARL Fee Schedule, Definitions.

⁸ See MIAX PEARL Fee Schedule, Definitions.

⁹ “Matching Engine” is a part of the MIAX PEARL electronic system that processes options orders and trades on a symbol-by-symbol basis. Some Matching Engines will process option classes with multiple root symbols, and other Matching Engines may be dedicated to one single option root symbol (for example, options on SPY may be processed by one single Matching Engine that is dedicated only to SPY). A particular root symbol may only be assigned to a single designated Matching Engine. A particular root symbol may not be assigned to multiple Matching Engines. See MIAX PEARL Fee Schedule, Definitions.

¹⁰ See MIAX PEARL Fee Schedule, Section 5)d).

¹¹ The term “MPID” means unique market participant identifier. See Exchange Rule 100.

¹² The term “quote” or “quotation” means a bid or offer entered by a Market Maker as a firm order that updates the Market Maker’s previous bid or offer, if any. When the term order is used in these Rules and a bid or offer is entered by the Market Maker in the option series to which such Market Maker is registered, such order shall, as applicable, constitute a quote for purposes of MIAX PEARL Rules. See Exchange Rule 100.

from being received;¹³ or cancel all of its MEO Day orders¹⁴ in the System and block all new inbound MEO Day orders from being received by MPID.¹⁵ Sending a purge message to cancel and block MEO Day orders will not cancel or block MEO immediate-or-cancel (“IOC”) orders.¹⁶ MEO IOC orders allow Members to continue to provide targeted liquidity to the market and to interact with Public Customer¹⁷ orders. When quotes have been purged as described above, the block will remain in effect until the Member requests that the Exchange remove the block.

The purge messages described above may be sent via any type of MEO port, however, purge messages received on the proposed MEO Purge Ports will be handled by the System in a way that ensures minimum possible latency (as MEO Purge Ports solely process purge messages, as opposed to Full Service MEO Ports – Bulk, Full Service MEO Ports – Single, and Limited Service MEO Ports, which also process additional message types), thereby providing Members with a faster, more efficient means to have their quotes removed from the System, which will provide Members with an enhanced level of risk protection.

¹³ A Member currently has the ability to send a purge message to remove all or a subset of its quotations and block all or a subset of its new inbound quotations via its MEO port or by request to the Exchange’s Help Desk. That ability is not changing with this proposal. What is changing with this proposal is the ability of a Member to send that purge message via the proposed MEO Purge Ports.

¹⁴ This would include both Day Limit Orders and Post-Only Orders entered via the MEO interface. A Day Limit Order is an order to buy or sell which, if not executed, expires at the end of the trading in the security on the day on which it was entered. See Exchange Rule 516(h). Post-Only Orders are orders that will not remove liquidity from the Book. See Exchange Rule 516(j).

¹⁵ The Exchange is introducing a new purge message that will cancel all of a Member’s MEO Day orders and block all of its new inbound MEO Day orders. This request may only be sent electronically via a Member’s existing MEO port, or via the new proposed MEO Purge Ports.

¹⁶ 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 canceled. See Exchange Rule 516(e).

¹⁷ The term “Public Customer” means a person that is not a broker or dealer in securities. See Exchange Rule 100.

The proposed MEO Purge Ports are designed to assist Members in the management of, and risk control over, their orders, particularly if the Member has resting orders in a large number of options. For example, if a Member detects market indications that may influence the direction or bias of its orders, the Member may use the proposed MEO Purge Ports to reduce uncertainty and to manage risk by purging all orders in a number of options seamlessly to avoid unintended executions, while continuing to evaluate the direction of the market.

The Exchange also proposes to amend Section 5)d) of its Fee Schedule to identify the new MEO Purge Ports. Members are allocated two (2) Full Service MEO Ports of either type and up to eight (8) Limited Service MEO Ports per Matching Engine to which they connect.¹⁸ The Exchange currently waives monthly MEO Port fees for all Members and will similarly waive MEO Purge Port fees until such time as the Exchange submits a rule filing to the Commission¹⁹ to establish the fee amount, and any related requirements, and provides notice to expire the applicable Waiver Period.²⁰

With the introduction of MEO Purge Ports, the Exchange proposes to amend Section 5)d) of its Fee Schedule to provide that a Member may request and be allocated two (2) MEO Purge Ports per Matching Engine to which it connects via a Full Service MEO Port. Specifically, a Member must have either a Full Service MEO Port – Bulk, or a Full Service MEO Port – Single

¹⁸ See MIA X PEARL Fee Schedule, Section 5)d).

¹⁹ The term “SEC” or “Commission” means the United States Securities and Exchange Commission. See Exchange Rule 100.

²⁰ “Waiver Period” means, for each applicable fee, the period of time from the initial effective date of the MIA X PEARL Fee Schedule until such time that the Exchange has an effective fee filing establishing the applicable fee. The Exchange will issue a Regulatory Circular announcing the establishment of an applicable fee that was subject to a Waiver Period at least fifteen (15) days prior to the termination of the Waiver Period and effective date of any such applicable fee.

connection to a Matching Engine in order to be eligible to receive MEO Purge Ports with respect to that Matching Engine.

The Exchange also proposes to amend Exchange Rule 519C, Mass Cancellation of Trading Interest, to adopt new rule text for new functionality being introduced in this proposal which provides that a Member may cancel all of its MEO Day orders and block all new inbound MEO Day orders by MPID. This request may only be submitted to the Exchange's System electronically via the Member's MEO port; either via its existing MEO ports, or via the new proposed MEO Purge Ports.

The Exchange also proposes to amend Exchange Rule 519C, Mass Cancellation of Trading Interest, to clarify functionality, in light of the new proposed functionality. Specifically, the Exchange proposes to amend 519C(b) which reads, “[a] Member may request Exchange staff to (i) remove all of its quotations and cancel all of its orders in the System and (ii) block all new inbound quotations and orders, by firm name or by MPID.” Accordingly, the Exchange is proposing to delete the reference to staff in the first sentence as a Member may either contact Exchange staff to have this action performed on their behalf or, by utilizing the new purge message, may submit a request to the Exchange's System via its MEO Port to cancel all of its MEO Day orders and block all new inbound MEO Day orders by MPID. Additionally, the Exchange proposes to amend the last sentence of 519C(b) which currently states that, “[t]he block will remain in effect until the Member requests Exchange staff to remove the block,” by removing the word “staff.” To remove a block a Member may (i) send an electronic message directly into the Exchange's System; or (ii) contact Exchange staff. The Exchange believes removing the word “staff” from the rule text more accurately encompasses the activity under both scenarios.

The Exchange notes that this proposal does not preclude Members from using the existing purge messages provided by either the MEO protocol or the cancel messages provided by the FIX protocol. Under the MEO protocol, Members may request that all quotations for all underlyings, or for a specific underlying, be removed, and that new inbound quotations for all underlyings, or specific underlyings, be blocked. Under the FIX protocol, Members may also request that all, or a subset, of orders for an MPID, or all Day or GTC orders for an MPID, on the requesting session, be canceled.

Additionally, the Exchange notes that this functionality is similar to functionality recently adopted by the Exchange's affiliate, Miami International Securities Exchange, LLC ("MIAX Options").²¹

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

The Exchange believes that its proposed rule change is consistent with Section 6(b) of the Act²² in general, and furthers the objectives of Section 6(b)(5) of the Act²³ 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

²¹ See Securities Exchange Act Release No. 81252 (July 28, 2017), 82 FR 36172 (August 3, 2017) (SR-MIAX-2017-36).

²² 15 U.S.C. 78f(b).

²³ 15 U.S.C. 78f(b)(5).

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 the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁴ in that it promotes just and equitable principles of trade and removes impediments to and perfects the mechanism of a free and open market. Offering Members designated MEO Purge Ports would enhance their ability to manage quotes, quote traffic, and quoting obligations for Members that are Market Makers,²⁵ which would, in turn, improve their risk controls to the benefit of all market participants. The Exchange believes that MEO Purge Ports would foster cooperation and coordination with persons engaged in facilitating transactions in securities because designating MEO Purge Ports for purges only may encourage better use of dedicated ports. This may, concurrent with the ports that carry quotes and other information necessary for market making activities, enable more efficient, as well as fair and reasonable, use of Members' resources. As MEO Purge Ports are only available for purging and not for activities such as order or quote entry, the MEO Purge Ports are not designed to permit unfair discrimination but rather are designed to enable Members to better manage their market risk, which, in turn, benefits all market participants. The Exchange also notes that similar connectivity and functionality is offered by other exchanges.²⁶

The Exchange notes that the proposed rule change will not relieve Market Makers of their continuous quoting obligations under Exchange Rule 604 and under Regulation NMS Rule

²⁴ Id.

²⁵ See Exchange Rule 604 and 605(d)(1).

²⁶ See Securities Exchange Act Release Nos. 81252 (July 28, 2017), 82 FR 36172 (August 3, 2017) (SR-MIAX-2017-36); 77613 (April 13, 2016), 81 FR 23023 (April 19, 2016) (SR-Phlx-2016-45); 79956 (February 3, 2017), 82 FR 10102 (February 9, 2017) (SR-BatsBZX-2017-05); and 81095 (July 7, 2017), 82 FR 32409 (July 13, 2017) (SR-ISE-2017-62).

602.²⁷ Specifically, any interest that is executable against a Market Maker's quotes that is received by the Exchange's Matching Engine prior to the time that the purge message is received by the Exchange's Matching Engine will automatically execute at that price, up to the quote's size. Market Makers that purge their quotes will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet its continuous quoting obligation each trading day.

In addition, the Exchange believes that the proposal 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 Members with an additional purge message which allows them to cancel their MEO Day orders by MPID and blocks new inbound MEO Day orders from being received yet preserves their ability to continue to provide liquidity to the market and interact with Public Customer orders via MEO IOC orders. Further, the Exchange is clarifying existing rule text in Rule 519C to better describe current functionality available on the Exchange. The Exchange believes that clarifying current functionality promotes the protection of investors and the public interest by helping market participants better understand the risk protection tools available on the Exchange.

The Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,²⁸ in that it provides for the equitable allocation of reasonable dues, fees and other charges among Members and other persons using any facility or system which the Exchange operates or controls. Even though the Exchange is proposing to waive this particular fee during

²⁷ 17 CFR 242.602.

²⁸ 15 U.S.C. 78f(b)(4).

the Waiver Period,²⁹ the Exchange believes that it is appropriate to provide market participants with the overall structure of the fee by outlining the structure on the Fee Schedule without setting forth a specific fee amount, so that there is a general awareness that the Exchange intends to assess such a fee in the future.

The Exchange also believes that the proposed amendments to its fee schedule are non-discriminatory because they will apply uniformly to all Members. The proposed MEO Purge Ports are completely voluntary and no Member is required, or under any regulatory obligation, to utilize them. All Members have the option to select any connectivity option, and fees, when charged, are charged uniformly for the services offered by the Exchange.

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 the proposed rule change will enhance competition because it will enable it to offer similar connectivity and functionality as its competitor exchanges.³⁰ In addition, the proposed MEO Purge Ports are completely voluntary and no Member is required or under any regulatory obligation to utilize them.

The Exchange believes its proposed amendments to its Fee Schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. On the contrary, the Exchange believes the proposed rule change will enhance competition because it will enable it to offer similar connectivity and functionality as its competitor exchanges.³¹ In addition, the proposed MEO Purge Ports are completely voluntary

²⁹ See supra note 20.

³⁰ See supra note 26.

³¹ Id.

and no Member is required or under any regulatory obligation to utilize them. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets.

The Exchange also does not believe the proposed rule change would impact intramarket competition as it would apply to all Members and non-Members equally.

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 Act³² and Rule 19b-4(f)(6)³³ 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.

³² 15 U.S.C. 78s(b)(3)(A).

³³ 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-2017-38 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-2017-38. 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-2017-38 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.³⁴

Eduardo A. Aleman
Assistant Secretary

³⁴ 17 CFR 200.30-3(a)(12).