

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-97719; File No. SR-ISE-2023-11)

June 13, 2023

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing of Proposed Rule Change to Amend the Short Term Option Series Program in Supplementary Material .03 of Options 4, Section 5

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 May 31, 2023, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 the Short Term Option Series Program in Supplementary Material .03 of Options 4, Section 5 (Series of Options Contracts Open for Trading).

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/ise/rules>, at the principal office of the Exchange, 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 Exchange proposes to amend Supplementary Material .03 of Options 4, Section 5, “Series of Options Contracts Open for Trading.” Specifically, the Exchange proposes to expand the Short Term Option Series Program to permit the listing of two Wednesday expirations for options on United States Oil Fund, LP (“USO”), United States Natural Gas Fund, LP (“UNG”), SPDR Gold Shares (“GLD”), iShares Silver Trust (“SLV”), and iShares 20+ Year Treasury Bond ETF (“TLT”) (collectively “Exchange Traded Products” or “ETPs”).

Currently, as set forth in Supplementary Material .03 to Options 4, Section 5, after an option class has been approved for listing and trading on the Exchange as a Short Term Option Series pursuant to Options 1, Section 1(a)(49),³ the Exchange may open for trading on any Thursday or Friday that is a business day (“Short Term Option Opening Date”) series of options on that class that expire at the close of business on each of the next five Fridays that are business

³ Options 1, Section 1(a)(49) provides that a Short Term Option Series means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Monday, Tuesday, Wednesday, Thursday or Friday that is a business day and that expires on the Monday, Wednesday or Friday of the following business week that is a business day, or, in the case of a series that is listed on a Friday and expires on a Monday, is listed one business week and one business day prior to that expiration. If a Tuesday, Wednesday, Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Tuesday, Wednesday, Thursday or Friday. For a series listed pursuant to this section for Monday expiration, if a Monday is not a business day, the series shall expire on the first business day immediately following that Monday.

days and are not Fridays in which monthly options series or Quarterly Options Series expire (“Friday Short Term Option Expiration Dates”). The Exchange may have no more than a total of five Short Term Option Expiration Dates. Further, if the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date for Short Term Option Weekly Expirations will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on a Friday, the Short Term Option Expiration Date for Short Term Option Weekly Expirations will be the first business day immediately prior to that Friday.

Additionally, the Exchange may open for trading series of options on the symbols provided in Table 1 of Supplementary Material .03 to Options 4, Section 5 that expire at the close of business on each of the next two Mondays, Tuesdays, Wednesdays, and Thursdays, respectively, that are business days and are not business days in which monthly options series or Quarterly Options Series expire (“Short Term Option Daily Expirations”). For those symbols listed in Table 1, the Exchange may have no more than a total of two Short Term Option Daily Expirations for each of Monday, Tuesday, Wednesday, and Thursday expirations at one time.

Proposal

At this time, the Exchange proposes to expand the Short Term Option Daily Expirations to permit the listing and trading of options on USO, UNG, GLD, SLV, and TLT expiring on Wednesdays. The Exchange proposes to permit two Short Term Option Expiration Dates beyond the current week for each Wednesday expiration at one time.⁴ In order to effectuate the

⁴ Consistent with the current operation of the rule, the Exchange notes that if it adds a Wednesday expiration on a Tuesday, it could technically list three outstanding Wednesday expirations at one time. The Exchange will therefore clarify the rule text in Supplementary Material .03 to Options 4, Section 5 to specify that it can list two Short

proposed changes, the Exchange would add USO, UNG, GLD, SLV, and TLT to Table 1 of Supplementary Material .03 to Options 4, Section 5, which specifies each symbol that qualifies as a Short Term Option Daily Expiration.

The proposed Wednesday USO, UNG, GLD, SLV, and TLT expirations will be similar to the current Wednesday SPY, QQQ, and IWM Short Term Option Daily Expirations set forth in Supplementary Material .03 to Options 4, Section 5, such that the Exchange may open for trading on any Tuesday or Wednesday that is a business day (beyond the current week) series of options on USO, UNG, GLD, SLV, and TLT to expire on any Wednesday of the month that is a business day and is not a Wednesday in which Quarterly Options Series expire (“Wednesday USO Expirations,” “Wednesday UNG Expirations,” “Wednesday GLD Expirations,” “Wednesday SLV Expirations,” and “Wednesday TLT Expirations”) (collectively, “Wednesday ETP Expirations”).⁵ In the event Short Term Option Daily Expirations expire on a Wednesday and that Wednesday is the same day that a Quarterly Options Series expires, the Exchange would skip that week’s listing and instead list the following week; the two weeks would therefore not be consecutive. Today, Wednesday expirations in SPY, QQQ, and IWM similarly skip the weekly listing in the event the weekly listing expires on the same day in the same class as a Quarterly Options Series.

USO, UNG, GLD, SLV, and TLT Friday expirations would continue to have a total of five Short Term Option Expiration Dates provided those Friday expirations are not Fridays in

Term Option Expiration Dates *beyond the current week* for each Monday, Tuesday, Wednesday, and Thursday expiration.

⁵ While the relevant rule text in Supplementary Material .03 to Options 4, Section 5 also indicates that the Exchange will not list such expirations on a Wednesday that is a business day in which monthly options series expire, practically speaking this would not occur.

which monthly options series or Quarterly Options Series expire (“Friday Short Term Option Expiration Dates”).

Similar to Wednesday SPY, QQQ, and IWM Short Term Option Daily Expirations within Supplementary Material .03 to Options 4, Section 5, the Exchange proposes that it may open for trading on any Tuesday or Wednesday that is a business day series of options on USO, UNG, GLD, SLV, and TLT that expire at the close of business on each of the next two Wednesdays that are business days and are not business days in which Quarterly Options Series expire.

The interval between strike prices for the proposed Wednesday ETP Expirations will be the same as those for the current Short Term Option Series for Friday expirations applicable to the Short Term Option Series Program.⁶ Specifically, the Wednesday ETP Expirations will have a strike interval of \$0.50 or greater for strike prices below \$100, \$1 or greater for strike prices between \$100 and \$150, and \$2.50 or greater for strike prices above \$150.⁷ As is the case with other equity options series listed pursuant to the Short Term Option Series Program, the Wednesday ETP Expirations series will be P.M.-settled.

Pursuant to Options 1, Section 1(a)(49), with respect to the Short Term Option Series Program, a Wednesday expiration series shall expire on the first business day immediately prior to that Wednesday, e.g., Tuesday of that week if the Wednesday is not a business day.

Currently, for each option class eligible for participation in the Short Term Option Series Program, the Exchange is limited to opening thirty (30) series for each expiration date for the specific class.⁸ The thirty (30) series restriction does not include series that are open by other

⁶ See Supplementary Material .03(e) to Options 4, Section 5.

⁷ Id.

⁸ See Supplementary Material .03(a) to Options 4, Section 5.

securities exchanges under their respective weekly rules; the Exchange may list these additional series that are listed by other options exchanges.⁹ With the proposed changes, this thirty (30) series restriction would apply to Wednesday USO, UNG, GLD, SLV, and TLT Short Term Option Daily Expirations as well. In addition, the Exchange will be able to list series that are listed by other exchanges, assuming they file similar rules with the Commission to list Wednesday ETP Expirations.

With this proposal, Wednesday ETP Expirations would be treated similarly to existing Wednesday SPY, QQQ, and IWM Expirations. With respect to monthly option series, Short Term Option Daily Expirations will be permitted to expire in the same week in which monthly option series on the same class expire. Not listing Short Term Option Daily Expirations for one week every month because there was a monthly on that same class on the Friday of that week would create investor confusion.

Further, as with Wednesday SPY, QQQ, and IWM Expirations, the Exchange would not permit Wednesday ETP Expirations to expire on a business day in which monthly options series or Quarterly Options Series expire. Therefore, all Short Term Option Daily Expirations would expire at the close of business on each of the next two Wednesdays that are business days and are not business days in which monthly options series or Quarterly Options Series expire. The Exchange believes that it is reasonable to not permit two expirations on the same day in which a monthly options series or a Quarterly Options Series would expire because those options would be duplicative of each other.

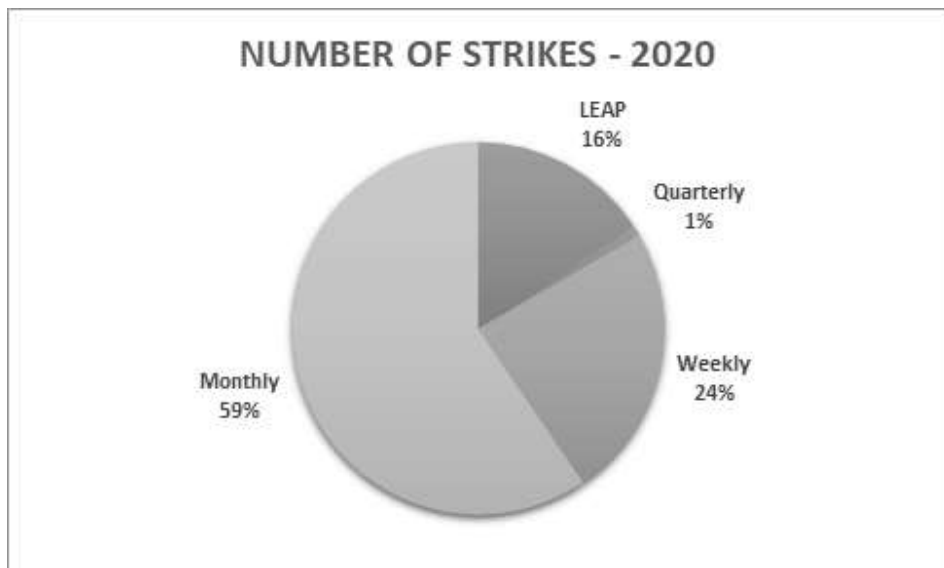
The Exchange does not believe that any market disruptions will be encountered with the introduction of Wednesday ETP Expirations. The Exchange has the necessary capacity and

⁹ Id.

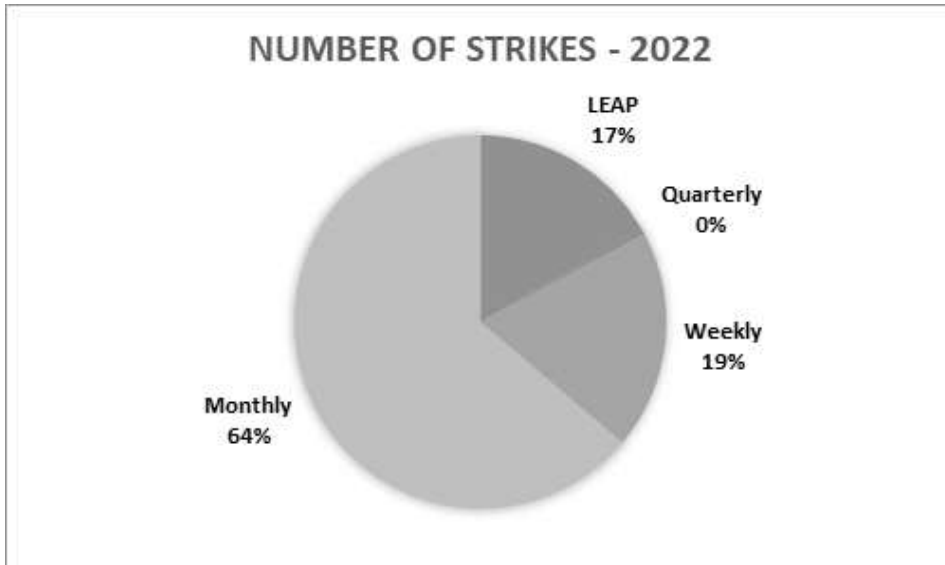
surveillance programs in place to support and properly monitor trading in the proposed Wednesday ETP Expirations. The Exchange currently trades P.M.-settled Short Term Option Series that expire Wednesday for SPY, QQQ and IWM and has not experienced any market disruptions nor issues with capacity. Today, the Exchange has surveillance programs in place to support and properly monitor trading in Short Term Option Series that expire Wednesday for SPY, QQQ and IWM.

Impact of Proposal

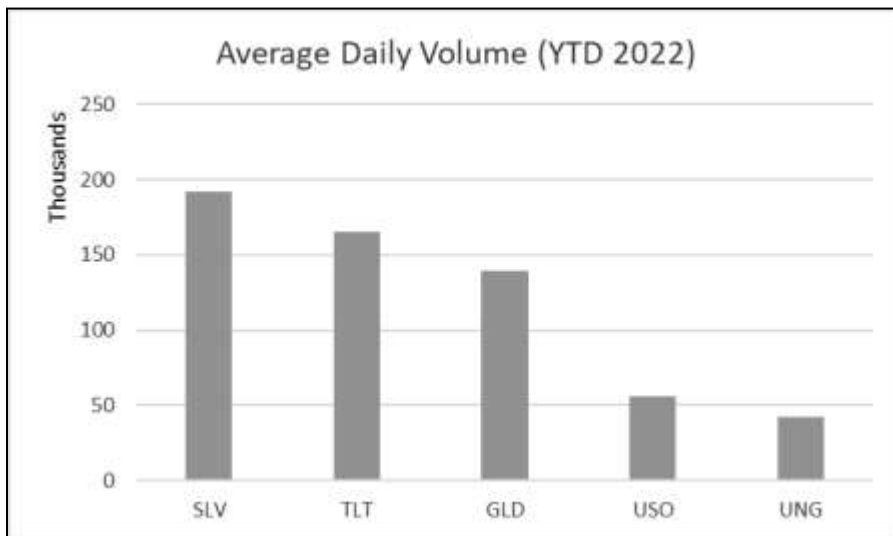
The Exchange notes that listings in the Short Term Option Series Program comprise a significant part of the standard listings in options markets. The below diagrams demonstrate the percentage of weekly listings compared to monthly, quarterly, and Long-Term Option Series in 2020 and 2022 in the options industry.¹⁰ The weekly strikes decreased from 24% to 19% in these two years. The Exchange notes that during this timeframe all options exchanges mitigated weekly strike intervals.



¹⁰ The Exchange sourced this information from The Options Clearing Corporation (“OCC”). The information includes time averaged data for all 16 options markets up to August 18, 2022.



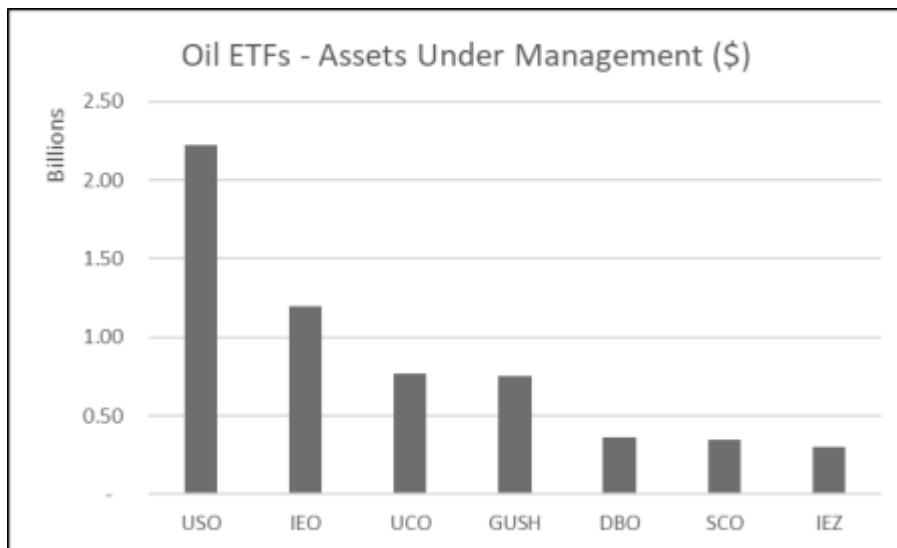
While the Exchange is expanding the Short Term Option Series Program to permit USO, UNG, GLD, SLV, and TLT Wednesday Expirations, the Exchange anticipates that it would overall add a small number of weekly expiration dates because the Exchange will limit the number of Short Term Option Daily Expirations for these ETPs to two Wednesday expirations. The below chart displays average daily volume for options on USO, UNG, GLD, SLV, and TLT.¹¹



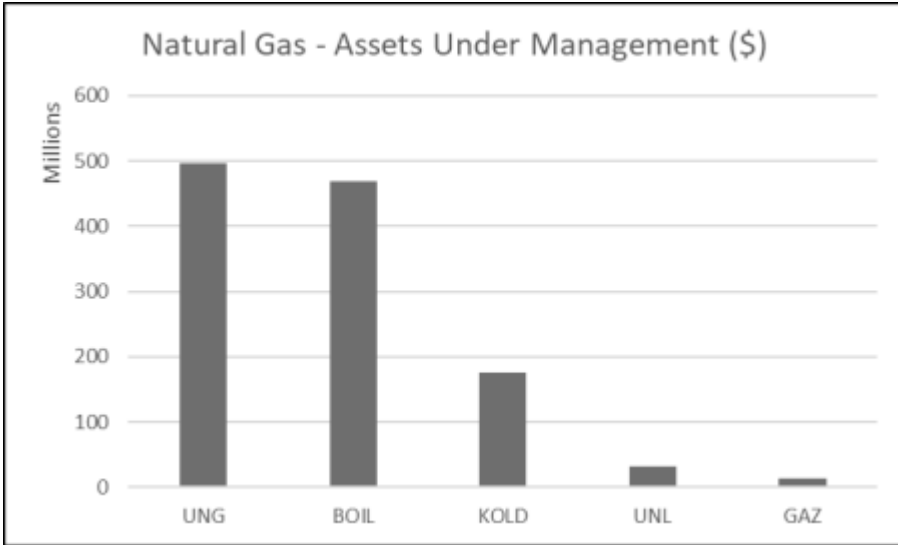
¹¹ Average daily volume data for options contracts are as of November 2022.

The Exchange believes that there is general investor demand for alternative expirations, including Wednesday expirations, as evidenced by the relatively significant percentage of volume in Wednesday SPY, QQQ, and IWM expirations. Notably, in 2022, the Exchange observed that Wednesday expiration volume in SPY, QQQ, and IWM consisted of approximately 23.3% (for SPY), 19.8% (for QQQ), and 10.9% (for IWM) of total volume for the respective symbols.

Further, the Exchange believes that there is investor demand for additional Short Term Option Daily Expirations for USO, UNG, GLD, SLV, and TLT based on the total assets under management (“AUM”) for these Exchange Traded Products. As illustrated below, the ETPs are all leading products in their respective asset classes.¹²

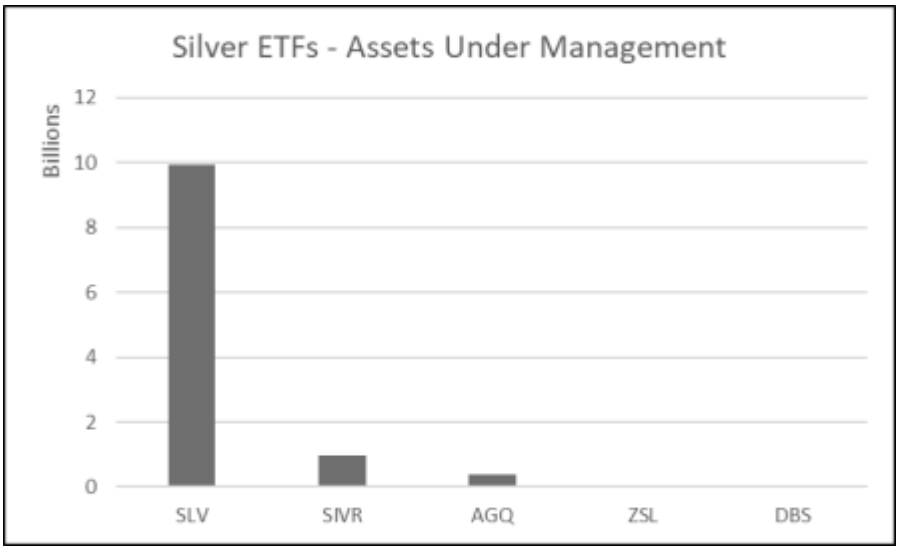
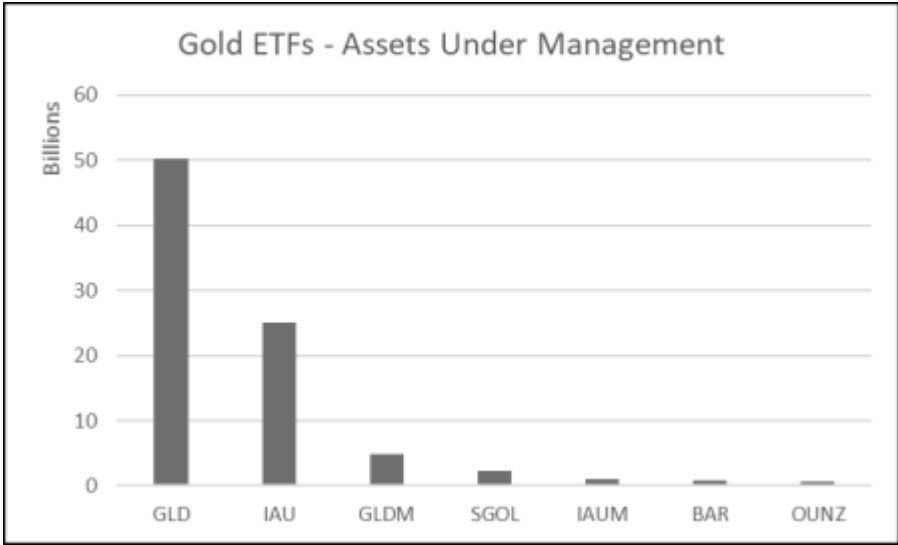


¹² AUM data for ETPs are as of November 2022.



*BOIL and KOLD are leveraged ETFs

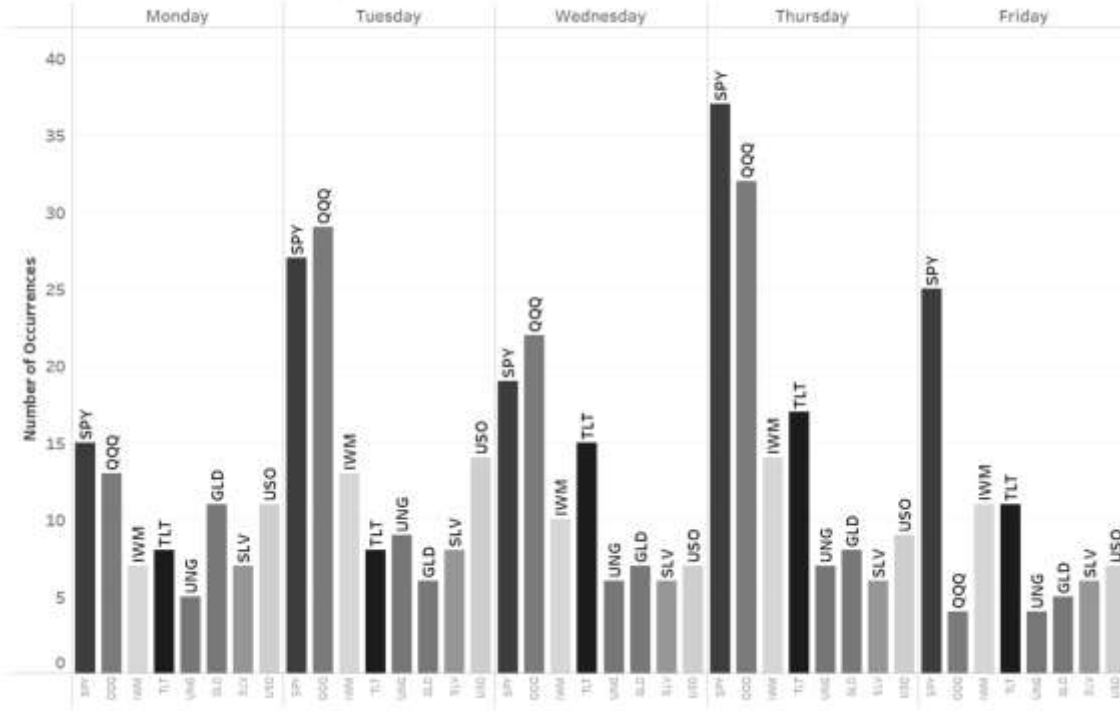




In addition, the below chart shows post-close movements between 4:00 – 5:30 p.m. Eastern Time, and indicates that GLD, SLV, TLT, UNG, and USO are less volatile (strike-wise) than SPY, QQQ, and IWM, where alternative expirations exist today.

Occurrences of At Least 1 Strike Moved Through Post-Close

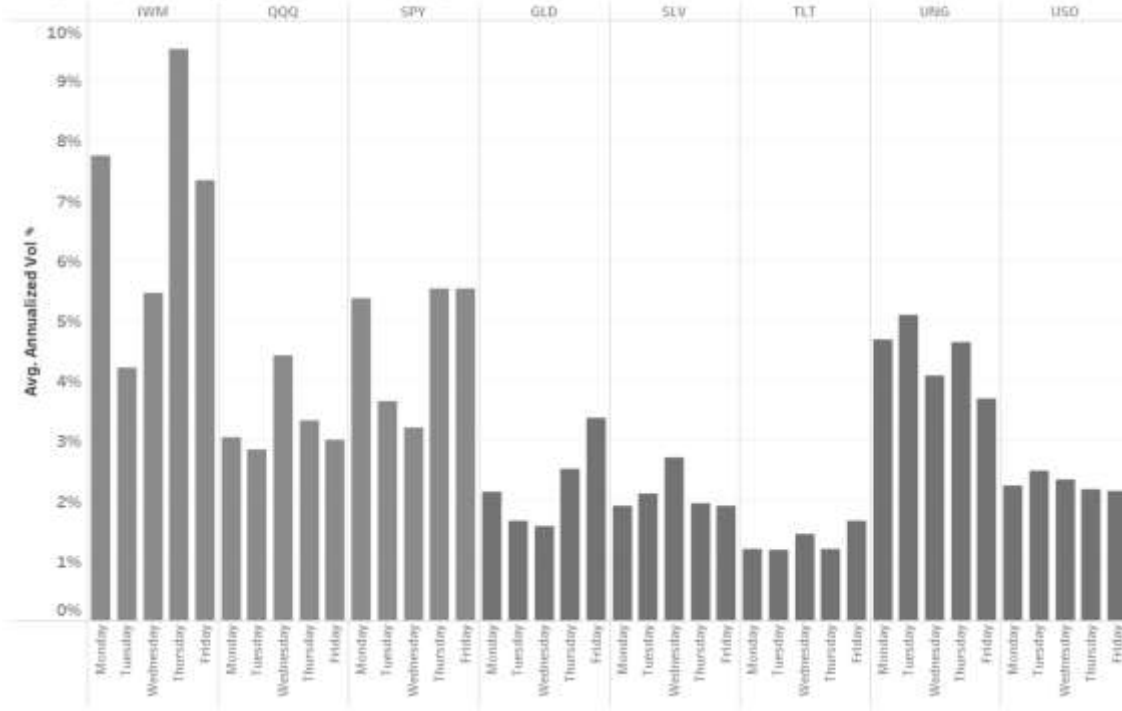
Comparing 5:30 Price to 4:00 Price. Data from January 3, 2019.



Furthermore, the below chart shows that GLD, SLV, TLT, UNG, and USO are less volatile in the last 30 minutes of trading than SPY, QQQ, and IWM, which have alternative expirations today.

Average Annualized Closing Volatility by Day of Week

Closing volatility calculated using standard deviation of returns during last 30 minutes of options trading. Data from start of 2019.



The Exchange also notes that GLD, SLV, TLT, USO, and UNG currently trade within “complexes” where, in addition to the underlying security, there are multiple instruments available for hedging. Specifically, the GLD complex includes:

- .GC – COMEX Gold Futures – CME
- .AUD – Gold Daily Futures – ICE
- \$IAU – iShares Gold Trust
- \$GLDM – SPDR Gold Minishares Trust
- \$SGOL – Aberdeen Physical Gold Trust
- \$BAR – GraniteShares Gold Shares

The SLV complex includes:

- .SI – COMEX Silver Futures – CME
- .HIO – Silver Daily Futures – ICE

\$SIVR – Aberdeen Physical Silver Trust

The USO complex includes:

.CL – CME WTI Light Sweet Crude Futures

.HIO – Brent Crude Futures – ICE

\$DBO – Invesco DB Oil Fund

\$BNO – United States Brent Oil Trust

\$OIL – iPath Pure Beta Crude Oil ETN

The UNG complex includes:

.NG – Henry Hub Natural Gas Futures

ICE – Financial Gas Markets (multi) – ICE

\$FCG – First Trust Natural Gas ETF

\$UNL – United States 12 mo NG ETF

\$HUN – Horizons Natural Gas ETF

Lastly, the TLT complex includes:

CME – Multiple Interest Rate Futures

ICE – Multiple Interest Rate Futures

US Treasury Securities

\$IEF – iShares 7-10 Year Treasury Bond ETF

\$GOVT – iShares Barclays US Treasury Bond ETF

Numerous highly correlated FICC ETPs

Given the multi-asset class nature of these products and available hedges in highly-correlated instruments, the Exchange believes that its proposal to add Wednesday expirations on these products will not be a strain on liquidity providers.

Because the Exchange proposes to limit the number of Wednesday Expirations for options on USO, UNG, GLD, SLV, and TLT to two expirations beyond the current week, the Exchange believes that the addition of these Wednesday ETP Expirations should encourage Market Makers to continue to deploy capital more efficiently and improve displayed market quality.¹³

Similar to SPY, QQQ and IWM Wednesday Expirations, the introduction of Wednesday ETP Expirations will, among other things, expand hedging tools available to market participants and allow for a reduced premium cost of buying portfolio protection. The Exchange believes that Wednesday ETP Expirations will allow market participants to hedge their portfolios with options on commodities (oil, natural gas, gold, and silver) as well as treasury securities, and tailor their investment and hedging needs more effectively.

Implementation

The Exchange proposes to implement this rule change within 30 days after Commission approval. The Exchange will issue an Options Trader Alert to notify Members of the implementation date.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁵ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect

¹³ Market Makers include Primary Market Makers and Competitive Market Makers. See ISE Options 1, Section 1(a)(21). Today, Primary Market Makers and Competitive Market Makers are required to quote a specified time in their assigned options series. See ISE Options 2, Section 5.

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

Similar to Wednesday expirations in SPY, QQQ, and IWM, the proposal to permit Wednesday ETP Expirations, subject to the proposed limitation of two expirations beyond the current week, would protect investors and the public interest by providing the investing public and other market participants more choice and flexibility to closely tailor their investment and hedging decisions in these options and allow for a reduced premium cost of buying portfolio protection, thus allowing them to better manage their risk exposure.

ISE represents that it has an adequate surveillance program in place to detect manipulative trading in the proposed option expirations, in the same way that it monitors trading in the current Short Term Option Series for Wednesday SPY, QQQ and IWM expirations. The Exchange also represents that it has the necessary system capacity to support the new expirations. Finally, the Exchange does not believe that any market disruptions will be encountered with the introduction of these option expirations. As discussed above, the Exchange believes that its proposal is a modest expansion of weekly expiration dates for GLD, SLV, USO, UNG, and TLT given that it will be limited to two Wednesday expirations beyond the current week. Furthermore, the above charts show less volatility in these five products (both in terms of post-close and during the last 30 minutes of trading) compared to SPY, QQQ, and IWM, which have alternative expirations (including Wednesday expirations) today. Lastly, the Exchange believes its proposal will not be a strain on liquidity provides because of the multi-class nature of GLD, SLV, USO, UNG, and TLT and the available hedges in highly-correlated instruments, as described above.

The Exchange believes that the proposal is consistent with the Act as the proposal would overall add a small number of Wednesday ETP Expirations by limiting the addition of two Wednesday expirations beyond the current week. The addition of Wednesday ETP Expirations would remove impediments to and perfect the mechanism of a free and open market by encouraging Market Makers to continue to deploy capital more efficiently and improve displayed market quality.¹⁶ The Exchange believes that the proposal will allow Members to expand hedging tools and tailor their investment and hedging needs more effectively in USO, UNG, GLD, SLV, and TLT as these funds are most likely to be utilized by market participants to hedge the underlying asset classes.

Similar to Wednesday SPY, QQQ, and IWM expirations, the introduction of Wednesday ETP Expirations is consistent with the Act as it will, among other things, expand hedging tools available to market participants and allow for a reduced premium cost of buying portfolio protection. The Exchange believes that Wednesday ETP Expirations will allow market participants to purchase options on USO, UNG, GLD, SLV, and TLT based on their timing as needed and allow them to tailor their investment and hedging needs more effectively, thus allowing them to better manage their risk exposure. Today, ISE lists Wednesday SPY, QQQ, and IWM Expirations.¹⁷

In particular, the Exchange believes the Short Term Option Series Program has been successful to date and that Wednesday ETP Expirations should simply expand the ability of investors to hedge risk against market movements stemming from economic releases or market

¹⁶ Today, Primary Market Makers and Market Makers are required to quote a specified time in their assigned options series. See ISE Options 2, Section 5.

¹⁷ See ISE Supplementary Material .03 at Options 4, Section 5.

events that occur throughout the month in the same way that the Short Term Option Series Program has expanded the landscape of hedging.

There are no material differences in the treatment of Wednesday SPY, QQQ and IWM expirations compared to the proposed Wednesday ETP Expirations. Given the similarities between Wednesday SPY, QQQ and IWM expirations and the proposed Wednesday ETP Expirations, the Exchange believes that applying the provisions in Supplementary Material .03 to Options 4, Section 5 that currently apply to Wednesday SPY, QQQ and IWM expirations is justified. For example, the Exchange believes that allowing Wednesday ETP Expirations and monthly Exchange Traded Product expirations in the same week will benefit investors and minimize investor confusion by providing Wednesday ETP Expirations in a continuous and uniform manner.

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.

While the proposal will expand the Short Term Options Expirations to allow Wednesday ETP Expirations to be listed on ISE,¹⁸ the Exchange believes that this limited expansion for Wednesday expirations for options on USO, UNG, GLD, SLV, and TLT will not impose an undue burden on competition; rather, it will meet customer demand. The Exchange believes that Members will continue to be able to expand hedging tools and tailor their investment and hedging needs more effectively in USO, UNG, GLD, SLV, and TLT given multi-class nature of these products and the available hedges in highly-correlated instruments, as described above.

¹⁸ As noted above, Nasdaq, Phlx, BX, GEMX and MRX incorporate ISE Options 4, Section 5 by reference, so the proposed changes herein will apply to those markets as well.

Similar to Wednesday SPY, QQQ and IWM expirations, the introduction of Wednesday ETP Expirations does not impose an undue burden on competition. The Exchange believes that it will, among other things, expand hedging tools available to market participants and allow for a reduced premium cost of buying portfolio protection. The Exchange believes that Wednesday ETP Expirations will allow market participants to purchase options on USO, UNG, GLD, SLV, and TLT based on their timing as needed and allow them to tailor their investment and hedging needs more effectively.

The Exchange does not believe the proposal will impose any burden on inter-market competition, as nothing prevents the other options exchanges from proposing similar rules to list and trade Wednesday ETP Expirations.¹⁹ Further, the Exchange does not believe the proposal will impose any burden on intra-market competition, as all market participants will be treated in the same manner under this proposal.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

¹⁹ See supra note 18.

(A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-ISE-2023-11 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-ISE-2023-11. 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-ISE-2023-11 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.²⁰

Sherry R. Haywood,
Assistant Secretary.

²⁰ 17 CFR 200.30-3(a)(12).