

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99954; File No. SR-PEARL-2024-17)

April 12, 2024

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Operation of the Trading Collar under Exchange Rule 2618(b)

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 4, 2024, MIAX PEARL, LLC (“MIAX Pearl” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 proposes to amend its existing Trading Collar risk control for Equity Members³ when trading equity securities on the Exchange’s equity trading platform (referred to herein as “MIAX Pearl Equities”).

The text of the proposed rule change is available on the Exchange’s website at <https://www.miaxglobal.com/markets/us-equities/pearl-equities/rule-filings>, 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The term “Equity Member” is a Member authorized by the Exchange to transact business on MIAX Pearl Equities. See Exchange Rule 1901.

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 prevents all incoming orders, including those marked as Intermarket Sweep Orders (“ISO”), from executing at a price outside the Trading Collar price range as described in Exchange Rule 2618(b). The Trading Collar prevents buy orders from trading or routing at prices above the collar and prevents sell orders from trading or routing at prices below the collar. The Exchange proposes to expand the ability of Equity Members to adjust the Trading Collar.

The Exchange’s default behavior is to calculate the Trading Collar price range for a security by applying the numerical guidelines for Clearly Erroneous Executions or a specified dollar value established by the Exchange.⁴ The result is added to the Trading Collar Reference Price to determine the Trading Collar Price for buy orders, while the result is subtracted from the Trading Collar Reference Price to determine the Trading Collar Price for sell orders. Exchange Rule 2618(b)(1)(B) provides that the Trading Collar Reference Price is equal to the following: (i) consolidated last sale price disseminated during the Regular Trading Hours on trade date; or (ii) if (i) is not available, the prior day’s Official Closing Price identified as such by the primary listing exchange, adjusted to account for events such as corporate actions and news events.

⁴ Although the Exchange applies the numerical guidelines for Clearly Erroneous Executions, no order would be executed outside of the prescribed Price Bands pursuant to the Plan to Address Extraordinary Market Volatility, as described below. See infra note 9 and accompanying text.

Exchange Rule 2618(b)(1)(F) provides Equity Members the ability to override the Exchange's default behavior and provides that for Market Orders⁵ only, Equity Members may override the above default behavior on an order-by-order basis by selecting a custom dollar value lower than the Exchange specified percentages and dollar value.

In less liquid securities, the Trading Collar has, in a few instances, prevented Equity Members from accessing an order resting on the MIAX Pearl Equities Book⁶ at a price at or near the Exchange's top of book because that order was resting at a price outside of the Trading Collar. This impacted not just incoming Market Orders, but also incoming Limit Orders⁷ and Pegged Orders⁸ looking to remove liquidity from the MIAX Pearl Equities Book. In the Exchange's experience and based on Equity Members' feedback, this occurs when the prior day's Official Closing Price is used as the Trading Collar Reference Price because no consolidated last sale price was disseminated during the Regular Trading Hours on trade date. In such case, the Official Closing Price used to calculate the Trading Collar may be stale and not accurately reflect the current trading characteristics of the security. In turn, this has resulted in orders in a small number of less liquid securities resting at a price outside the Trading Collar, preventing an incoming order from executing against that resting order.

In response to Equity Member feedback, the Exchange proposes to expand the ability to override the Exchange's default behavior to address the scenario outlined above. Specifically, the Exchange proposes to expand Exchange Rule 2618(b)(1)(F) to include Limit Orders and Pegged Orders, in addition to Market Orders (current behavior). The Exchange proposes to also

⁵ See Exchange Rule 2614(a)(2).

⁶ See Exchange Rule 1901.

⁷ See Exchange Rule 2614(a)(1).

⁸ See Exchange Rule 2614(a)(3).

amend Exchange Rule 2618(b)(1)(F) to allow Equity Members to select a dollar value lower (current behavior), higher, or equal to the Exchange-specified percentages and dollar value on an order-by-order basis. In other words, Equity Members may select a dollar value equal to, more, or less conservative than the Exchange’s specified percentages and dollar value. This proposed rule change would allow Equity Members to select their own dollar value to calculate the Trading Collar, enabling them to access an order that may otherwise be outside the Trading Collar if the Trading Collar was calculated based on the Exchange’s specified percentages and dollar value. Importantly, the proposed rule change would not only allow Equity Members to select a dollar value more aggressive than the Exchange’s defaults, but also more conservative in cases where they seek to apply a tighter Trading Collar in line with their risk appetite. The ability to override the Exchange’s specified percentages and dollar value would be completely voluntary and all orders would continue to be subject to other risk protections provided by the Exchange regardless of the width of the Trading Collar, as described below.

As a preliminary matter, the Exchange notes that no order would be executed outside of the prescribed Price Bands pursuant to the Plan to Address Extraordinary Market Volatility (the “LULD Plan”).⁹ Exchange Rule 2622(e) sets forth the Exchange’s mechanism for complying with the LULD Plan. Broadly, the LULD Plan prevents trades from happening at prices where one party to the trade would be considered “aggrieved” under the Exchange’s Clearly Erroneous Rule 2621. Any trade that takes place within the LULD Price Bands would stand and not be broken.¹⁰

⁹ See Securities Exchange Act Release Nos. 67091, 77 FR 33498 (June 6, 2012) (File No. 4-631) (“LULD Plan Approval Order”) (approving the LULD Plan as amended); and 85623, 84 FR 16086 (April 17, 2019) (approving, among other things, the operation of the LULD Plan on a permanent basis).

¹⁰ No trades were deemed clearly erroneous by any exchange during the second half of 2023. See the third and fourth quarter CEE Reports available at <https://www.luldplan.com/studies>.

In addition, to help Equity Members manage their risk, the Exchange also offers other risk controls that authorize the Exchange to take automated action if a designated limit for an Equity Member is breached. Each of these risk controls are described under Exchange Rule 2618 and provide Equity Members with enhanced abilities to manage their risk when trading on the Exchange. The Exchange also requires Limit Order Price Protection for all Limit Orders. Under Exchange Rule 2614(a)(1)(ix), Limit Order Price Protection provides that a Limit Order to buy (sell) will be rejected if it is priced at or above (below) the greater of a specified dollar and percentage away from a certain reference described in the Rule. Equity Members may customize the specified dollar and percentage values on an MPID and/or per session basis. If an Equity Member does not provide a specified dollar and percentage values for their order(s), the Exchange's specified dollar and percentage values will be applied. Limit Order Price Protection will be applied when an order is first eligible to trade. In other words, a Limit Order would be rejected and not placed on the MIAX Pearl Equities Book where it would be priced outside of the Limit Order Price Protection range described above. Meanwhile, all order types are subject to the Trading Collar. Like Limit Order Price Protection, the Trading Collar is applied upon entry. Unlike Limit Order Price Protection, under which an order would be rejected, an order subject to the Trading Collar may be accepted upon entry and routed or executed at prices at or within the Trading Collar range. Any remaining portion of that order that is about to be posted to the MIAX Pearl Equities Book, executed, or routed at a price outside of the Trading Collar would be cancelled.

The following examples describe the proposed functionality and how it would interact with the Limit Order Price Protection. Assume for all of the below examples that the previous day's official closing price of \$1.00 is being used as the Trading Collar Reference Price because

there is no consolidated last sale. Also assume the Trading Collar dollar value is \$0.15 resulting in a Trading Collar range of \$0.85 to \$1.15, and there is no national best bid or offer for the security.

The first example shows how the proposed functionality would allow an incoming order to access a resting order that would otherwise have been blocked by the Trading Collar. The Exchange receives a displayed Limit Order to buy 10 shares at \$0.83 (Order 1). Order 1 is posted to the MIAX Pearl Equities Book and displayed at \$0.83. The Exchange then receives a second displayed Limit Order to buy 10 shares at \$0.84 (Order 2). Order 2 is posted to the MIAX Pearl Equities Book and displayed at \$0.84. The Exchange now receives a Limit Order to sell 20 shares at \$0.80 (Order 3), with custom Trading Collar dollar value of \$0.17, resulting in a Trading Collar range of \$0.83 to \$1.17 (\$0.02 wider than the Exchange specified Trading Collar dollar value of \$0.15). Assume that Orders 1, 2, and 3 all pass the Limit Order Price Protection check. Order 3 would execute against Order 2 at \$0.84 for 10 shares and then execute against Order 1 at \$0.83 for 10 shares. Order 3 is able to execute against Orders 1 and 2 because they are within range of Order 3's custom Trading Collar dollar value. If the Exchange's specified Trading Collar value has been used, Order 3 would not have been able to execute against Orders 1 and 2 because they would have been outside the Trading Collar range.

This second example shows an incoming order failing the Limit Order Price Protection check and being rejected, although its custom Trading Collar dollar value would have allowed it to trade with contra-side interest on the MIAX Pearl Equities Book. Assume the same facts as the above example with the only difference being Order 3 also includes a specified Limit Order Price Protection dollar and percentage values of \$0.05 and 10%, respectively, as provided by Exchange Rule 2614(a)(1)(ix)(B). Order 3's Limit Order Price Protection range is calculated as

follows: Official Closing Price minus the greater of the dollar-based value (\$0.05) or the Official Closing Price multiplied by the percentage value (\$1.00 +/- \$0.10 = \$0.90 to \$1.10). Although Order 3's custom Trading Collar dollar value would have allowed it to trade with Orders 1 and O2, Order 3 would fail the Limit Order Price Protection check and be rejected.

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The Exchange proposes, however, to not allow Equity Members to select their own dollar value to calculate the Trading Collar for orders eligible to participate in the Exchange's Opening Process. The Exchange recently proposed to apply the Trading Collar to the Opening Process under Exchange Rule 2615,¹¹ and will begin to apply the Trading Collar to the Opening Process in February 2024.¹² Once implemented, Equity Members would not be permitted to override the Exchange's default behavior during the Opening Process and the Trading Collar price range for a security would be calculated by applying the specified percentages and dollar value described in Exchange Rule 2618(b)(1)(E). As a result, the Exchange proposes to amend Exchange Rule 2618(b)(1)(F) to provide that Exchange Rule 2618(b)(1)(F) would not apply to orders that are eligible for the Opening Process under Exchange Rule 2615. In such case, the specified percentages and dollar value described under Exchange Rule 2618(b)(1)(E) would be applied. The Exchange believes this is reasonable because no orders rest on the MIAX Pearl Equities Book until the completion of the Opening Process and continuous trading has begun. Until that time, there would be no orders resting on the MIAX Pearl Equities Book at a price that would otherwise be outside of the Trading Collar that an Equity Member may seek to access.

¹¹ See Securities Exchange Act Release No. 98825 (October 30, 2023), 88 FR 75338 (November 2, 2023) (SR-PEARL-2023-58).

¹² See MIAX Pearl Equities Exchange Regulatory Circular 2024-02, Updated Implementation Dates for Changes to Certain Risk Controls on MIAX Pearl Equities, dated January 17, 2024.

Non-Substantive Corrections

The Exchange also proposes to make non-substantive corrections to Exchange Rule 2618. First, the Exchange proposes to capitalize a reference to “Numerical Guidelines” in Exchange Rule 2618(b)(1). Second, the Exchange proposes to correct a cross-reference in Exchange Rule 2618(b)(1)(D). Third, the Exchange proposes to make references to the term “dollar values” singular in Exchange Rule 2618(b)(1)(F). This is because the Exchange only uses a single dollar value when calculating the Trading Collar. None of these changes impact or alter the operation of Exchange Rule 2618(b). Each is designed solely to correct non-substantive errors, making the rule easier to understand and avoid potential investor confusion.

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The Exchange does not guarantee that the risk settings in this proposal are sufficiently comprehensive to meet all of an Equity Member’s risk management needs. Pursuant to Rule 15c3-5 under the Act,¹³ a broker-dealer with market access must perform appropriate due diligence to assure that controls are reasonably designed to be effective, and otherwise consistent with the rule.¹⁴ Use of the Exchange’s risk settings included in Exchange Rule 2618 will not automatically constitute compliance with Exchange or federal rules and responsibility for compliance with all Exchange and SEC rules remains with the Equity Member.

Implementation

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

¹³ 17 CFR § 240.15c3-5.

¹⁴ See Division of Trading and Markets, Responses to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access, available at <https://www.sec.gov/divisions/marketreg/faq-15c-5-risk-management-controls-bd.htm>.

enhancements to its risk controls set forth herein. The Exchange anticipates that the implementation date will be in the second or third quarter of 2024.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,¹⁵ in general, and furthers the objectives of Section 6(b)(5),¹⁶ 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. Specifically, the Exchange believes the proposed amendments will remove impediments to and perfect the mechanism of a free and open market and a national market system because the augmented functionality is being proposed in response to Equity Member feedback as part of their efforts to appropriately manage their risk.

Exchange Rule 2618(b)(1)(F) currently provides the ability to override the Exchange's default behavior for Market Orders only, where Equity Members may select on an order-by-order basis a dollar value lower than the Exchange specified percentages and dollar value. This proposal seeks to expand that ability under Exchange Rule 2618(b)(1)(F) to include Limit Orders and Pegged Orders and allow Equity Members to select a dollar value lower (current behavior), higher, or equal to the Exchange specified percentages and dollar value on an order-by-order basis. Importantly, the proposed rule change would not only allow Equity Members to select a

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

dollar value more aggressive than the Exchange's defaults, but also more conservative in cases where they seek to apply a tighter Trading Collar in line with their risk appetite.

Allowing Equity Members to select a dollar value more or less conservative than the Exchange's specified percentages and dollar value is being proposed in response to an Equity Member request to be able to access an order in less liquid securities that may be resting on the MIAX Pearl Equities Book at prices outside the Trading Collar, as described above. The proposal would, therefore, promote just and equitable principles of trade because it would provide Equity Members with additional flexibility in constructing a Trading Collar (tighter or wider) that better suits their risk appetite when they seek to access such resting liquidity. The proposal would allow Equity Members to modify the Trading Collar on an order-by-order basis so that they may access an order resting on the MIAX Pearl Equities Book that would otherwise be priced outside of the Trading Collar due to the Exchange's default behavior.

An Equity Member's decision to select a dollar value other than the Exchange's specified values would be completely voluntary. Equity Members would be free to take no action and rely on the Exchange's specified percentages or dollar value as they may do today for Market Orders.

Market participants' ability to adjust risk settings to a more restrictive range, like Trading Collars, is not unique. As discussed above, Exchange Rule 2618(b)(1)(F) currently provides Equity Members the ability to constrict the Trading Collar for Market Orders. Market participants' ability to adjust risk settings to a more permissive range is also not unique. Today, for Limit Order Price Protection, Exchange Rule 2614(a)(1)(ix)(B) permits Equity Members to customize the specified dollar and percentage values used under Limit Order Price Protection.¹⁷

¹⁷ Exchange Rule 2614(a)(1)(ix)(A) provides that, under Limit Order Price Protection, a Limit Order to buy (sell) will be rejected if it is priced at or above (below) the greater of a specified dollar and percentage away from the following: (1) PBO for Limit Orders to buy, the PBB for Limit Orders to sell; (2) if 1, is unavailable, consolidated last sale price disseminated during the Regular Trading Hours on trade date; or

Such customization may be more or less permissive than the Exchange's specified dollar and percentage values. In the case where an Equity Member customizes their specified dollar and percentage values used under Limit Order Price Protection to be more permissive, an execution may nevertheless be prevented by the Trading Collar. Importantly, the proposal would allow Equity Members to override the Exchange's default behavior to construct a Trading Collar based on their own trading behavior and risk appetite, like they may do today for Limit Order Price Protection.

This proposal is in response to a limited and specific scenario when the prior day's Official Closing Price is used as the Trading Collar Reference Price because no consolidated last sale price was disseminated during Regular Trading Hours on trade date. In such case, the Official Closing Price may be stale and result in an order in a less liquid security to be resting at a price outside the Trading Collar. The Exchange believes this is an infrequent occurrence. Nonetheless, the proposed functionality would be available generally and not for only this limited scenario. However, the Exchange believes that Equity Members would continue to rely on the Exchange's default behavior and Trading Collars in most, if not all, other trading scenarios.

The proposal furthers the objectives of Section 6(b)(5)¹⁸ by facilitating transactions in securities that would otherwise be prevented due to an unnecessarily restrictive Trading Collar. The proposal seeks to permit an Equity Member to adjust the Trading Collar so that they may access an order resting on MIAX Pearl Equities Book that may be unnecessarily resting at a price outside of the Exchange-established Trading Collar. In this case, the Exchange has a willing

(3) if neither (1), or (2) are available, the prior day's Official Closing Price identified as such by the primary listing exchange, adjusted to account for events such as corporate actions and news events.

¹⁸ 15 U.S.C. 78f(b)(5).

buyer and willing seller, and allowing the Equity Member submitting the incoming order to adjust their Trading Collar to a more permissive range would allow them to access that resting order, thereby facilitating transactions in securities. The order resting on the Exchange at a price outside of the Trading Collar may be at a more aggressive price than other orders resting at away markets. In such case, the proposal would further facilitate transactions in securities by allowing an Equity Member to access a more aggressively priced order on the Exchange, and then seek to access less aggressively priced interest resting at other markets.

Further, the proposal protects investors and the public interest because such an order would continue to be subject to other risk controls and protections offered by the Exchange. For example, Limit Order Price Protection process will continue to apply, even in cases where an Equity Member selects a custom dollar value to calculate the Trading Collar price range. To further help Equity Members manage their risk, all other risk controls offered by the Exchange that authorize the Exchange to take automated action if a designated limit for an Equity Member is breached will also continue to apply. Each of these risk controls provide Equity Members with enhanced abilities to manage their risk when trading on the Exchange. The proposal also protects investors and the public interest because no order would be executed outside of the prescribed Price Bands pursuant to the LULD Plan.

Lastly, the Exchange believes its proposal to not allow Equity Members to select their own dollar value to calculate the Trading Collar for orders eligible to participate in the Exchange's Opening Process is reasonable. This portion of the proposal promotes just and equitable principles of trade because no orders rest on the MIAX Pearl Equities Book until the completion of the Opening Process and continuous trading has begun. Until that time, there would be no orders resting on the MIAX Pearl Equities Book at a price that would otherwise be

outside of the Trading Collar that an Equity Member may seek to access.

Non-Substantive Corrections

The non-substantive corrections to Exchange Rule 2618 protect investors and the public interest, as well as remove impediments to and perfects the mechanism of a free and open market and a national market system because each is designed solely to correct non-substantive grammatical errors, making the rule easier to understand and avoid potential investor confusion. None of these changes impact or alter the operation of Exchange Rule 2618(b).

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 its proposal will not impose any burden on inter-market competition because it would provide Equity Members with additional flexibility in constructing a Trading Collar that better suits their risk appetite when they seek to access resting liquidity that may be resting outside of the Trading Collar because it was calculated based on the prior day's Official Closing Price, which may not reflect the current trading characteristics of the security. The proposal would serve to improve access to less liquid securities priced outside the Trading Collar, improving the liquidity on the Exchange and potentially the Exchange's market quality. The proposal would impose no burden on intra-market competition because each risk setting would be applied to all Equity Members' orders equally.

Non-Substantive Corrections

The non-substantive corrections to Exchange Rule 2618 would not impact competition because such changes would not enhance or alter the Exchange's ability to compete, but rather, make the rule easier to comprehend, reducing the potential for inadvertent investor

confusion.

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 Act¹⁹ and Rule 19b-4(f)(6)²⁰ 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:

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 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.

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-PEARL-2024-17 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-2024-17. This file number should be included on the subject line if email 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 (<https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or

withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-PEARL-2024-17 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

Vanessa A. Countryman,
Secretary.

²¹ 17 CFR 200.30-3(a)(12).