

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99171; File No. SR-ISE-2023-36)

December 14, 2023

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Fees for Options on the Nasdaq 100 Index in the Exchange's Pricing Schedule at Options 7

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 December 8, 2023, Nasdaq ISE, LLC ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 fees for Nasdaq 100 Index options in the Exchange's Pricing Schedule at Options 7, Section 5A. While these amendments are effective upon filing, the Exchange has designated the proposed amendments to be operative on December 1, 2023.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 the fees for NDX³ in Options 7, Section 5A. The Exchange initially filed the proposed pricing changes on November 30, 2023 (SR-ISE-2023-34). On December 8, 2023, the Exchange withdrew that filing and submitted this filing.

Today, the Exchange assesses a transaction fee of \$0.75 per contract for all Non-Priority Customer⁴ regular NDX orders. Priority Customers⁵ currently receive free executions in regular NDX orders. In accordance with note 1 of Options 7, Section 5.A, the applicable complex order

³ For purposes of the Pricing Schedule, “NDX” means A.M. or P.M. settled options on the full value of the Nasdaq 100® Index. See Options 7, Section 1(c).

⁴ “Non-Priority Customers” include Market Makers, Non-Nasdaq ISE Market Makers (FarMMs), Firm Proprietary / Broker-Dealers, and Professional Customers.

⁵ A “Priority Customer” is a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s), as defined in Nasdaq ISE Options 1, Section 1(a)(37).

fees for Non-Select Symbols⁶ in Options 7, Section 4 apply to all executions in complex NDX orders.⁷ As such, Priority Customers currently receive free executions in complex NDX orders.⁸

The Exchange now proposes to begin assessing all Priority Customer NDX executions (i.e., regular and complex) a \$0.25 per contract transaction fee. In connection with this change, the Exchange also proposes to amend note 1 of Options 7, Section 5.A to exclude Priority Customer complex NDX executions from the Section 4 complex fees, and to make clear that Priority Customer complex NDX executions will now be assessed a \$0.25 per contract fee instead. As amended, note 1 will provide that for all executions in complex NDX orders for Non-Priority Customers, the applicable complex order fees for Non-Select Symbols in Section 4 will apply. Further, for all executions in complex NDX orders for Priority Customers, the fee will be \$0.25 per contract. The Exchange notes that the proposed \$0.25 per contract fee amount is in line with customer transaction fees assessed on other index products.⁹ The Exchange also proposes to assess a surcharge of \$0.25 per contract to all Priority Customer complex executions in NDX.¹⁰ As such, Priority Customer complex executions in NDX will be assessed a total of \$0.50 per contract (i.e., the base \$0.25 per contract fee plus the \$0.25 per contract surcharge).

⁶ “Non-Select Symbols” are options overlying all symbols excluding Select Symbols. “Select Symbols” are options overlying all symbols listed on the Nasdaq ISE that are in the Penny Interval Program.

⁷ See generally Options 7, Section 4 (setting forth maker/taker fees for Non-Select Symbols, including NDX, pursuant to which Priority Customers are assessed no fees today). In addition, the Exchange does not offer the tiered Priority Customer complex order rebates in Section 4 for orders in NDX. See Options 7, Section 4, note 4.

⁸ Id.

⁹ For example, Cboe Options (“Cboe”) currently assesses a \$0.25 per contract customer transaction fee for MXEA and MXEF options, \$0.35 per contract for OEX and XEO options, and \$0.36 per contract (if premium < \$1.00) or \$0.45 per contract (if premium >= \$1.00) for SPX and SPESG options. See Cboe Fees Schedule.

¹⁰ See proposed note 2 of Options 7, Section 5.A.

The Exchange notes that the proposed surcharge amount is within the range of surcharges assessed for customer transactions in other products at other options exchanges.¹¹

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹² in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹³ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes it is reasonable to begin assessing a \$0.25 per contract transaction fee to all Priority Customer executions (i.e., regular and complex) in NDX and a \$0.25 per contract surcharge to complex Priority Customer executions in NDX because the proposed pricing reflects the proprietary nature of this product. Similar to other proprietary products like options overlying the Nasdaq 100 Reduced Value Index (“NQX”) and the Nasdaq 100 Micro Index (“XND”), the Exchange seeks to recoup the operational costs of listing proprietary products.¹⁴ Also, pricing by symbol is a common practice on many U.S. options exchanges as a means to incentivize order flow to be sent to an exchange for execution in particular products.

¹¹ For example, Cboe currently assesses customers a \$0.25 per contract exotic surcharge and a \$0.21 per contract execution surcharge in SPX and SPESG options. See Cboe Fees Schedule. In addition, the Exchange’s affiliate, Nasdaq Phlx LLC (“Phlx”) current assesses customers a \$0.25 per contract complex surcharge for executions in singly-listed U.S. dollar-settled foreign currency options. See Phlx Options 7, Section 5.D.

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(4) and (5).

¹⁴ By way of example, in analyzing an obvious error, the Exchange would have additional data points available in establishing a theoretical price for a multiply listed option as compared to a proprietary product, which requires additional analysis and administrative time to comply with Exchange rules to resolve an obvious error.

Other options exchanges price by symbol.¹⁵ Further, the Exchange notes that market participants are offered different ways to gain exposure to the Nasdaq 100 Index, whether through the Exchange’s proprietary products like options overlying NDX, NQX, or XND, or separately through multi-listed options overlying Invesco QQQ Trust (“QQQ”).¹⁶ Offering such products provides market participants with a variety of choices in selecting the product they desire to utilize in order to gain exposure to the Nasdaq 100 Index. When exchanges are able to recoup costs associated with offering proprietary products, it incentivizes growth and competition for the innovation of additional products.

The Exchange further believes that the proposed pricing described above is reasonable because the proposal is designed to update fees for the Exchange’s services to reflect their current value—rather than their value when the Exchange last updated NDX pricing five years ago¹⁷—based on the Exchange’s ability to deliver value to its customers by offering proprietary products on its market like NDX.

While the pricing for Priority Customer NDX orders is increasing under this proposal, the Exchange believes that the proposal is reasonable and would continue to incentivize market participants to transact in Priority Customer NDX orders because Priority Customers would continue to be charged at a lower rate for NDX than Non-Priority Customers. As a result, the Exchange believes that the proposed pricing is structured in a way that continues to encourage market participants, especially Priority Customers, to transact in NDX on ISE. An increase in Priority Customer order flow would benefit all market participants through quality of order

¹⁵ See supra note 9.

¹⁶ QQQ is an exchange-traded fund based on the same Nasdaq 100 Index as NDX, NQX, and XND.

¹⁷ The Exchange has not amended NDX transaction fees since 2018, so the fees have remained at \$0.75 per contract for Non-Customers and \$0.00 for Priority Customers during this time. See Securities Exchange Act Release No. 83144 (May 1, 2018), 83 FR 20107 (May 7, 2018) (SR-ISE-2018-38).

interaction and increased trading opportunities. As noted above, the proposed fee and surcharge amounts are in line with customer fees and surcharges assessed on other index products at other options exchanges.¹⁸

The Exchange's proposal to assess a \$0.25 per contract transaction fee to all Priority Customer NDX orders and to assess a \$0.25 per contract surcharge to complex Priority Customer NDX orders is equitable and not unfairly discriminatory it will apply uniformly to all similarly situated market participants. The Exchange believes it is equitable and not unfairly discriminatory to continue charging Priority Customers NDX orders at a generally lower rate than Non-Priority Customers NDX orders¹⁹ as the Exchange has historically provided more favorable pricing to Priority Customers in its Pricing Schedule.²⁰ Priority Customer orders bring valuable liquidity to the market by providing more trading opportunities, which, in turn, attracts Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow to the benefit of all market participants.

¹⁸ See supra note 9 and 11.

¹⁹ As described above, regular Priority Customer NDX executions will be assessed \$0.25 per contract under this proposal, and complex Priority Customer NDX executions will be assessed a total of \$0.50 per contract under this proposal (i.e., base fee plus complex surcharge). Regular Non-Priority Customer NDX executions will continue to be assessed \$0.75 per contract. As it relates to complex Non-Priority Customer NDX executions, the Exchange notes that in certain instances, Non-Priority Customers may be assessed a lower complex fee in Section 4 than the \$0.50 complex fee proposed for Priority Customers. Specifically, Non-Priority Customers could be assessed the \$0.20 per contract complex Maker Fee for Non-Select Symbols (NDX is a Non-Select Symbol). However, the Non-Priority Customer complex Taker Fee for Non-Select Symbols still remains at a much higher level (\$1.10) than the \$0.50 complex fee proposed for Priority Customer NDX executions. See Options 7, Section 4.

²⁰ For example, Priority Customers presently receive free executions in regular and complex orders, as discussed earlier in this filing.

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 not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. As noted above, market participants are offered an opportunity to transact in NDX, NQX, or XND, or separately execute options overlying QQQ. Offering these products provides market participants with a variety of choices in selecting the product they desire to use to gain exposure to the Nasdaq 100 Index. Furthermore, the proposed fee amounts are in line with customer transaction fees and surcharges assessed on other products at another options exchange.²¹

Further, the Exchange does not believe that its proposal to begin assessing a \$0.25 per contract transaction fee for all Priority Customer NDX orders and \$0.25 per contract surcharge for complex Priority Customer NDX orders will impose an undue burden on intra-market competition because Priority Customers will continue to be assessed more favorable pricing than Non-Priority Customers for NDX orders, which is in line with how the Exchange historically assessed fees for these market participants. As discussed above, Priority Customer order flow enhances liquidity on the Exchange for the benefit of all market participants.

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.

²¹ See supra notes 9 and 11.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act²² and Rule 19b-4(f)(2)²³ 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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-ISE-2023-36 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.

²² 15 U.S.C. 78s(b)(3)(A)(ii).

²³ 17 CFR 240.19b-4(f)(2).

All submissions should refer to file number SR-ISE-2023-36. 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-2023-36 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.²⁴

Sherry R. Haywood,

Assistant Secretary.

²⁴ 17 CFR 200.30-3(a)(12).