SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-91425; File No. SR-PEARL-2021-09)

March 26, 2021

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 2614, Orders and Order Instructions, to Adopt and Make Available the Reserve Quantity Instruction for Orders on the MIAX PEARL Equities Platform

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 March 23, 2021, MIAX PEARL, LLC ("MIAX PEARL" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the 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 proposed rule change to amend Exchange Rule 2614, Orders and Order Instructions, to adopt the Reserve Quantity instruction.

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

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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 purpose of the proposed rule change is to amend Exchange Rule 2614, Orders and Order Instructions, to adopt the Reserve Quantity instruction that would be available to orders in equity securities traded on the Exchange's equity trading platform (referred to herein as "MIAX Pearl Equities"). In sum, a Reserve Quantity instruction would enable a User[3] to specify that a portion of their order be displayed and another portion of their order be non-displayed. The proposed operation of the Reserve Quantity instruction is well established in the equity markets and is based on similar functionality offered at other exchanges.[4]

The Exchange understands that some market participants avoid sending large displayed orders to MIAX Pearl Equities out of concern that revealing the full size of their order may adversely impact the market for the security. Market participants submitting large volume orders may, therefore, have the desire to conceal the full size of their order to avoid anticipatory action from other market participants. As only a small portion of the order is visible at any one time,

3 Exchange Rule 1901 defines the term "User" as "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Exchange Rule 2602."

4 See, e.g., Cboe BYX Exchange, Inc. ("BYX") and Cboe BZX Exchange, Inc. Rules 11.9(c)(1), Cboe EDGA Exchange, Inc. ("EDGA") and Cboe EDGX Exchange, Inc. ("EDGX", collectively with BYX, BZX, and EDGA, the "Cboe Equity Exchanges") Rules 11.6(m), New York Stock Exchange LLC ("NYSE") Rule 7.31(d)(1), NYSE Arca, Inc. ("NYSE Arca") Rule 7.31-E(d)(1), NYSE American LLC ("NYSE American", collectively with NYSE and NYSE Arca, the "NYSE Exchanges") Rule 7.31E(d)(1), Investors Exchange, Inc. ("IEX") Rule 11.190(b)(2), The NASDAQ Stock Market LLC ("NASDAQ") Rule 4703(h), and MEMX LLC ("MEMX") Rule 11.6(k).

price movements and market impact would be reduced. For example, a large institutional investor may want to avoid placing a large sell order that could cause panic. On the other hand, an institutional investor looking to buy shares at the lowest possible price may want to avoid placing a large buy order that professional traders could see and attempt to increase the price of the stock.

To facilitate the liquidation or acquisition of a large position, market participants tend to submit multiple orders into the market that may only represent a fraction of the overall institutional position to be executed. Various strategies used by institutional market participants to execute large orders are intended to limit price movement of the security at issue. Displaying the full size of their interest at one time may impact the market for that security such that the execution of their order's full size may be more costly to execute. As a result, these orders may often be executed away from the Exchange in dark pools or other exchanges that offer the same functionality as proposed herein,[5] or via broker-dealer internalization.

To attract larger orders, the Exchange proposes to add new optional functionality in the form of the Reserve Quantity instruction. The proposed Reserve Quantity instruction would be set forth under new paragraph (c)(8) of Exchange Rule 2614 and be described as an instruction a User may attach to an order where a portion of the order is displayed ("Displayed Quantity") and with a portion of the order non-displayed ("Reserve Quantity")._Upon entry, both the Displayed Quantity and the Reserve Quantity are eligible to trade with resting interest in the MIAX Pearl Equities Book or route to away markets. When resting, both the Displayed Quantity and Reserve Quantity are available for execution against incoming and Aggressing Orders.[6] The Exchange

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5 Id.

6 Exchange Rule 1901 defines the term "Aggressing Order" as "an order to buy (sell) that is or becomes marketable against sell (buy) interest on the MIAX Pearl Equities Book. A

also proposes to make a related change to Exchange Rule 2614(a)(1)(A)(i) to specify that the Reserve Quantity instruction may be attached to a Limit Order.[7]

Replenishment Amounts

Exchange Rule 2614(c)(8)(A) would describe how an order's Displayed Quantity may be replenished from the Reserve Quantity. Specifically, Exchange Rule 2614(c)(8)(A) would provide that a User must select the initial Displayed Quantity ("Max Floor") when entering an order with a Reserve Quantity.[8] The Max Floor is also used to determine the replenishment amount and must be entered in round lots.[9] If the Displayed Quantity is reduced to less than the round lot,[10] the System[11] will replenish the Displayed Quantity from the Reserve Quantity using one of two replenishment options in accordance with the User's instruction. The two proposed replenishment options are Random Replenishment and Fixed Replenishment, the descriptions of each would be set forth under proposed Exchange Rule 2614(c)(8)(A)(i), described below. Proposed Exchange Rule 2614(c)(8)(A)(ii) sets forth the default replenishment option and

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resting order may become an Aggressing Order if its working price changes, if the PBBO or NBBO is updated, because of changes to other orders on the MIAX Pearl Equities Book, or when processing inbound messages."

7 Exchange Rule 2614(a)(1)(A)(i) would also provide that a displayed Limit Order with a Reserve Quantity must include a replenishment instruction and a replenishment amount, as described herein.

8 This behavior is identical to that of the Cboe Equity Exchanges and NYSE Exchanges. See, e.g., EDGX Rule 11.6(m)(1) and NYSE Rule 7.31(d)(1)(A).

9 100 shares constitutes a "round lot", unless specified by the primary listing market to be fewer than 100 shares. See Exchange Rule 2610.

10 This behavior is identical to that of the Cboe Equity Exchanges and NYSE Exchanges. See, e.g., EDGX Rule 11.6(m)(1) and NYSE Rule 7.31(d)(1)(A).

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

provides an order with a Reserve Quantity will be subject to Fixed Replenishment unless the User affirmatively elects Random Replenishment.[12]

Random Replenishment

Random Replenishment is an instruction where replenishment quantities are randomly determined by the System within a replenishment range established by the User. The User entering an order into the System subject to the Random Replenishment instruction must select a replenishment value and a Max Floor. The initial Displayed Quantity and replenishment quantities will be determined by the System by randomly selecting a number of shares within a replenishment range that is between: (i) the Max Floor minus the replenishment value; and (ii) the Max Floor plus the replenishment value.[13]

The following example illustrates the operation of Random Replenishment. A User enters an order into the System to buy 10,000 shares at $100 and the User selects Random Replenishment with a Max Floor of 1,000 shares and a replenishment value of 400 shares ("Order 1"). Under Random Replenishment, the System will generate the initial Displayed Quantity and subsequent replenished Displayed Quantities from within a replenishment range that is calculated by adding and subtracting the 400 share replenishment value from the order's Max Floor of 1,000 shares. For Order 1, 1,000 shares plus or minus 400 shares equals a replenishment range of 600 to 1,400 shares. Assume the System randomly chooses an initial Displayed Quantity of 800 shares, resulting in a Reserve Quantity of 9,200 shares. An inbound

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12 This default behavior is identical to that of the Cboe Equity Exchanges. See, e.g., EDGX Rule 11.6(m)(1)(B).

13 This behavior is identical to that of the Cboe Equity Exchanges. See, e.g., EDGX Rule 11.6(m)(1)(A). See also NASDAQ Rule 4703(h) (providing that the Participant may stipulate that the original and subsequent displayed size will be an amount randomly determined based on factors selected by the Participant (a "Random Reserve")).

Market Order[14] to sell 800 shares ("Order 2") is entered into the System and Order 2 executes against Order 1's 800 share Displayed Quantity. Under Random Replenishment, the Displayed Quantity of Order 1 is randomly replenished to a new round lot quantity within the replenishment range of 600 to 1,400 shares. Assume the System selects a replenishment quantity of 1,200 shares for Order 1. Order 1's Displayed Quantity will be 1,200 shares to buy at $100, resulting in a Reserve Quantity of 8,000 shares. Upon replenishment, the Displayed Quantity will receive a new time stamp and the Reserve Quantity will retain its original time stamp, as described below.[15]

Fixed Replenishment

Fixed Replenishment is an instruction where the System will replenish the Displayed Quantity to equal the Max Floor designated by the User.[16] The following example illustrates the operation of Fixed Replenishment. A User enters an order into the System to buy 10,000 shares at $100 with a Max Floor of 1,000 shares and a Reserve Quantity of 9,000 shares ("Order 1"). The order defaults to Fixed Replenishment with an initial Displayed Quantity of 1,000 shares, equal to its Max Floor. An inbound Market Order to sell 400 shares is entered into the System ("Order 2"). Order 2 executes against the Order 1's Displayed Quantity of 1,000 shares, resulting in Order 1's Displayed Quantity to be decremented to 600 shares. Another order to sell 600 shares is entered ("Order 3"). Order 3 executes against Order 1's Displayed Quantity of 600 shares. Order 1's Displayed Quantity is then replenished by the System from its Reserve

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14 A Market Order is an order to buy (sell) a stated amount of a security that is to be executed at the PBO (PBB) or better. See Exchange Rule 2614(a)(2).

15 This behavior is identical to that of the NYSE Exchanges. See, e.g., NYSE Rule 7.31(d)(1)(B). See infra note 20 and accompanying text.

16 This behavior is identical to that of the Cboe Equity Exchanges. See, e.g., EDGX Rule 11.6(m)(1)(B).

Quantity to the order's Max Floor of 1,000 shares, resulting in a remaining Reserve Quantity of 8,000 shares.

Exchange Rule 2614(c)(8)(A)(iii) would provide that if after a partial execution the remainder of the order is less than the replenishment amount, the Exchange will replenish the Displayed Quantity to equal the remaining size of the order.[17] The following example illustrates the proposed behavior. A User enters an order into the System to buy 200 shares at $100 with a Max Floor of 100 shares and a Reserve Quantity of 100 shares ("Order 1"). Order 1 defaults to Fixed Replenishment with an initial Displayed Quantity of 100 shares, equal to its Max Floor. An inbound Market Order to sell 150 shares is entered into the System ("Order 2"). Order 2 executes against the Order 1's Displayed Quantity of 100 shares and then executes against Order 1' Reserve Quantity of 50 shares, resulting in Order 1's Reserve Quantity to be decremented to 50 shares. The total size of Order 1 is now 50 shares (0 share Displayed Quantity + 50 shares Reserve Quantity = 50 shares). Order 1's Displayed Quantity will now equal its remaining order size of 50 shares because 50 shares is less than Order's 1 Max Floor of 100 shares.

Priority

Exchange Rule 2614(c)(8)(B) would describe the priority treatment of an order's Displayed Quantity and Reserve Quantity. Exchange Rule 2614(c)(8)(B)(i) would provide that the Displayed Quantity of the order is provided displayed priority pursuant to Exchange Rule 2616(a)(2)(A)(i) and the Reserve Quantity is provided non-displayed priority pursuant to

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17 This behavior is identical to that of the Cboe Equity Exchanges. See, e.g., EDGX Rule 11.6(m)(1).

Exchange Rule 2616(a)(2)(A)(ii).[18] The Exchange does not propose to make any changes to Exchange Rule 2616 regarding the priority of displayed and non-displayed orders.

The following example illustrates this behavior. A User enters an order to buy 6,000 shares at $30.50, the PBB[19], with a Displayed Quantity of 1,000 shares and a Reserve Quantity of 5,000 shares ("Order 1"). Order 1 is subject to Fixed Replenishment. A User then enters a displayed order to buy 600 shares at $30.50 with no Reserve Quantity ("Order 2"). Subsequently, an order to sell 2,000 shares is entered into the System ("Order 3"). Order 3 first executes against the Order 1's Displayed Quantity of 1,000 shares, then executes against the full 600 shares of Order 2, and then executes 400 shares from Order 1's Reserve Quantity. The Displayed Quantities of Orders 1 and 2 execute in time priority, followed by the Reserve Quantity of Order 1. The Displayed Quantity of Order 1 is then replenished for 1,000 shares, leaving a Reserve Quantity of 3,600 shares.

As discussed above, Exchange Rule 2614(c)(8)(B)(ii) would provide that each time the Displayed Quantity is replenished from the Reserve Quantity, a new time stamp is created for the Displayed Quantity, while the Reserve Quantity retains its time stamp.[20]

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18 This proposed priority treatment is identical to the Cboe Equity Exchange and the NYSE Exchanges. See, e.g., EDGX Rule 11.9(a)(6) and NYSE Rule 7.31(d)(1).

19 With respect to the trading of equity securities, the term "Protected NBB" or "PBB" shall mean the national best bid that is a Protected Quotation, the term "Protected NBO" or "PBO" shall mean the national best offer that is a Protected Quotation, and the term "Protected NBBO" or "PBBO" shall mean the national best bid and offer that is a Protected Quotation. See Exchange Rule 1901.

20 This proposed priority treatment is identical to the NYSE Exchanges. See, e.g., NYSE Rule 7.31(d)(1)(B).

Re-pricing

As stated above, the Exchange proposes to amend Exchange Rule 2614(a)(1)(A)(i) to specify that the Reserve Quantity instruction may be attached to a Limit Order.[21] The Displayed Quantity of the Limit Order will be subject to the Exchange's existing standard re-pricing processes for displayed orders.[22] Exchange Rule 2614(c)(8)(C) would specify that the Reserve Quantity's working price will be adjusted pursuant to the Non-Displayed Price Sliding Process as provided for Exchange Rule 2614(g)(2).

Routing

The behavior of an order with a Reserve Quantity would be described under Exchange Rule 2614(c)(8)(D) and would provide that any quantity of an order with a Reserve Quantity that is returned unexecuted will join the Reserve Quantity. If there is no Reserve Quantity to join, the returned quantity will be assigned a new time stamp as the Reserve Quantity. In either case, such Reserve Quantity will replenish the Displayed Quantity pursuant to the replenishment options set forth under Exchange Rule 2614(C)(8)(A)(1), described above.[23]

Cancel/Replace Messages

The Exchange proposes to amend Exchange Rule 2614(e)(3) to describe what changes may be made to an order with a Reserve Quantity via a Replace Message. Currently, Exchange Rule 2614(e)(3) provides that only the price, sell long, sell short, or short exempt indicator, and size terms of the order may be changed by a Replace Message. The Exchange proposes to

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21 The Exchange does not propose to allow a Reserve Quantity to be included with any other order type at this time.

22 See Exchange Rule 2614(a)(1)(E), (F), and (H). This proposed behavior is identical to the NYSE Exchanges. See, e.g., NYSE Rule 7.31(d)(1).

23 This behavior is identical to that of the NYSE Exchanges. See, e.g., NYSE Rule 7.31(d)(1)(D)(ii).

amend Exchange Rule 2614(e)(3) to also provide that the Max Floor of an order with a Reserve Quantity may also be changed by a Replace Message.[24] If a User desires to change any other terms of an existing order the existing order must be cancelled and a new order must be entered.

The Exchange proposes to make a related change to Exchange Rule 2616(a)(5) to describe when a modification to an order with a Reserve Quantity made pursuant to Exchange Rule 2614(e)(5) described above may result in a change to that order's timestamp. Exchange Rule 2616(a)(5) currently provides that in the event an order has been cancelled or replaced in accordance with Exchange Rule 2614(e), such order only retains its timestamp if such modification involves a decrease in the size of the order or a change in position from (A) sell to sell short; (B) sell to sell short exempt; (C) sell short to sell; (D) sell short to sell short exempt; (E) sell short exempt to sell; and (F) sell short exempt to sell short. The Exchange proposes to amend Exchange Rule 2616(a)(5) to also provide that a change to the Max Floor of an order with a Reserve Quantity in accordance with Exchange Rule 2614(e)(5) will not result in a change to the order's timestamp.[25] Any other modification to an order with a Reserve Quantity, including an increase in the size of the order and/or price change, will result in such order losing time priority as compared to other orders in the MIAX Pearl Equities Book and the timestamp for such order being revised to reflect the time of the modification.

Implementation

Due to the technological changes associated with this proposed change, the Exchange will issue a trading alert publicly announcing the implementation date of this proposed rule

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[24] This behavior is identical to that of the Cboe Equity Exchanges. See, e.g., EDGX Rule 11.10(e)(3).

[25] This behavior is identical to that of the Cboe Equity Exchanges. See, e.g., EDGX Rule 11.9(a)(4).

change. The Exchange anticipates that the implementation date will be in either the second or third quarter of 2021.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,[26] in general, and furthers the objectives of Section 6(b)(5),[27] in particular, because 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 mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The proposed rule change would remove impediments to and promote just and equitable principles of trade because it would provide market participants, including institutional firms who ultimately represent individual retail investors in many cases, with optional functionality that would provide them with better control over their orders.

As discussed above, the proposed optional Reserve Quantity would allow a User to elect that only a small portion of the order is visible at any one time, potentially reducing price movements and market impact. For example, a large institutional investor may want to avoid placing a large sell order that could cause panic. On the other hand, an institutional investor looking to buy shares at the lowest possible price may want to avoid placing a large buy order that professional traders could see and attempt to increase the price of the stock. Therefore, the

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[26] 15 U.S.C. 78f(b).

[27] 15 U.S.C. 78f(b)(5).

proposal would also provide them with greater potential to improve the quality of their order executions.

Because the Exchange does not have this functionality, the Exchange believes that market participants, such as large institutions that transact a large number of orders on behalf of retail investors, do not frequently send large orders to the Exchange to avoid potentially more expensive transactions. In this regard, the Exchange notes that the proposed new optional Reserve Quantity instruction may improve the Exchange's market by attracting more order flow. Such new order flow will further enhance the depth and liquidity on the Exchange, which supports just and equitable principles of trade and benefits all market participants. Furthermore, the proposed Reserve Quantity instruction is consistent with providing market participants with greater flexibility over their orders so that they may achieve their trading goals and improve the quality of their executions.

Lastly, the Exchange believes its proposal promotes just and equitable principles of trade because the proposed operation of the Reserve Quantity instruction is well established in the equity markets and is based on similar functionality at other exchanges.[28] The Exchange does not propose to include any unique functionality as part of its proposed Reserve Quantity instruction. For example, the Exchange does not propose any unique priority treatment for orders with a Reserve Quantity as the Displayed Quantity will be provided displayed priority and the Reserve Quantity will be provided non-displayed priority under existing Exchange Rule 2616(a). The Exchange also does not propose to route an order with a Reserve Quantity any differently than other orders that are eligible to be routed to an away market center under Exchange Rule 2617(b). As described throughout the proposal, all portions of the proposed rule

[28] See supra note 4.

text are based on the rules of the Cboe Equity Exchanges or the NYSE Equity Exchanges. Therefore, the Exchange believes the proposed rule change is consistent with the Act.

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. In fact, the Exchange believes that the proposal may have a positive effect on competition because it will enable the Exchange to offer functionality substantially similar to that offered by the Cboe Equity Exchanges, the NYSE Exchanges, NASDAQ, MEMX, and IEX.[29] As noted above, the Exchange believes its lack of this functionality has put it at a competitive disadvantage as market participants, such as large institutions that transact a large number of orders on behalf of retail investors, have avoided sending large orders to the Exchange to avoid potentially more expensive transactions. This proposal is designed to allow the Exchange to directly compete with other exchanges that offer similar Reserve Quantity functionality. The Exchange believes that its proposal promotes competition because it is designed to attract liquidity to the Exchange by allowing market participants to designate how much of their order is to be displayed at one time, thus providing them with functionality available to them on other exchanges.

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;

[29] Id.

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[30] and Rule 19b-4(f)(6)[31] 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-2021-09 on the subject line.

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30 15 U.S.C. 78s(b)(3)(A).

31 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.

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-2021-09. 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-2021-09, 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.[32]

J. Matthew DeLesDernier
Assistant Secretary

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[32] 17 CFR 200.30-3(a)(12).