I. Introduction

On April 11, 2022, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), and Rule 19b-4 thereunder, a proposed rule change to amend Supplementary Material .07 to Options 4, Section 5 to limit the strike price intervals for certain Short Term Options Series with an expiration date more than twenty-one days from the listing date. The proposed rule change was published for comment in the Federal Register on April 27, 2022. On June 1, 2022, the Exchange filed Amendment No. 1, which replaced and superseded the proposed rule change in its entirety. This order approves the proposed rule change, as modified by Amendment No. 1.

II. Description of Proposed Rule Change, as Modified by Amendment No. 1

4 In Amendment No. 1, the Exchange revised the three examples provided in the proposal for greater clarity. Because the changes in Amendment No. 1 do not materially alter the substance of the proposed rule change or raise unique or novel regulatory issues, Amendment No. 1 is not subject to notice and comment. Amendment No. 1 is available on the Commission’s website at: https://www.sec.gov/comments/sr-ise-2022-10/srise202210.htm.
Background

Pursuant to Supplementary Material .03 to Options 4, Section 5, the Exchange may open for trading certain option series that expire at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly options series or quarterly option series expire (“Short Term Option Series Program”). Supplementary Material .03(e)\(^5\) specifies the strike intervals for the Short Term Option Series Program.

To reduce the density of strike intervals that would be listed in later weeks, ISE amended Options 4, Section 5 to limit the intervals between strikes in equity options listed as part of the Short Term Option Series Program, excluding Exchange-Traded Fund Shares and ETNs, that have an expiration date more than twenty-one days from the listing date (“Outer STOs”).\(^6\) The Strike Interval Proposal adopted Supplementary Material .07 to Options 4, Section 5, which specifies the applicable strike intervals for Outer STOs, and Supplementary Material .03(f), which provides that the strike intervals for Outer STOs shall be based on the table within

\(^5\) Supplementary Material .03(e) of Options 4, Section 5 states, “Strike Interval. During the month prior to expiration of an option class that is selected for the Short Term Option Series Program pursuant to this Rule ("Short Term Option"), the strike price intervals for the related non-Short Term Option ("Related non-Short Term Option") shall be the same as the strike price intervals for the Short Term Option. The Exchange may open for trading Short Term Option Series on the Short Term Option Opening Date that expire on the Short Term Option Expiration Date at strike price intervals of (i) $0.50 or greater where the strike price is less than $100, and $1 or greater where the strike price is between $100 and $150 for all option classes that participate in the Short Term Options Series Program; (ii) $0.50 for option classes that trade in one dollar increments and are in the Short Term Option Series Program; or (iii) $2.50 or greater where the strike price is above $150.”

Supplementary Material .07. Currently, the table within Supplementary Material .07 to Options 4, Section 5 provides:

<table>
<thead>
<tr>
<th>Tier</th>
<th>Average Daily Volume</th>
<th>less than $25</th>
<th>$25 to less than $75</th>
<th>$75 to less than $150</th>
<th>$150 to less than $500</th>
<th>$500 or greater</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Greater than 5,000</td>
<td>$0.50</td>
<td>$1.00</td>
<td>$1.00</td>
<td>$5.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>2</td>
<td>Greater than 1,000 to 5,000</td>
<td>$1.00</td>
<td>$1.00</td>
<td>$1.00</td>
<td>$5.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>3</td>
<td>0 to 1,000</td>
<td>$2.50</td>
<td>$5.00</td>
<td>$5.00</td>
<td>$5.00</td>
<td>$10.00</td>
</tr>
</tbody>
</table>

According to the Exchange, the Strike Interval Proposal was designed to reduce the density of strike intervals that would be listed in later weeks within the Short Term Options Series Program by utilizing limitations for intervals between strikes with an expiration date more than twenty-one days from the listing date. However, there may be instances where the allowable strike intervals under Supplementary Material .07 and Supplementary Material .03(e) conflict,

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7 See supra note 6. See also Supplementary Material .03(f) of Options 4, Section 5 and Supplementary Material .07 to Options 4, Section 5.

8 The Share Price would be the closing price on the primary market on the last day of the calendar quarter and the Average Daily Volume would be the total number of options contracts traded in a given security for the applicable calendar quarter divided by the number of trading days in the applicable calendar quarter. The Average Daily Volume would be the total number of options contracts traded in a given security for the applicable calendar quarter divided by the number of trading days in the applicable calendar quarter. Beginning on the second trading day in the first month of each calendar quarter, the Average Daily Volume shall be calculated by utilizing data from the prior calendar quarter based on Customer-cleared volume at The Options Clearing Corporation. For options listed on the first trading day of a given calendar quarter, the Average Daily Volume shall be calculated using the quarter prior to the last trading calendar quarter. See Supplementary Material .07 to Options 4, Section 5.

9 See Amendment No. 1, supra note 4, at 13-14.
potentially resulting in narrower strike intervals in those series with more than twenty-one days from the listing date.\textsuperscript{10}

**Proposal**

The Exchange proposes to amend Supplementary Material .07 to Options 4, Section 5, to state that when Supplementary Material .07 and Supplementary Material .03(e) conflict, the greater interval would apply. Specifically, the Exchange proposes to add a new sentence within Supplementary Material .07 which states, “To the extent there is a conflict between applying Supplementary Material .03(e) and the below table, the greater interval would apply.”\textsuperscript{11} Supplementary Material .03(e) would apply to Outer STOs only in the event that the interval would be greater.\textsuperscript{12} The Exchange states that this rule change would harmonize strike intervals as between inner weeklies (those having less than twenty-one days from the listing date) and outer weeklies (those having more than twenty-one days from the listing date) so that strike intervals are not widening closer to expiration.\textsuperscript{13} The Exchange provides Example 1 below to illustrate this point:\textsuperscript{14}

**Example 1:** Assume a Tier 1 stock that closed on the last day of Q1 with a quarterly share price higher than $75 but less than $150. Therefore, utilizing the table within Supplementary Material .07, the interval would be $1.00 for strikes added during Q2 even for strikes above $150. Next, assume during Q2 the share price rises above $150. Utilizing only the

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\textsuperscript{10} See e.g., Amendment No. 1, supra note 4, Examples 1-3 at 8-10.

\textsuperscript{11} See Amendment No. 1, supra note 4, at 7.

\textsuperscript{12} See id. at 7-8.

\textsuperscript{13} See id. at 14.

\textsuperscript{14} See id. at 8. The Exchange provided three examples in Amendment No. 1. See also supra note 10.
table within Supplementary Material .07, the interval would be $1.00 even though the stock is now trading above $150 because the Share Price for purposes of Supplementary Material .07 was calculated utilizing data from the prior calendar quarter. However, a separate rule, Supplementary Material .03(e), provides that the Exchange may list a Short Term Option Series at $2.50 intervals where the strike price is above $150. In other words, there is a potential conflict between the permitted strike intervals above $150. In this example, Supplementary Material .07 would specify a $1.00 interval whereas Supplementary Material .03(e) would specify a $2.50 interval. As proposed, the Exchange proposes to apply the greater interval. The greater interval would then be $2.50 as per Supplementary Material .03(e) in this scenario.

Therefore, the following strikes would be eligible to list: $152.5 and $157.5. For strikes less than $150, the following strikes would be eligible to list: $149 and $148 because Short Term Options Series with expiration dates more than 21 days from the listing date as well as Short Term Options Series with expiration dates less than 21 days from the listing date would both be eligible to list $1 intervals pursuant to Supplementary Material .07 and Supplementary Material .03(e) of Options 5, Section 4.

The Exchange also proposes to amend the first sentence of Supplementary Material .07 to provide, “With respect to listing Short Term Option Series in equity options, excluding Exchange-Traded Fund Shares and ETNs, which have an expiration date more than twenty-one days from the listing date, the following table, which specifies the applicable interval for listing, will apply as noted within Supplementary Material .03(f).” The Exchange proposes to add the phrase “which specifies the applicable interval for listing” to make clear that the only permitted intervals are as specified in the table within Supplementary Material .07, except in the case

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15 See Amendment No. 1, supra note 4, at 6.
where Supplementary Material .03(e) provides for a greater interval as described above.\textsuperscript{16} The Exchange also proposes to update the reference within this sentence from Supplementary Material .03(e) to Supplementary Material .03(f), as paragraph (f) indicates when the table within Supplementary Material .07 applies.\textsuperscript{17}

The Exchange also proposes to delete the sentence from Supplementary Material .07, which states, “The below table indicates the applicable strike intervals and supersedes Supplementary Material .03(d) which permits additional series to be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened.”\textsuperscript{18} The Exchange states that Supplementary Material .07 is related to strike intervals, but does not supersede rules governing the addition of option series.\textsuperscript{19} The Exchange further states that Supplementary Material .07 and Supplementary Material .03(d) do not conflict, and deleting the reference to Supplementary .03(d) will avoid confusion.\textsuperscript{20}

Finally, the Exchange proposes to delete the sentence from Supplementary Material .03, which states, “Notwithstanding the limitations imposed by Supplementary Material .07, this proposal does not amend the range of strikes that may be listed pursuant to Supplementary Material .03, regarding the Short Term Option Series Program.”\textsuperscript{21} The Exchange states that

\begin{footnotesize}
\begin{itemize}
\item[16] See id.
\item[17] See id. at 7.
\item[18] See id. at 10.
\item[19] See id.
\item[20] See id.
\item[21] See id. at 10-11.
\end{itemize}
\end{footnotesize}
while the range limitations continue to be applicable to the table within Supplementary Material .07, the strike ranges do not conflict with strike intervals and therefore the sentence is not necessary. The Exchange further states that Supplementary Material .03(f) otherwise indicates when Supplementary Material .07 would apply.

The Exchange proposes to implement this rule change on August 1, 2022. The Exchange represents that it will issue an Options Trader Alert to notify Members of the implementation date.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange. In particular, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act, which requires, among other things, that the Exchange’s rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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.

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22 See id. at 11.
23 See id.
24 See id.
25 See id.
26 In approving this proposed rule change, as modified by Amendment No. 1, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).
The Exchange states that the Strike Interval Proposal was designed to reduce the density of strike intervals that have an expiration date more than twenty-one days from the listing date. In support of the current proposal, the Exchange states it would result in a reduction of the number of strikes listed in a manner consistent with the intent of the Strike Interval Proposal, which was to reduce strikes which were further out in time and would harmonize strike intervals for the Short Term Option Series such that strike intervals would not widen as the expiration date approaches. The Exchange further states that Strike Interval Proposal continues to reduce the number of strikes listed on ISE, allowing Lead Market Makers and Market Makers to expend their capital in the options market in a more efficient manner, thereby improving overall market quality on ISE.

The Exchange’s proposal to apply the greater interval to Outer STOs in cases where Supplementary Material .03(e) and .07 conflict serves to increase, and thus limit, the intervals between strikes in those cases. The proposal seeks to continue to focus more granular strike increments on those series where they are more relevant, applicable, and likely more in demand from customers and eliminate certain clusters of relatively granular strikes in further out weekly series, consistent with the Strike Interval Proposal. Further, the proposal would add additional clarity to the Exchange’s Short Term Option Series rules, which should provide greater certainty as to the permitted strike intervals and minimize confusion. The Commission believes that the proposal is reasonably designed to effectuate the Exchange’s goal of balancing a reduction in the

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28 See Amendment No. 1, supra note 4, at 13-14.
29 See id. at 14.
30 See id. at 14.
number of strikes in the Short Term Option Series Program with the needs of market participants. Accordingly, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act and the rules and regulations thereunder applicable to a national securities exchange.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-IEX-2022-10), as modified by Amendment No. 1, be and hereby is, approved.

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

J. Matthew DeLesDernier,
Assistant Secretary.

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34 17 CFR 200.30-3(a)(12).