



August 5, 2025

Ms. Vanessa Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, D.C. 20549-1090

**RE: Nasdaq ISE, LLC, Notice of Filing of Proposed Rule Change to Amend the Short Term Option Series Program to List Qualifying Securities**

Dear Ms. Countryman:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> appreciates the opportunity to submit this letter to the Securities and Exchange Commission (the “Commission”) regarding the proposal by Nasdaq ISE (“Nasdaq” or the “Exchange”) to amend its Short Term Option Series Program rules to permit the listing of up to two Monday and Wednesday expirations for options on individual stocks or Exchange-Traded Fund (“ETF”) Shares that meet certain eligibility thresholds (the “Proposal”).<sup>2</sup> The new Monday and Wednesday expirations will expand investors’ ability to trade options on individual stocks on the date of expiration beyond the current weekly expirations on Fridays. Broker-dealers employ position tracking and risk management techniques to address the potential financial and operational risks to investors, broker-dealers, and the markets associated with post-close price moves in individual stocks on the date of expiration.<sup>3</sup> As further discussed below, SIFMA generally supports the Proposal and recommends that Nasdaq consider listing Monday and Wednesday expirations in one or two individual securities initially to allow it reasonable time to assess and analyze the impact the trading of such options has on customers and the listed options markets before expanding

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<sup>1</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

<sup>2</sup> Release No. 34-103048, File No. SR-ISE-2025-15 (May 15, 2025), 90 FR 21805 (May 21, 2025). On July 10, 2025, the Commission published notice that Nasdaq submitted Amendment No. 1 to the Proposal. Release No. 34-103434 (July 10, 2025), 90 FR 31716 (July 15, 2025) (the “Amended Proposal”).

<sup>3</sup> The Proposal notes that Nasdaq ISE Options 4, Section 5 is incorporated into the options rules of all five of Nasdaq’s affiliated options exchanges, Nasdaq, Phlx, BX, GEMX, and MRX. Therefore, the Proposal also will apply to those markets.

Monday and Wednesday expirations to additional stocks. This sensible approach to eventual broader adoption of these products also will provide broker-dealers with sufficient time to enhance and scale their risk management processes to handle the trading activity in these products.

### ***Executive Summary***

- There are financial and operational risks associated with additional expirations on individual stocks—particularly arising from post-close price movements—and broker-dealers and other market participants will need time to evaluate and potentially enhance and scale their risk management processes to account for the expected increase in trading activity on expiration date.
- SIFMA generally supports the Proposal and recommends that Nasdaq take a thoughtful approach by initially listing new Monday and Wednesday expirations on one or two individual securities and adding additional names after a reasonable evaluation period.
- The Commission should evaluate the sufficiency of firm capital and margin requirements in connection with expected trading activity in the new expirations, including by consulting with other regulators and clearing organizations.

### ***Nasdaq's Proposal***

If approved, Nasdaq's Proposal will permit certain "Qualifying Securities" to list expirations on each Monday and Wednesday for up to two weeks in the future, subject to certain conditions.<sup>4</sup> Monday and Wednesday expirations in these securities will be in addition to the current weekly expirations in options on individual securities, which take place on most Fridays.

As discussed in the Proposal, in addition to Friday expirations for single stocks, there are options on ETFs that expire every day of the week.<sup>5</sup> These broad-based ETFs are priced based on the weighting of a large number of securities such that price movements in a single security included in the ETF have a much smaller impact on the price of the ETF's shares. Certain exchanges also list weekly expirations for index options, but unlike index options, which settle via cash delivery, options based on single stocks settle via physical delivery of the underlying security. For these reasons, daily single-stock options likely will require broker-dealers to enhance existing risk management procedures and controls to address scenarios when the price of the underlying security at the cut-off time for submitting exercise notices for an option (5:30 p.m. ET) may differ from the price of the underlying security at the close of the market (4:00 p.m. ET) when the option is designated for automatic exercise under Options Clearing Corporation ("OCC") rules (i.e., the option is at least \$.01 in-the-money ("ITM") at that close time) or not so designated (i.e., the option is out-of-the-money ("OTM") at that close time and

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<sup>4</sup> "Qualifying Securities" is a defined term based on minimum thresholds described in the Proposal. See Proposal, 90 FR at 21806.

<sup>5</sup> Id.

therefore would not be automatically exercised). Post-close price changes could cause options positions to be exercised and assigned based on the 4:00 p.m. ET closing price where the resulting positions in the underlying securities are immediately unprofitable (or profitable) based on the underlying price of the security at 5:30 p.m. ET.

### ***Background on Options Expiration, Exercise, and Assignment***

Option holders have the opportunity to address the risk of price moves in the underlying security during the window from 4:00 p.m. ET (market close) to 5:30 p.m. ET (when the OCC exercise window closes) by submitting a contrary exercise notice, which allows investors with long options that would be automatically exercised and ultimately assigned the underlying securities to opt not to receive them, or for investors with long options that would not be automatically exercised and ultimately assigned the underlying securities to opt to receive them.<sup>6</sup> In other words, the contrary exercise process allows options holders to manage risks by managing positions in the underlying security after the primary exchange closes.<sup>7</sup>

Typically, option holders have until 5:30 p.m. ET on the business day of expiration to submit contrary exercise instructions to their broker-dealer, while broker-dealers may set their own internal exercise cut-off times earlier than 5:30 p.m. on expiration. Broker-dealers transmit those instructions to the OCC.<sup>8</sup> If an option holder does not submit any exercise instructions prior to expiration at 5:30 p.m., OCC automatically exercises all options that are ITM by \$0.01 at the market close. If options are exercised, the OCC has a process to assign the exercise notice to a member firm, which assigns the obligation to its clients who sold an option in the same series on a random allocation basis.

### ***Impact of Post-Close Price Movements***

In the Amended Proposal, Nasdaq analyzed contrary exercise notices submitted in put and call options on SPY expiring on April 2, 2025, when SPY closed at \$564.52 and by 5:00 p.m. was trading in the after-hours market at \$552.42, a 2% decline.<sup>9</sup> As Nasdaq indicated in the amended Proposal, “[e]very call option with a April 2, 2025 expiration date and strike price below \$564 was automatically exercised by OCC, unless OCC received Contrary Exercise

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<sup>6</sup> Investors who are short options do not have the opportunity to address the risk of post-close price moves in the underlying security by submitting a contrary exercise notice and short option investors do not know whether they will be assigned.

<sup>7</sup> An investor would submit a contrary exercise instruction so that they are not obligated to (1) acquire or sell securities at a price worse than the option’s strike price (if after-hours trading causes the option to move from in-the-money to out-of-the-money) or (2) acquire or sell a securities position they cannot afford or otherwise do not wish to establish.

<sup>8</sup> This time is known as the “Exercise cut-off time” in exchange rulebooks. Individual firms may set earlier options exercise cut-off times or exercise cut-off times on days that are not expiration days.

<sup>9</sup> As discussed above, ETFs like SPY generally are less susceptible than individual securities to experience significant post-close price moves because they consist of many underlying individual securities.

Advices from a market participant.”<sup>10</sup> Nasdaq’s analysis found that customers liquidated the “vast majority” of open contracts prior to the close, such that for most call option strikes, less than 10% of contracts remained open.<sup>11</sup> Of the remaining contracts, “a substantial portion were rationally abandoned” through the use of contrary exercise instructions.<sup>12</sup>

Therefore, Nasdaq concluded that most call option holders of OTM strikes based on SPY’s 5:00 p.m. price on April 2, 2025 did not exercise their options. However, there were still measurable impacts on investors, broker-dealers, and the markets as a result of those holders whose call options were exercised and who ended up owning shares of SPY at the lower post-close price. For example, based on Tables 7 and 8 in the Amended Proposal, it is SIFMA’s understanding that there were an aggregate total of 713 call option contract strikes that were ITM at 4:00 p.m. but moved to OTM based on the 5:00 p.m. price that were not abandoned or liquidated, and thus were auto-exercised by OCC.<sup>13</sup> Call holders that were exercised at these strike prices were likely to be assigned 71,300 aggregate shares of SPY at the strike prices for a total notional value of \$39,786,000. At the 5:00 p.m. price of \$552.42, these shares were worth a total notional value of \$39,387,546, resulting in potential aggregate losses of \$398,454, assuming investors sold the assigned SPY shares at the lower market price.

This is not an insignificant total on only a 2% move in the underlying security and demonstrates there are risks associated with post-close price changes on the day of expiration. Moreover, this is just one example in a diversified ETF. The impacts of post-close price changes on a single expiration date across several individual securities that meet the requirements to be listed as Qualifying Securities, plus the ETFs that include those Qualifying Securities, could result in losses, even if the number of unabandoned and unliquidated contracts is not a significant percentage of the total number of contracts traded on that day.

### ***Risk-Management Considerations***

Many investors who trade options utilize options spreads by holding simultaneous positions on both sides of the market. To appropriately manage the risks of options trading, broker-dealers employ risk management practices that may include setting risk bands at thresholds that result in issuing contrary exercise instructions or closing out certain OTM strikes. These decisions, whether made by individual customers or by broker-dealers on customers’ behalf, are more difficult for investors that utilize options spreads, especially when combined

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<sup>10</sup> Amended Proposal, 90 FR at 31725. Calls with a strike price of \$564 also were automatically exercised.

<sup>11</sup> Id. at 31726.

<sup>12</sup> Id.

<sup>13</sup> This is the total of the column titled “Unabandoned and Unliquidated Contracts (Auto-Exercised by OCC)” in Table 8.

with the randomness of the assignment process because there is no guarantee of assignment on short options.<sup>14</sup>

Broker-dealers may have to enhance their risk management procedures and controls around customer options trading based on these risks, including the potential assignment risk associated with daily expirations of single-stock options. For example, firms monitor customer account holdings in real-time to ensure customers are able to absorb assignments of the underlying securities at post-close prices. If firms determine customer accounts do not have enough funds to accept assignment following a significant post-close price move, firms could hedge the position with stock in the extended hours with the understanding that there is no guarantee of an assignment and this hedge may result in a loss if the client does not get assigned. In some cases, it also may be necessary for broker-dealers to override customer instructions based on what the firm thinks is in the best interests of the customer based on post-close prices, which may be frustrating for retail customers.<sup>15</sup> Broker-dealers also may have to restrict customers from opening certain options positions at strike prices that may be particularly susceptible to post-close price moves.

SIFMA recommends that Nasdaq consider modifying the Proposal to initially select only one or two Qualifying Securities so that Nasdaq can conduct a study assessing the impact of the trading activity in such options before expanding to additional individual securities. Limiting the initial number of individual securities with new Monday and Wednesday expirations also would provide broker-dealers with sufficient time to evaluate and potentially enhance and properly scale their risk management processes related to these products. Individual securities like Tesla, Inc. (“TSLA”) or NVIDIA Corporation (“NVDA”) might be good candidates for such a study because they both experience frequent price moves due to news not based on an earnings announcement. After experience with Monday and Wednesday expirations on these stocks, Nasdaq would be able to evaluate how the market is handling the new options, including by analyzing relevant trading data and customer experience surveys, and add further listings of Monday and Wednesday expirations on an appropriate schedule based on its findings.

### ***OCC/Clearing Member Considerations***

The Proposal stated that the new Monday and Wednesday expirations are “a modest expansion” of the current weekly expirations available on Qualifying Securities.<sup>16</sup> The expansion consists of eight individual securities and one ETF. Trading in options on the Mag 7 plus Broadcom (the eight individual securities that currently would be considered Qualifying Securities under the proposal) made up approximately 18% of the total equity options contracts

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<sup>14</sup> The stats Nasdaq cited in Tables 7 through 10 did not differentiate between customer-initiated and firm-initiated contrary exercise instructions.

<sup>15</sup> This is operationally challenging particularly for retail broker-dealers, which monitor positions at the individual account level, not at the aggregate firm position level. In addition, as noted above, many retail customers have simultaneous options positions on both sides of the market, making risk management decisions more difficult.

<sup>16</sup> Proposal, 90 FR at 21813.

traded year-to-date.<sup>17</sup> The Proposal also acknowledged that the expansion “would account for the addition of approximately 16% of strikes for the total number of strikes for each of” eight individual stocks that currently meet the thresholds to be a Qualifying Security under the proposal.<sup>18</sup> The Proposal stated that the new Monday and Wednesday expirations on individual stocks “should encourage Market Makers to continue to deploy capital more efficiently and improve displayed market quality.”<sup>19</sup>

The OCC recently implemented a new intraday margin add-on charge for OCC clearing members, in part to address the risks from intraday and overnight trading activity.<sup>20</sup> As with any other new product or strike listing, the operation of this new margin add-on charge in connection with the additional Monday and Wednesday expirations in the Qualifying Securities may result in market participants having less capital to deploy in providing liquidity in the listed options market. Furthermore, the increase in options trading on the day of expiration may require enhanced margin and/or capital holdings by clearing firms and broker-dealers. OCC’s new margin add-on charge performs a look back and is not a real-time margining regime. The Commission should consider consulting with the Federal Reserve and other prudential regulators on whether the new OCC margin requirements are adequate to account for the increase in trading options on expiration date. The Commission also should evaluate whether the current firm capital and customer margin requirements are sufficient.

SIFMA also notes that the increase in daily expirations could increase the chances of OCC clearing members experiencing operational issues (and losses) on expiration days. To address this issue, OCC should engage in additional education to help ensure its clearing members fully understand the nuances of monitoring the post-close period and processing contrary exercise instructions because operational failures by a single clearing member can affect other clearing members, market participants, and the options markets in general.

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<sup>17</sup> Through July 30, 2025.

<sup>18</sup> Id. at 21808. We also agree with another commenter that the increased number of strike listings “will substantially increase Consolidated Audit Trail (“CAT”) costs related to options market activity, which is already one of the most significant drivers of CAT costs across the industry.” Letter from Nathaniel Pomeroy, Principal, Wolverine Execution Services LLC to Ms. Vanessa Countryman, Secretary, U.S. Securities and Exchange Commission, at 2 (June 17, 2025), available at <https://www.sec.gov/comments/sr-ise-2025-15/srise202515-615227-1803194.pdf>. The Commission should consider the impacts to CAT as it considers Nasdaq’s Proposal.

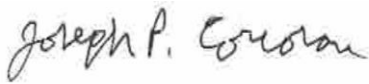
<sup>19</sup> Id. at 21811, 21812. An expansion of strikes in the Qualifying Securities could also require market makers to deploy additional capital to meet their quoting obligations in these options series, which could impact their ability to provide quotes in other options series.

<sup>20</sup> See Release No. 34-102768, File No. SR-OCC-2024-010 (Apr. 3, 2025), 90 FR 15274 (Apr. 9, 2025).

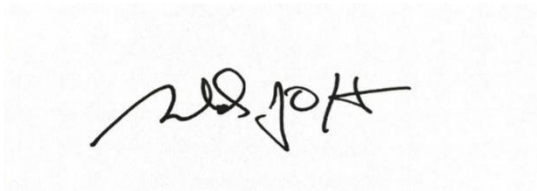
Ms. Vanessa Countryman  
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SIFMA appreciates the opportunity to comment on Nasdaq's Proposal. We generally support the Proposal and recommend that Nasdaq and the Commission take a thoughtful approach to expanding the availability of these products after reviewing the performance of one or two such options listings following a reasonable evaluation period. If you have any questions or need any additional information, please contact Joe Corcoran at (202) 962-7383 or Gerald O'Hara at (202) 962-7343.

Sincerely,

A handwritten signature in black ink that reads "Joseph P. Corcoran". The script is cursive and somewhat stylized.

Joseph Corcoran  
Managing Director and Associate General  
Counsel

A handwritten signature in black ink that reads "Gerald O'Hara". The script is cursive and somewhat stylized.

Gerald O'Hara  
Vice President and Assistant General  
Counsel