

June 28, 2024

Self-Regulatory Organizations; Nasdaq ISE, LLC; Order Approving a Proposed Rule Change to Amend the Strike Interval for Options on Exchange-Traded Fund Shares and to Allow \$1 Strike Price Intervals Above \$200 for Options on SPDR Gold Shares (GLD)

I. Introduction

On May 3, 2024, Nasdaq ISE, LLC (“Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend Options 4, Section 5 of the Exchange’s rules to (i) permit options on exchange-traded fund shares to have an interval of \$1 or greater where the strike price is \$200 or less and \$5.00 or greater where the strike price is greater than \$200 and (ii) list options on SPDR<sup>®</sup> Gold Shares (“GLD”) with \$1 strike price intervals instead of \$5 strike price intervals when the strike price of the option is greater than \$200. The proposed rule change was published for comment in the Federal Register on May 20, 2024.<sup>3</sup> The Commission did not receive any comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposal

Currently, Options 4, Section 5 of the Exchange’s rules provides that the interval between strike prices of series of options on exchange-traded fund shares (“ETFs”)<sup>4</sup> will be fixed at a price per share which is reasonably close to the price per share at which the underlying security

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 100133 (May 14, 2024), 89 FR 43936 (“Notice”).

<sup>4</sup> See Exchange Rule Options 4, Section 3(h).

is traded in the primary market at or about the same time such series of options is first open for trading on the Exchange, or at such intervals as may have been established on another options exchange prior to the initiation of trading on the Exchange,<sup>5</sup> except that the interval between strike prices of series of options on SPDR S&P 500 ETF (“SPY”), iShares Core S&P 500 ETF (“IVV”), PowerShares QQQ Trust (“QQQ”), iShares Russell 2000 Index Fund (“IWM”), and the SPDR Dow Jones Industrial Average ETF (“DIA”) may be \$1 or greater.<sup>6</sup>

The Exchange proposes to establish an alternative to the strike price interval regime described above. Specifically, ISE would also allow the interval for options on ETFs to be \$1 or greater where the strike price is \$200 or less and \$5.00 or greater where the strike price is greater than \$200.<sup>7</sup> As described above, the Exchange may fix the interval between strike prices of series of options on ETFs at such intervals as may have been established on another options exchange prior to the initiation of trading on the Exchange.<sup>8</sup> The Exchange states that today, Cboe Exchange, Inc. (“Cboe”)<sup>9</sup> permits the interval between strike prices of series of options on ETFs to be \$1 or greater where the strike price is \$200 or less and \$5.00 or greater where the strike price is greater than \$200.<sup>10</sup> The Exchange states that its proposal adopts Cboe’s language.<sup>11</sup>

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<sup>5</sup> See Exchange Rule Options 4, Section 5(d).

<sup>6</sup> See Exchange Rule Options 4, Section 5(e).

<sup>7</sup> See proposed Exchange Rule Options 4, Section 5(d).

<sup>8</sup> See *supra* note 5.

<sup>9</sup> See Cboe Rule 4.5, Interpretation and Policy .07(a).

<sup>10</sup> See Notice, *supra* note 3, at 43936.

<sup>11</sup> See *id.*

The Exchange also proposes to permit strike intervals to be \$1 or greater where the strike price is greater than \$200 for options on GLD,<sup>12</sup> similar to options on SPY, IVV, QQQ, IWM, and DIA.<sup>13</sup> The Exchange states that \$1 strike price intervals already exist below the \$200 price point and that GLD has consistently inclined in price toward the \$200 level.<sup>14</sup> In light of this, the Exchange believes that continuing to maintain the current \$5 strike intervals above \$200 may have a negative effect on investing, trading and hedging opportunities, and volume, particularly to the extent it impacts the ability of market participants to roll their positions once strike prices pass \$200.<sup>15</sup> The Exchange states that the proposed strike setting regime will “permit strikes to be set to more closely reflect the increasing value in the underlying and allows investors and traders to roll open positions from a lower strike to a higher strike in conjunction with the price movements of the underlying ETF.”<sup>16</sup>

The Exchange acknowledges that the proposal would increase the total number of options series available on the Exchange, but represents that it and the Options Price Reporting Authority (“OPRA”) have the necessary system capacity to handle any potential additional traffic associated with the proposal.<sup>17</sup> The Exchange also states that its members would not have a

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<sup>12</sup> According to the Exchange, GLD is an ETF whose shares are designed to closely track the price and performance of the price of gold bullion. See id. The Exchange states: “GLD is widely quoted as an indicator of gold stock prices” and the “leading product in its asset class that trades within a ‘complex’ where, in addition to the underlying security, there are multiple instruments available for hedging such as, COMEX Gold Futures; Gold Daily Futures; iShares GOLD Trust; SPDR GOLD Minishares Trust; Aberdeen Physical Gold Trust; and GraniteShares Gold Shares.” Id.

<sup>13</sup> See proposed Exchange Rule Options 4, Section 5(e).

<sup>14</sup> See Notice, supra note 3, at 43937.

<sup>15</sup> See id. For example, the Exchange states that “to move a position from a \$200 strike to a \$205 strike under the current rule, an investor would need for the underlying product to move 2.5%” whereas rolling an open position from a \$200 to a \$201 strike represents “only a 0.5% move from the underlying.” Id.

<sup>16</sup> Id.

<sup>17</sup> See id.

capacity issue as a result of the proposal.<sup>18</sup> Further, the Exchange represents that the proposal would not cause fragmentation of liquidity but, by providing more trading opportunities to market participants, instead would increase both available liquidity as well as price efficiency.<sup>19</sup>

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>20</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>21</sup> which requires, among other things, that a national securities exchange have rules 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. Permitting \$1 strike price intervals above \$200 in options on GLD will provide the investing public and other market participants with more flexibility in their investment and hedging decisions using options on GLD. The proposal is also consistent with past precedent for options on other similar ETFs.<sup>22</sup> Moreover, the proposal to specify the interval between strike prices of series of options on ETFs where the strike price is less than \$200 and

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<sup>18</sup> See id.

<sup>19</sup> See id.

<sup>20</sup> 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>21</sup> 15 U.S.C. 78f(b)(5).

<sup>22</sup> See Securities Exchange Act Release No. 85754 (Apr. 30, 2019), 84 FR 19823 (May 6, 2019) (allowing \$1 Strike Price intervals above \$200 on options on QQQ and IWM).

where the strike price is greater than \$200 is consistent with the intervals of another options exchange.<sup>23</sup>

In approving this proposal, the Commission notes that the Exchange has represented that it and OPRA have the necessary systems capacity to handle the potential additional traffic associated with this proposed rule change.<sup>24</sup> The Exchange further stated that it believes its members will not have a capacity issue because of the proposal and that it does not believe this expansion will cause fragmentation of liquidity.<sup>25</sup>

#### IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>26</sup> that the proposed rule change (SR-ISE-2024-17), be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>23</sup> See supra note 11.

<sup>24</sup> See supra note 17.

<sup>25</sup> See supra notes 18 and 19.

<sup>26</sup> 15 U.S.C. 78s(b)(2).

<sup>27</sup> 17 CFR 200.30-3(a)(12).