



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-103565; File No. SR-PHLX-2024-72]

### **Self-Regulatory Organizations; Nasdaq PHLX LLC; Order Approving a Proposed Rule Change to Permit the Trading of FLEX Options on Shares of the iShares Bitcoin Trust ETF**

July 29, 2025.

#### I. Introduction

On December 26, 2024, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend Options 8, Section 34, FLEX Trading, to permit options on shares of the iShares Bitcoin Trust ETF (“IBIT”) to trade as cash-settled and physically settled FLEX equity options.<sup>3</sup> The proposed rule change was published for comment in the Federal Register on January 14, 2025.<sup>4</sup> On February 27, 2025, pursuant to Section 19(b)(2) of the Act,<sup>5</sup> the Commission designated a longer period within which to approve the proposal, disapprove the proposal, or institute proceedings to determine whether to disapprove the proposal.<sup>6</sup> On March 14, 2025, the Commission instituted

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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> The Exchange’s rules use the term “exchange-traded fund” to refer to several types of investment products, including IBIT. See ISE Options 4, Section 3(h). In its proposal to list and trade shares of IBIT, The Nasdaq Stock Market LLC states that IBIT is not an investment company registered under the Investment Company Act of 1940, and that shares of IBIT will be registered with the Commission on Form S-1. See Securities Exchange Act Release No. 99295 (Jan. 8, 2024), 89 FR 2321, 2322 (Jan. 12, 2024) (File No. SR-Nasdaq-2023-016) (Notice of Filing of Amendment No. 1 to a Proposed Rule Change to List and Trade Shares of the iShares Bitcoin Trust Under Nasdaq Rule 5711(d)).

<sup>4</sup> See Securities Exchange Act Release No. 102132 (Jan. 7, 2025), 90 FR 3266 (“Notice”).

<sup>5</sup> 15 U.S.C. 78s(b)(2).

<sup>6</sup> See Securities Exchange Act Release No. 102497 (Feb. 27, 2025), 90 FR 11334 (Mar. 5, 2025). The Commission designated April 14, 2025, as the date by which the Commission shall either approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

proceedings under Section 19(b)(2)(B) of the Act<sup>7</sup> to determine whether to approve or disapprove the proposal.<sup>8</sup> The Commission received a comment letter regarding the proposed rule change.<sup>9</sup> This order approves the proposed rule change.

## II. Description of the Proposed Rule Change

As described in detail in the Notice, the Exchange proposes to amend its rules to permit the trading of FLEX equity options on IBIT.<sup>10</sup> The Commission approved Nasdaq ISE LLC's ("ISE") proposal to list and trade options on IBIT.<sup>11</sup> Because the Exchange's listing rules incorporate ISE's listing rules by reference, the Exchange may list IBIT options.<sup>12</sup> The Exchange's rules currently establish position and exercise limits of 25,000 contracts on the same side of the market for IBIT options.<sup>13</sup> The Exchange proposes to amend Options 8, Section 34(e) to apply these position and exercise limits to the proposed FLEX IBIT options and to provide that positions in FLEX IBIT options will be aggregated with positions in non-FLEX IBIT options for purposes of calculating position and exercise limits.<sup>14</sup> Accordingly, the proposal limits the position and exercise limits for all IBIT options—FLEX and non-FLEX—to 25,000 contracts.<sup>15</sup>

The Exchange states that the Commission has stated that "rules regarding position and exercise limits are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the

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<sup>7</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>8</sup> See Securities Exchange Act Release No. 102669 (Mar. 14, 2025), 90 FR 13226 (Mar. 20, 2025).

<sup>9</sup> Comments received on the proposal are available at <https://www.sec.gov/comments/sr-phlx-2024-72/srphlx202472.htm>.

<sup>10</sup> See supra note 4.

<sup>11</sup> See Securities Exchange Act Release No. 101128 (Sept. 20, 2024), 89 FR 78942 (Sept. 26, 2024) (order approving File No. SR-ISE-2024-03) ("IBIT Order").

<sup>12</sup> See Options 4 and Securities Exchange Act Release No. 101613 (Nov. 13, 2024), 89 FR 91470 (Nov. 19, 2024) (notice of filing and immediate effectiveness of File No. SR-Phlx-2024-53).

<sup>13</sup> See Options 9, Section 13(a) and Option 9, Section 15(a).

<sup>14</sup> See proposed Options 8, Section 34(e).

<sup>15</sup> See Notice, 90 FR at 3267.

options positions.”<sup>16</sup> The Exchange states that, for this reason the Commission requires that “position and exercise limits must be sufficient to prevent investors from disrupting the market for the underlying security by acquiring and exercising a number of options contracts disproportionate to the deliverable supply and average trading volume of the underlying security.”<sup>17</sup> The Exchange further states that based on its review of the data and analysis provided by the Exchange, the Commission concluded that the 25,000-contract position limit for non-FLEX IBIT options satisfied these objectives.<sup>18</sup>

The Exchange states that the proposed aggregated limit effectively restricts a market participant from holding positions that could result in the receipt of more than 2,500,000 shares, aggregated for FLEX IBIT and non-FLEX IBIT options (if that market participant exercised all its IBIT options).<sup>19</sup> The Exchange states that capping the aggregated position limit at 25,000 contracts will be sufficient to address concerns related to manipulation and the protection of investors, and further, that the proposed position and exercise limits are conservative for IBIT and therefore appropriate given its liquidity.<sup>20</sup> As described more fully in the Notice, the Exchange states that although it proposes an aggregated position limit of 25,000 contracts for all IBIT options, there is evidence to support a higher position limit.<sup>21</sup>

The Exchange states that FLEX options on ETFs are currently traded in the over-the-counter (“OTC”) market by a variety of market participants, including hedge funds, proprietary trading firms, and pension funds.<sup>22</sup> The Exchange states that the proposed FLEX options may

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<sup>16</sup> See Notice, 90 FR at 3267 (citing the IBIT Order, 89 FR 78946).

<sup>17</sup> See *id.*

<sup>18</sup> See *id.*

<sup>19</sup> See Notice, 90 FR at 3267.

<sup>20</sup> See *id.*

<sup>21</sup> See Notice, 90 FR at 3267. In the IBIT Order, the Commission stated that it considered and reviewed the ISE’s analysis that the exercisable risk associated with a position limit of 25,000 contracts represented only 0.4% of the outstanding shares of IBIT. The Commission stated that it also considered and reviewed the ISE’s statement that with a position limit of 25,000 contracts on the same side of the market and 611,040,00 shares of IBIT outstanding, 244 market participants would have to simultaneously exercise their positions to place IBIT under stress. See IBIT Order, 89 FR at 78946.

<sup>22</sup> See *id.*

provide a useful risk management and trading vehicle for market participants and their customers.<sup>23</sup> The Exchange states that FLEX IBIT options traded on the Exchange would have several advantages over contracts traded in the OTC market, including reduced counterparty credit risk because exchange-traded contracts are issued and guaranteed by The Options Clearing Corporation (“OCC”) and the price discovery and dissemination provided by exchange trading, which would lead to more transparent markets.<sup>24</sup>

The Exchange states that it and The Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing of FLEX IBIT options.<sup>25</sup> The Exchange states that the same surveillance procedures applicable to other options products listed and traded on the Exchange, including non-FLEX IBIT options, will apply to the proposed FLEX IBIT options, and that the Exchange has the necessary systems capacity to support the proposed options.<sup>26</sup> The Exchange further states that FLEX options products (and their respective symbols) are integrated into the Exchange’s existing surveillance system architecture and are thus subject to the relevant surveillance processes.<sup>27</sup> The Exchange states that its market surveillance staff (including staff of the Financial Industry Regulatory Authority (“FINRA”) who perform surveillance and investigative work on behalf of the Exchange pursuant to a regulatory services agreement) conduct surveillances with respect to IBIT (the underlying exchange-traded product) and, as appropriate, would review activity in IBIT when conducting surveillances for market abuse or manipulation in IBIT options.<sup>28</sup> In addition, the Exchange states that it is a member of the Intermarket Surveillance Group (“ISG”)

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<sup>23</sup> See id.

<sup>24</sup> See id.

<sup>25</sup> See id.

<sup>26</sup> See id.

<sup>27</sup> See id. The Exchange states that FLEX trading occurs on the Exchange’s trading floor in an open outcry environment. The Exchange states that surveillance staff monitors FLEX trading in open outcry. See id. at footnote 24.

<sup>28</sup> See Notice, 90 FR at 3268.

under the Intermarket Surveillance Group Agreement, and that ISG members work together to coordinate surveillance and investigative information sharing in the stock, options, and futures markets.<sup>29</sup> For surveillance purposes, the Exchange states that it would therefore have access to information regarding trading activity in the pertinent underlying securities.<sup>30</sup> The Exchange states that it does not believe that allowing FLEX IBIT options would render the marketplace for equity options more susceptible to manipulative practices.<sup>31</sup> The Exchange represents that its existing trading surveillances are adequate to monitor the trading in IBIT (as well as FLEX IBIT options) on the Exchange.<sup>32</sup> In addition, the Exchange states that it has a regulatory services agreement with FINRA, pursuant to which FINRA conducts certain surveillances on behalf of the Exchange.<sup>33</sup> The Exchange further states that, pursuant to a multi-party 17d-2 joint plan, all options exchanges allocate regulatory responsibilities to FINRA to conduct certain options-related market surveillances.<sup>34</sup> The Exchange states that it will implement any additional surveillance procedures it deems necessary to effectively monitor the trading of IBIT options.<sup>35</sup>

### III. Discussion and Commission Findings

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to

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<sup>29</sup> See id.

<sup>30</sup> See id.

<sup>31</sup> See id. at 3270.

<sup>32</sup> See id. at 3269.

<sup>33</sup> See id. at 3268.

<sup>34</sup> See id. The Exchange states that Section 19(g)(1) of the Act, among other things, requires every self-regulatory organization (“SRO”) registered as a national securities exchange or national securities association to comply with the Act, the rules and regulations thereunder, and the SRO’s own rules, and, absent reasonable justification or excuse, enforce compliance by its members and persons associated with its members. See 15 U.S.C. 78q(d)(1) and 17 CFR 240.17d-2. Section 17(d)(1) of the Act allows the Commission to relieve an SRO of certain responsibilities with respect to members of the SRO who are also members of another SRO. Specifically, Section 17(d)(1) allows the Commission to relieve an SRO of its responsibilities to: receive regulatory reports from such members; examine such members for compliance with the Act and the rules and regulations thereunder, and the rules of the SRO; or carry out other specified regulatory responsibilities with respect to such members. See Notice, at 3269 at n.26.

<sup>35</sup> See id. at 3269.

a national securities exchange,<sup>36</sup> and, in particular, the requirements of Section 6 of the Act.<sup>37</sup> Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>38</sup> which requires, among other things, that an exchange have rules designed to prevent fraudulent and manipulative acts and practices and to protect investors and the public interest.

The proposed FLEX IBIT options would permit the creation of customized options on IBIT, which could help market participants implement their hedging, risk management, and investment strategies. A commenter expressed support for the proposal and highlighted the benefits of the proposed customized options on IBIT.<sup>39</sup> The commenter states that the customizable features of FLEX options allow asset managers to create precise buffer levels and outcome periods that cannot be achieved using standardized listed options.<sup>40</sup> In addition, the proposal will extend to FLEX IBIT options the benefits of trading on the Exchange's options market, including a centralized market center, an auction market with posted transparent market quotations and transaction reporting, parameters and procedures for clearance and settlement, and the guarantee of OCC for all contracts traded on the Exchange.<sup>41</sup>

The Exchange's rules currently provide position and exercise limits of 25,000 contracts on the same side of the market for IBIT options.<sup>42</sup> Although the proposal provides for the trading of FLEX IBIT options, the proposal maintains the existing position and exercise limits

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<sup>36</sup> 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>37</sup> 15 U.S.C. 78f.

<sup>38</sup> 15 U.S.C. 78f(b)(5).

<sup>39</sup> See letter from Matt McFarland, Senior Vice President, Capital Markets, Vest Financial, dated Jan. 27, 2025. The commenter further states that FLEX options on IBIT would permit the creation of products with precise payoff terms, which would provide investors with hedged exposure to IBIT. See id. at 1.

<sup>40</sup> See id.

<sup>41</sup> See Securities Exchange Act Release No. 36841 (Feb. 14, 1996), 61 FR 6666, 6668 (Feb. 21, 1996) (File Nos. SR-Cboe-95-43 and PSE-95-24) (order approving listing of FLEX options on specified equity securities). In addition, the Exchange states that exchange-traded FLEX options can be closed with a liquidating transaction, while OTC FLEX contracts must be held until expiration. See Notice, 90 FR at 3268.

<sup>42</sup> See Options 9, Section 13(a), and Options 9, Section 15(a).

for IBIT options of 25,000 contracts on the same side of the market and thus does not raise new regulatory issues with respect to position and exercise limits.<sup>43</sup> The Commission finds that the proposed aggregation of position in FLEX and non-FLEX options when calculating position and exercise limits is consistent with the Act, and in particular, with the requirements in Section 6(b)(5) that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices and to protect investors and the public interest. Position and exercise limits serve as a regulatory tool designed to deter manipulative schemes and adverse market impact surrounding the use of options. Since the inception of standardized options trading, the options exchanges have had rules limiting the aggregate number of options contracts that a member or customer may hold or exercise. Options position and exercise limits are intended to prevent the establishment of options positions that can be used or might create incentives to manipulate or disrupt the underlying market to benefit the options position.<sup>44</sup> In addition, such limits serve to reduce the possibility of disruption in the options market itself, especially in illiquid classes.<sup>45</sup>

When the Commission approved the listing of options on IBIT, the Commission concluded that the proposed position and exercise limits were designed to prevent investors from disrupting the market for the underlying security by acquiring and exercising a number of options contracts disproportionate to the deliverable supply and average trading volume of the underlying security, and to prevent the establishment of options positions that could be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position.<sup>46</sup> At the same time, the Commission has recognized that limits must not be

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<sup>43</sup> See IBIT Order, 89 FR at 78946 (discussing the Commission's approval of the 25,000-contract position and exercise limits for IBIT options).

<sup>44</sup> See Securities Exchange Act Release No. 39489 (Dec. 24, 1997), 63 FR 276, 279 (Jan 5, 1998) (order approving File No. SR-Cboe-97-11).

<sup>45</sup> See *id.*

<sup>46</sup> See IBIT Order, 89 FR at 78946. See also Securities Exchange Act Release Nos. 21907 (Mar. 29, 1985), 50 FR 13440, 13441 (Apr. 4, 1985).

established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market-makers from adequately meeting their obligations to maintain a fair and orderly market.<sup>47</sup> This analysis applies to the proposed position and exercise limits for IBIT FLEX options as well. By applying the existing IBIT option position and exercise limits to IBIT FLEX options, and by requiring the aggregation of positions in FLEX and non-FLEX options for position and exercise limit purposes, the proposed position and exercise limits for IBIT FLEX options are designed to prevent investors from disrupting the market for the underlying security by acquiring and exercising a number of options contracts disproportionate to the deliverable supply and average trading volume of the underlying security, and to prevent the establishment of options positions that could be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position.

As described above, the same surveillance procedures applicable to other options products listed and traded on the Exchange, including non-FLEX IBIT options, will apply to the proposed FLEX IBIT options.<sup>48</sup> The Exchange states that FLEX options products (and their respective symbols) are integrated into the Exchange's existing surveillance system architecture and thus are subject to the relevant surveillance processes.<sup>49</sup> The Exchange further states that it will implement any additional surveillance procedures it deems necessary to effectively monitor the trading of IBIT options.<sup>50</sup> In addition, the Exchange states that its market surveillance staff, including FINRA staff who perform surveillance and investigative work on behalf of the Exchange pursuant a regulatory services agreement, conduct surveillances with respect to IBIT and would review activity in IBIT when conducting surveillances for market abuse or

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<sup>47</sup> See id.

<sup>48</sup> See Notice, 90 FR at 3268.

<sup>49</sup> See id. The Exchange states that FLEX trading occurs on the Exchange's trading floor in an open outcry environment. The Exchange states that surveillance staff monitors FLEX trading in open outcry. See id. at footnote 24.

<sup>50</sup> See Notice, 90 FR at 3269.

manipulation in IBIT options.<sup>51</sup> The Exchange also states that it is a member of ISG, that ISG members work together to coordinate surveillance and investigative information sharing in the stock, options, and futures markets, and therefore the Exchange would have access to information regarding trading activity in the pertinent underlying securities.<sup>52</sup> Further, in approving proposals to list bitcoin-based exchange-traded products (“ETPs”), including IBIT, the Commission found that there were sufficient means to prevent fraud and manipulation of bitcoin-based ETPs.<sup>53</sup>

Together, these surveillance procedures should allow the Exchange to investigate suspected manipulations or other trading abuses in IBIT FLEX options. Accordingly, the Commission finds that the Exchange’s surveillance procedures for FLEX IBIT options are designed to prevent fraudulent and manipulative acts and practices and to protect investors and the public interest.

#### IV. Conclusion

For the reasons set forth above, the Commission finds that the proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, the requirements of Section 6(b)(5) of the Act.<sup>54</sup>

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>55</sup> that the proposed rule change (SR-Phlx-2024-72) is approved.

By the Commission.

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<sup>51</sup> See *id.* at 3268.

<sup>52</sup> See *id.* at 3269.

<sup>53</sup> See Securities Exchange Act Release Nos. 99306 (Jan. 10, 2024), 89 FR 3008 (Jan. 17, 2024).

<sup>54</sup> 15 U.S.C. 78f(b)(5).

<sup>55</sup> 15 U.S.C. 78s(b)(2)

**Sherry R. Haywood,**

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