

August 21, 2024

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F. Street NE.
Washington, DC 20549

Re: **Additional Comment and Limited Partial Amendment to SR-ISE-2024-03,
Proposal To List and Trade Options on iShares Bitcoin Trust ETF**

Dear Ms. Countryman:

Nasdaq ISE, LLC (“ISE”) respectfully submits this comment letter to further supplement its proposal to list and trade options on iShares Bitcoin Trust or “IBIT” (“Proposal”)¹ with a position limit of 25,000 contracts. ISE’s proposed position limit on iShares Bitcoin Trust, the lowest position limit available in the options industry, is extremely conservative and more than appropriate given the market capitalization and average daily volume (“ADV”) of IBIT.

It is important to fair and orderly trading of IBIT that the Commission approve ISE’s Proposal and permit market participants to utilize options on IBIT to hedge the underlying Exchange Traded Fund (“ETF”). Permitting the trading of IBIT options will provide more liquidity, better price efficiency, and less volatility with respect to the underlying ETF.

Background

The procedural background is as follows:

- On January 9, 2024, ISE filed its Proposal. The Commission staff provided no comments to ISE during the initial 45 day timeframe.
- On March 6, 2024, the staff extended the time to review the Proposal.² The staff again provided no comments.

¹ See Securities Exchange Act Release No. 99396 (January 19, 2024), 89 FR 5047 (January 25, 2024) (SR-ISE-2024-03) (Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, To List and Trade Options on iShares Bitcoin Trust) (“Proposal”).

² See also Securities Exchange Act Release No. 99681 (March 6, 2024), 89 FR 17886 (March 12, 2024) (SR-ISE-2024-03) (Notice of Designation of a Longer Period for Commission Action on a Proposed Rule Change, as Modified by Amendment No. 1, To List and Trade Options on iShares Bitcoin Trust).

- On April 24, 2024, the staff issued an Order Instituting Proceedings (“OIP”).³ The OIP raised several substantive questions, including whether the proposal related to options on Bitcoin ETPs should be subject to the same position limits as options on stock, and whether the available supply in the markets for bitcoin should be considered in establishing position limits.
- On May 23, 2024, ISE submitted a comment letter that addressed questions in the OIP. ISE provided data regarding position limits, among other things. There were no other comments to the OIP.
- On July 19, 2024, the staff utilized its second extension.⁴ The staff provided no comments in response to ISE’s May 23, 2024 comment letter.
- There have been seven comments in support of the Proposal⁵ and two comments against the Proposal.⁶ The staff has not rebutted or refuted the seven comments supporting ISE’s proposal.
- There is no data or analysis by the staff in the administrative record.
- The Commission’s statutory deadline to act upon the filing is September 21, 2024. If no action is taken at that time, the Proposal is deemed approved under the Exchange Act, as amended by the Dodd-Frank Act of 2010.⁷

At this time, ISE is supplementing its Proposal with added data and analysis regarding an appropriate position limit for IBIT options. With this analysis, plus the information contained in ISE’s first comment letter, plus the information set forth in the original filing, ISE respectfully asserts that it has presented compelling evidence that the Proposal is consistent with the

³ See also Securities Exchange Act Release No. 100024 (April 24, 2024), 89 FR 34290 (April 30, 2024) (SR-ISE-2024-03) (Order Instituting Proceedings To Determine Whether To Approve or Disapprove Proposed Rule Changes To Permit the Listing and Trading of Options on Trusts That Hold Bitcoin).

⁴ See also Securities Exchange Act Release No. 1000567 (July 19, 2024), 89 FR 60482 (July 25, 2024) (SR-ISE-2024-03) (Notice of Designation of a Longer Period for Commission Action on Proceedings To Determine Whether To Approve or Disapprove Proposed Rule Changes To Permit the Listing and Trading of Options on Trusts That Hold Bitcoin).

⁵ The following comment letters were submitted supporting the proposal: Steve Crutchfield of CTC, LLC; Mike Flood and Wiley Nickel, Members of Congress; Joseph Ferrucci, an individual; Benjamin Pincock, Method and Theory Capital Management; Derek Jerina, an individual; Xplorer Trading; and one anonymous letter.

⁶ The following comment letters were submitted against the proposal: Benjamin L. Schiffrin, Better Markets, Inc.; and one anonymous letter. ISE addressed Better Markets’ argument in its prior comment letter, dated May 23, 2024, as well as in this letter by providing data demonstrating that Bitcoin ETPs are widely held and actively traded and that IBIT has ample liquidity. The comment letters against the Proposal should not be weighted heavily.

⁷ See 15 U.S.C. 78s(b)(2)(D).

Exchange Act. Any action other than approval of the Proposal would be inconsistent with the Exchange Act.

Position Limits

Position limits are designed to limit the number of options contracts traded on the exchange in an underlying security that an investor, acting alone or in concert with others directly or indirectly, may control. These limits, which are described in ISE Options 9, Section 13, are intended to address potential manipulative schemes and adverse market impacts surrounding the use of options, such as disrupting the market in the security underlying the options. Position limits must balance concerns regarding mitigating potential manipulation and the cost of inhibiting potential hedging activity that could be used for legitimate economic purposes. To achieve this balance, ISE proposes to set IBIT's position limit at 25,000 contracts.⁸ Capping the position limit at 25,000 contracts, the lowest limit available in options, would address concerns related to manipulation and protection of investors as this number is extremely conservative for IBIT and is more than appropriate given its liquidity. While ISE believes that the proposed 25,000 contract position limit is extremely conservative for IBIT options, we believe that IBIT's market capitalization and ADV would support a much higher position limit. In the future, ISE would file a rule change to amend the position limit for IBIT options after it has gathered additional data based on trading activity to continue to balance any concerns regarding manipulation. A higher position limit would allow institutional investors to utilize IBIT options for prudent risk management purposes.

For purposes of addressing position limits, ISE applies position limits for options for each underlying security and does not aggregate position limits. In considering the appropriate position limit for IBIT, ISE measured IBIT's market capitalization and ADV against other industry data as explained further below. The Commission should consider the position limits for options on IBIT exclusive of other options on bitcoin.

First, ISE considered IBIT's market capitalization and ADV, and prospective position limit in relation to other securities. In measuring IBIT against other securities, we aggregated market capitalization and volume data for securities that have defined position limits utilizing data from The Options Clearing Corporations ("OCC").⁹ This pool of data took into consideration 3,984 options on single stock securities, excluding broad based ETFs.¹⁰ Next, we aggregated the data based on market capitalization and ADV and grouped option symbols by position limit utilizing statistical thresholds for ADV and market capitalization that were one

⁸ ISE's proposal to cap the position limit of IBIT options at 25,000 contracts does not require republication in the Federal Register because at the time of filing the Proposal, the position limit would have been 25,000 contracts for options on IBIT. Commenters have already had two full comment periods to address position limits. ISE submitted the only comment concerning position limits.

⁹ The computations are based on OCC data from August 6, 2024. Data displaying zero values in market capitalization or ADV were removed.

¹⁰ IBIT has one asset and therefore is not comparable to a broad based ETF where there are typically multiple components.

standard deviation above the mean for each position limit category (i.e. 25,000, 50,000 to 65,000, 75,000, 100,000 to less than 250,000, 250,000 to 400,000, 450,000 to 1,000,000, and greater than or equal to 1,000,000). ISE Options 9, Section 13(d) sets out position limits for various contracts. For example, a 25,000 contract limit applies to those options having an underlying security that does not meet the requirements for a higher options contract limit. This exercise was performed to demonstrate IBIT's position limit relative to other options symbols in terms of market capitalization and ADV. For reference the market capitalization for IBIT was 19,789,068 billion¹¹ with an ADV, for the preceding three months prior to August 7, 2024, of greater than 26 million shares. Today, by comparison, other options symbols with similar market capitalization and ADV have a position limit in excess of 400,000. Therefore, the proposed 25,000 same side position limit for options on IBIT is extremely conservative relative to these options symbols which are a full standard deviation above the mean in comparison.

Second, ISE reviewed IBIT's data relative to the market capitalization of the entire bitcoin market in terms of exercise risk and availability of deliverables. Utilizing data as of August 3, 2024, there were 19,737,193 bitcoins in circulation. We took a price of \$57,000 that equates to a market capitalization of greater than 1.125 trillion US dollars, and applied that to a position limit of 400,000 for options on IBIT. If a position limit of 400,000 options were considered (the position limit that would be typically assigned based upon data) the exercisable risk would represent only 6.6% of the outstanding shares of IBIT. The 25,000 position limit being sought only represents 0.4% of the outstanding shares of IBIT. Since IBIT has a creation and redemption process managed through the issuer, we can additionally compare the position limit sought to the total market capitalization of the entire bitcoin market. In this case, the exercisable risk for options on IBIT would be less than 0.01% of the market capitalization of all outstanding bitcoin. Assuming a scenario where all options on IBIT shares were exercised given the proposed 25,000 per same side position limit, this would have a virtually unnoticed impact on the entire bitcoin market. This analysis demonstrates that the proposed 25,000 per same side position limit is also extremely conservative and more than appropriate for options on IBIT.

Third, ISE reviewed the proposed position limit by comparing it to position limits for derivative products regulated by the Commodity Futures Trading Commission ("CFTC"). While the CFTC, through the relevant Designated Contract Markets, only regulates options positions based upon delta equivalents (creating a less stringent standard), we examined equivalent bitcoin futures position limits. In particular, we looked at the CME bitcoin futures contract¹² that has a position limit of 2,000 futures.¹³ On August 7, 2024, CME bitcoin futures settled at \$55,000. Taking the position limit of 2,000 futures at a \$5 multiplier¹⁴ equates to \$550 million of notional

¹¹ This figure was acquired as of August 13, 2024. See <https://www.ishares.com/us/products/333011/ishares-bitcoin-trust>. The global supply of bitcoin grows each day bitcoin are minted.

¹² CME Bitcoin Futures are described in Chapter 350 of CME's Rulebook.

¹³ See the Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5 of CME's Rulebook.

¹⁴ Each bitcoin futures contract is valued at 5 bitcoins as defined by the CME CF Bitcoin Reference Rate ("BRR"). See CME Rule 35001.

value for bitcoin futures. By way of comparison, on August 7, 2024, IBIT settled at \$31.19, which would equate to 17,633,857 shares of IBIT¹⁵ if the CME notional position limit were utilized. Since substantial portions of any distributed options portfolio is likely to be out of the money on expiration, an options position limit equivalent to the CME position limit for bitcoin futures (considering that all options deltas are ≤ 1.00) should be a bit higher than the CME implied 176,338 limit.

Of note, unlike options contracts, CME position limits are calculated on a net futures-equivalent basis by contract and include contracts that aggregate into one or more base contracts according to an aggregation ratio(s).¹⁶ Therefore, if a portfolio includes positions in options on futures, CME would aggregate those positions into the underlying futures contracts in accordance with a table published by CME on a delta equivalent value for the relevant spot month, subsequent spot month, single month and all month position limits.¹⁷ If a position exceeds position limits because of an option assignment, CME permits market participants to liquidate the excess position within one business day without being considered in violation of its rules. Additionally, if at the close of trading, a position that includes options exceeds position limits for futures contracts, when evaluated using the delta factors as of that day's close of trading, but does not exceed the limits when evaluated using the previous day's delta factors, then the position shall not constitute a position limit violation. Considering CME's position limits on futures for bitcoin, ISE believes that the proposed 25,000 per same side position limit is conservative and more than appropriate for options on IBIT.

In analyzing the proposed position limit for options on IBIT, ISE also considered the supply of bitcoin. Specifically, ISE examined the number of market participants with position limits that would need to exercise in unison to put the underlying asset under stress. In the case of options on IBIT, the proposed 25,000 same side position limit effectively restricts a market participant from holding positions that could be exercised in excess of 2,500,000 shares of IBIT. Utilizing data from August 12, 2024, IBIT had 611,040,000 shares outstanding, therefore 244 market participants would have to simultaneously exercise position limits in order to create a scenario that may put the underlying asset (IBIT) under stress. Historically, from observation only, it appears that no more than five market participants holding position limits in any security have exercised in unison in any option. As unlikely an occurrence as all market participants exercising their position limits in unison would be, if it were to occur, it should be noted that even such an occurrence would not likely put IBIT under stress as economic incentives, would induce the creation of more shares through the ETF creation and redemption process.

¹⁵ If IBIT is worth \$31.19 on August 7, 2024, then the notional at risk from position limits on CME bitcoin futures is 550,000,000 (275,000 x 2000) which is equivalent to 17,633,857 shares (550,000,000/31.19) which would be an equivalent options position limit of 176,338 contracts. On August 7, 2024, CME bitcoin futures settled at \$55,000.

¹⁶ See <https://www.cmegroup.com/education/courses/market-regulation/position-limits/position-limits-aggregation-of-contracts-and-table.htm>.

¹⁷ Id.

By way of example, given that the current global supply of bitcoin, the underlying asset of IBIT, is 19,789,068¹⁸ and that each bitcoin can currently be redeemed for 1,755 shares of IBIT, another 34,729,814,340 shares of IBIT could be created by the underlying ETF. To exhaust this supply of IBIT, 13,891 market participants would have to simultaneously exercise their position limit. If we compare IBIT to the SPDR Gold Shares (“GLD”) ETF or the iShares Silver Trust (“SLV”) ETF, which have position limits of 250,000 or ten times the proposed position limit for IBIT as well as lower shares outstanding in both products,¹⁹ it is unjustified to mandate a different level of stringency with respect to a position limit for options on IBIT.

The supply of bitcoin does have a limit, which will take years to fully mint.²⁰ The Exchange notes that bitcoin is a viable economic alternative to traditional assets. The price of goods denominated by bitcoin has actually declined. This dynamic not only makes a fixed supply desirable, but a necessary condition of the value added by this asset in the broader economy. Further, the Exchange notes that corporations have a limited number of outstanding shares. Corporations may authorize additional shares, repurchase shares or split their shares. Similarly, ETFs, like IBIT, may also create, redeem, or split shares to suit the demand of the marketplace.

Importantly, because the supply of bitcoin is much larger than the available supply of most securities and the proposed 25,000 contract position limit is so conservative, the Exchange believes that evaluating the available supply of bitcoin in establishing a position limit for options on IBIT would demonstrate that the proposed limit is safe for investors and the market.²¹ IBIT constitutes less than 2% of the entire bitcoin supply. When comparing the market capitalization of bitcoin against the largest securities, bitcoin would rank 7th among those securities.²² Further, the Exchange believes that its proposal to list options on IBIT with a position limit of 25,000 on the same side is a conservative position limit that does not lend itself to manipulation in the market given the ample market capitalization and liquidity in IBIT. If we look to the liquidity statistics of similar instruments and their concomitant position limits, we are able to extrapolate a reasonable standard for arriving at a position limit for a new product. In this case we can look to GLD, SLV, and the ProShares Bitcoin Strategy ETF (“BITO”). These products have volume statistics and “float” statistics, which gauge liquidity, which are in line, yet slightly lower than IBIT. All three of these reference products have position limits of 250,000 contracts. These

¹⁸ This figure was acquired as of August 13, 2024. See <https://www.ishares.com/us/products/333011/ishares-bitcoin-trust>. The global supply of bitcoin grows each day bitcoin are minted.

¹⁹ As of August 13, 2024, GLD has 294,000,000 shares outstanding and SLV has 510,200,000 shares outstanding. See <https://www.ssga.com/us/en/intermediary/etfs/funds/spdr-gold-shares-gld> and <https://www.ishares.com/us/products/239855/ishares-silver-trust-fund>.

²⁰ A recent article suggested that the remaining supply will take over 100 years to fully mint. See Sen, Vivek, “94% of Bitcoin’s Supply Has Now Been Issued.” *Bitcoin Magazine*, <https://bitcoinmagazine.com/business/94-of-bitcoins-supply-has-now-been-issued>. August 19, 2024.

²¹ A supply consideration would likely be valuable for an option symbol that had far less liquidity than IBIT.

²² See <https://companiesmarketcap.com/usa/largest-companies-in-the-usa-by-market-cap/>.

reference products are remarkably similar in nature to IBIT; they are ETPs holding one asset in a trust.

In conclusion, ISE's proposal to list options on IBIT with a position limit of 25,000 on the same side, the lowest position limit available in the options industry, is extremely conservative given the data presented and more than appropriate. The Commission should approve ISE's Proposal given the data presented in the Proposal and the supplemental data provided in its comment letters. Options on IBIT would permit hedging, and allow for more liquidity, better price efficiency, and less volatility with respect to the underlying ETF. Further, approving ISE's Proposal would enhance the transparency and efficiency of markets in these and correlated products.

Thank you for your consideration of this comment letter. If you have any additional questions, please do not hesitate to contact us.

Respectfully,



Angela Dunn

cc: Haoxiang Zhu, Director, Trading and Markets
David Shillman, Associate Director, Trading and Markets