

SUBMISSION COVER SHEET

Exchange Identifier Code (optional) OCC-2007-01 A-1

Date March 7, 2007

ORGANIZATION | The Options Clearing Corporation

FILING AS A:

DCM

DCO

DTEF

TYPE OF FILING

- **Rule Amendments**

Self-Certification Under Reg. 40.6(a)

Commission Approval Requested Under Reg. 40.5 or 40.4 (a)

Notification of Rule Amendment Under Reg. 40.6(c)

Non-Material Agricultural Rule Change Determination Under Reg. 40.4(b)

- **New Products**

Self-Certification Under Reg. 40.2 or 41.23

Commission Approval Requested Under Reg. 40.3

RULE NUMBERS

Articles 1, VI and XIV

DESCRIPTION (Rule Amendments Only)

This First Amended Filing modifies certain rule text and related discussion as requested by the Commission's staff. The purpose of the filing is to obtain approval for OCC to clear "credit default options" proposed to be traded on the Chicago Board Options Exchange, Inc. ("CBOE) or that might be traded on any other national securities exchange that is an OCC participant exchange.



THE OPTIONS CLEARING
CORPORATION

March 7, 2007

VIA ELECTRONIC SUBMISSION

Ms Eileen Donovan
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

**Re: Amendment No. 1 to Rule Filing SR-OCC-2007-01—Request for
Commission Rule Approval**

Dear Ms Donovan:

The Options Clearing Corporation (“OCC”) hereby amends the above-referenced rule filing originally submitted by letter addressed to the Ms Eileen Donovan and dated February 13, 2007 (the “Letter”). This Amendment No. 1, the text of which is enclosed, is intended to respond to comments made by the Commission staff. OCC renews its request for approval of the above-referenced rule-filing (the “Rule Filing”), as amended, by the Commodity Futures Trading Commission (the “Commission”) pursuant to Section 5c(c)(2) of the Commodity Exchange Act (the “CEA”) and Sections 39.4(a) and 40.5 of the Commission’s regulations. This rule filing was submitted to the Securities and Exchange Commission (the “SEC”) for approval under the Securities Exchange Act of 1934 (the “Exchange Act”) and this Amendment No. 1 is also being filed with the SEC. The purpose of the Rule Filing continues to be to obtain approval for OCC to clear “credit default options” (“CDOs”) proposed to be traded on the Chicago Board Options Exchange, Inc. (“CBOE”) or that might be traded on any other national securities exchange that is an OCC participant exchange.¹ OCC reaffirms the statements in the Letter, and reiterates that is submitting the Rule Filing for prior Commission approval in order to confirm that the Commission concurs in OCC’s conclusion that OCC would not violate the CEA by treating CDOs as securities rather than commodity options.

¹ CBOE’s proposed rule filing relating to CDOs was filed with the SEC in SR-CBOE-2006-84 and amendments thereto.

JEAN M. CAWLEY

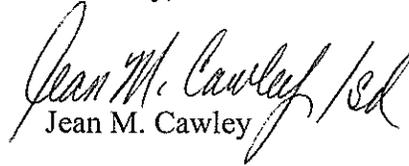
FIRST VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

ONE N. WACKER DRIVE, SUITE 500 CHICAGO, ILLINOIS 60606 TEL 312.322.6269 FAX 312.322.6280

JCAWLEY@THEOCC.COM WWW.OPTIONSCLEARING.COM

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,


Jean M. Cawley

Enclosures

cc: CFTC Central Region (w/ enclosures)
300 South Riverside Plaza, Suite 1600 North
Chicago, IL 60606

Ananda K. Radhakrishnan
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

John C. Lawton
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

Item 1. Text of the Proposed Rule Change

This filing (the “First Amended Filing”) amends and restates in its entirety rule filing no. SR-OCC-2007-01 (the “Original Filing”), which was filed by The Options Clearing Corporation (“OCC” or the “Corporation”) with the Securities and Exchange Commission (the “Commission”) on February 13, 2007. The purpose of the First Amended Filing is to modify the proposed rule text and related discussion in the Original Filing to conform to certain changes requested by the Commodity Futures Trading Commission (“CFTC”). Additionally, OCC is requesting that the Commission accelerate the effectiveness of this proposed rule change to the extent necessary so that it is effective not later than the effectiveness of CBOE’s proposed rule filing, as amended, relating to CDOs.

In order to clear and settle “credit default options” proposed to be listed by the Chicago Board Options Exchange, Incorporated (“CBOE”), OCC proposes to amend Articles I and VI of its By-Laws and Chapters VI and VIII of its Rules and to add a new Article XIV and Chapter XV to its By-Laws and Rules, respectively, as set forth below. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in bold brackets.

THE OPTIONS CLEARING CORPORATION

BY-LAWS

* * *

ARTICLE I

Definitions

SECTION 1. Unless the context requires otherwise (or except as otherwise specified in the By-Laws), the terms defined herein shall, for all purposes of these By-Laws and the Rules of the Corporation, have the meanings herein specified.

A. - D. [No change.]

E.

(1) – (19) [No change.]

Expiration Time

(20) Except as otherwise specified in the By-Laws and Rules for particular classes of options, [T]the term “expiration time” in respect of an option contract[, other than an option contract as defined in Section 1.E.(4)(ii) and (iii) of Article XV or Article XX of the By-Laws,] means 10:59 P.M. Central Time (11:59 P.M. Eastern Time).

F. – N. [unchanged]

O.

(1) – (3) [No change.]

Option Contract

(4) The term “option contract” or “option” means a put option, a call option, a credit default option (as defined in Article XIV of the By-Laws) or a packaged spread option (as defined in Article XXVI of the By-Laws) issued by the Corporation pursuant to the By-Laws and Rules. The term “stock option contract” means a put or a call, as defined in this Article I for which the underlying security is an equity security, including fund shares. The term “Treasury

securities option contract” means a put or a call, as defined in Article XIII of the By-Laws. The term “yield-based Treasury option contract” means a put or a call, as defined in Article XVI of the By-Laws. The term “debt securities option contract” means a Treasury securities option contract. The term “foreign currency option contract” means a put or a call, as defined in Article XV of the By-Laws. The term “cross-rate foreign currency option contract” means a put or a call, as defined in Article XX of the By-Laws. The term “cash-settled foreign currency option contract” means a put or a call, as defined in Article XXII of the By-Laws. The term “index option contract” means a put or a call, as defined in Article XVII of the By-Laws. The term “cash-settled option contract” means any option contract that is settled upon exercise by payment of cash rather than delivery of, and payment for, the underlying interest. [an index option contract, a packaged spread option contract, a yield-based Treasury option contract or a cash-settled foreign currency option contract.] The term “non-equity securities option contract” means a debt securities option contract, a foreign currency option contract, a cross-rate foreign currency option contract, a cash-settled option contract, or a futures option. The term “futures option” means any option to buy or sell any commodity futures contract traded on, through the facilities of, or subject to the rules of a futures market. For purposes of Article VIII of the By-Laws, and Chapters VI and X of the Rules, the term “non-equity securities option contract” shall also include such classes of fund options as the Corporation may from time to time designate as non-equity securities option contracts for such purposes.

P. – Z. [No change.]

* * *

ARTICLE VI

Clearance of Exchange Transactions

Terms of Cleared Contracts

SECTION 10. (a) - (d) [No change.]

(e) Except to the extent provided otherwise in the By-Laws and Rules with respect to transactions in credit default options, the expiration date and exercise settlement amount of each series of credit default options shall be determined by the Exchange that first introduces such series of options for trading at the time such series is opened for trading. The exercise settlement amount of credit default options is subject to adjustment in accordance with applicable provisions of Article XIV of the By-Laws.

(e) – [re-lettered as (f) but otherwise unchanged]

* * *

ARTICLE XIV¹

Credit Default Options

Introduction

By-Laws in this Article are applicable only to credit default options. In addition, the By-Laws in Articles I-XI are also applicable to credit default options, in some cases supplemented by one or more By-Laws in this Article, except for By-Laws that have been replaced in respect of credit default options by one or more By-Laws in this Article and except where the context otherwise requires. Whenever a By-Law in this Article supplements or, for purposes of this Article, replaces one or more By-Laws in Articles I-XI, that fact is indicated in brackets following the By-Law in this Article.

Definitions

SECTION 1.

A.

Adjustment Event

(1) The term “adjustment event” when used in respect of a credit default option means either a redemption event or a succession event as defined in the applicable Exchange Rules of the listing Exchange.

B.

Reserved

C.

Class

¹ This entire Article is proposed to be added. For ease of review, it is not underlined.

(1) The term “class” when applied to credit default options means all credit default options having the same reference entity, reference obligation(s), credit event(s), and reporting authority.

Credit Default Option

(2) The term “credit default option” means an option that is automatically exercised upon receipt by the Corporation of a credit event confirmation with respect to the reference obligation(s) of a reference entity. Credit Default options have only two possible payoff outcomes: either a fixed automatic exercise settlement amount or nothing at all.

Credit Event

(3) The term “credit event” when used in respect of a credit default option means a credit event, as defined in the rules of the Exchange on which the options are listed, with respect to a reference obligation for such option.

Credit Event Confirmation

(4) The term “credit event confirmation” when used in respect of a credit default option means a notice received by the Corporation from the reporting authority that the reporting authority has confirmed that a credit event occurred within the “credit event confirmation period” specified in the Exchange Rules of the listing Exchange.

Credit Event Confirmation Deadline

(5) The term “credit event confirmation deadline” when used in respect of a credit default option means the deadline specified by the Corporation by which a credit event confirmation must be received by the Corporation on any business day other than the expiration date in order to be treated as having been received on the business day on which it was submitted. Credit event confirmations received by the Corporation after the credit event confirmation deadline on the expiration date shall be treated as provided in the By-Laws and Rules.

D.

Reserved

E.

Exercise Settlement Amount

(1) The term “exercise settlement amount” when used in respect of a credit default option means the fixed amount of cash to be paid upon exercise to a holder of an option that is automatically exercised. The exercise settlement amount shall be specified by the listing Exchange at or before the time when a series of credit default options is first opened for trading.

Expiration Date

(2) The term “expiration date” when used in respect of a credit default option means the last day on which the option may be automatically exercised. In the case of a series of credit default options, the expiration date is the fourth business day after the last trading day for such series of options as such trading day is specified by the Exchange on which the series of options is listed; provided, however, that when a credit event confirmation is deemed to have been received by the Corporation with respect to a series of credit default options prior to the last trading day for such series, the expiration date for options of that series will be accelerated to the second business day following the day on which such credit event confirmation is deemed to have been received by the Corporation.

F. – L.

Reserved

M.

Multiplier

(1) The term “multiplier” when used in respect of an Exchange transaction in credit default options means the fixed number by which the price agreed upon by the purchaser and seller is multiplied in order to calculate the total purchase price per contract.

N. – O

Reserved

P.

Premium

(1) The term “premium” when used in respect of an Exchange transaction in credit default options means the price, in dollars and cents, agreed upon by the purchaser and seller in the transaction times the multiplier and the number of contracts subject to the Exchange transaction.

Q.

Reserved

R.

Reference Entity; Reference Obligation(s)

(1) The term “reference entity” as used in respect of a class of credit default options means the issuer or guarantor of the reference obligation(s); and the term “reference obligation(s)” means one or more debt securities the terms of which define a credit event for a class of credit default options, as provided under the Exchange Rules of the listing Exchange.

Reporting Authority

(2) The term “reporting authority” when used in respect of a class of credit default options, means the person or entity responsible for confirming the occurrence of the relevant event. Unless another reporting authority is identified by the listing Exchange for a class of credit default options, the listing Exchange will be the reporting authority.

S.– T.

Reserved

U.

Underlying Interest

(1) The term “underlying interest” when used in respect of a credit default option means the reference obligation(s).

V.

Variable Terms

(1) The term “variable terms” when used in respect of a series of credit default options means the event the occurrence of which will trigger automatic exercise, the expiration date and the exercise settlement amount of such option contract.

W. – Z.

Reserved

[Section 1 of this Article adds certain new definitions relevant to credit default options and replaces the definitions of class, expiration date, multiplier, premium, reporting authority, underlying interest, and variable terms in Article I, Section 1 of the By-Laws.]

General Rights and Obligations of Holders and Writers of Credit Default Options

SECTION 2. (a) Subject to the provisions of the By-Laws and Rules, the holder of a credit default option has the right to receive from the Corporation the exercise settlement amount for such option if the relevant credit event is determined to have occurred within the time specified therefore in the Exchange Rules of the listing Exchange, in each case in accordance with Exchange Rules and the By-Laws and Rules.

(b) The writer of a credit default option is obligated, upon assignment to such writer of an exercise in respect of such option, to pay to the Corporation the exercise settlement amount for such option, in accordance with Exchange Rules and the By-Laws and Rules.

[Section 2 of this Article replaces paragraphs (a) and (b) of Section 9 of Article VI of the By-Laws.]

Adjustments of Credit Default Options

SECTION 3. The listing Exchange is vested with complete discretionary authority to confirm adjustment events and make adjustments to credit default options in accordance with Exchange Rules, as they are interpreted by the Exchange. Adjustment determinations shall be reported to the Corporation by the Exchange. Every adjustment determination by the Exchange will be within its sole discretion and shall be conclusive and binding on all holders and writers and not subject to review. The Corporation shall not be responsible for any adjustment determination by the Exchange.

[Section 3 of this Article replaces Section 11 and 11A of Article VI of the By-Laws.]

Determination of Occurrence of Credit Event

SECTION 4. A class of credit default options will be exercised automatically, without any action on the part of the holders, if a credit event confirmation is received by the Corporation at any time prior to the expiration time on the expiration date for the class. The reporting authority will confirm credit events in accordance with Exchange Rules, as they are interpreted by the reporting authority and reported to the Corporation by the reporting authority. Every credit event confirmation will be within the sole discretion of the reporting authority and shall be conclusive and binding on all holders and writers and not subject to review. The Corporation will not be responsible for any credit event determination made by the reporting authority.

* * *

RULES

* * *

CHAPTER VI

Margin

Margin Requirements

Rule 601. (a)–(e) [No change.]

... Interpretations and Policies:

.01 - .02 [No change.]

.03 Notwithstanding the provisions of Rule 601, the Corporation may exclude positions in credit default options in any account of a Clearing Member from the margin requirement calculations under paragraphs (c) and (d) of Rule 601. The margin requirement for excluded short positions in any series of credit default options shall be a fixed amount determined by the Corporation based upon the maximum potential exercise settlement amount for such options as determined by the Corporation. Except to the extent that the Corporation determines otherwise, long positions in credit default options shall be given no value for margin purposes and shall not offset margin requirements on short positions except to the extent that a Clearing Member carries unsegregated long positions and short positions in the same class of options in the same account.

* * *

CHAPTER VIII

Exercise and Assignment

Exercise of Options

RULE 801. Issued and unexpired option contracts may, subject to Exchange Rules and the By-Laws, be exercised as follows:

(a) [No change.]

(b) Any expiring American option contract may be exercised on its expiration date in accordance with Rule 805. Any capped or European option contract may be exercised (other than automatically exercised in the case of a capped option) only on its expiration date in accordance with Rule 805. Any credit default option that meets the exercise parameters set forth in Rule 1501 will be automatically exercised in accordance with that rule. Notwithstanding the foregoing, any expiring flexibly structured index option contract, quarterly index option contract, or short term index option contract that meets the exercise parameters set forth in Rule 1804(c) will be automatically exercised on its expiration date in accordance with that rule. No expiring option contract other than an American style flexibly structured option contract, a foreign currency option contract, a short term option contract, a quarterly option contract, or a cross-rate foreign currency option contract may be exercised on the business day immediately preceding its expiration date.

(c) – end [unchanged]

* * *

CHAPTER XV²

Credit Default Options

Introduction

Rules in this Chapter are applicable only to credit default options (as defined in the By-Laws). In addition, the Rules in Chapters I through XII are also applicable to credit default options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of credit default options by one or more Rules in this Chapter and except where the context otherwise requires. Whenever a Rule in this Chapter supplements or, for purposes of this Chapter, replaces one or more of the By-Laws or Rules in Chapters I through XII, that fact is indicated in brackets following the Rule in this Chapter.

Automatic Exercise of Credit Default Options

RULE 1501. (a) In the case of a credit default option, a Clearing Member shall automatically be deemed to have exercised such option on any business day on which a credit event confirmation is received by the Corporation before the credit event confirmation deadline. A credit event confirmation received after such deadline shall be deemed to have been received by the Corporation on the following business day; provided, however, that a credit event confirmation received after the credit event confirmation deadline on the business day before the last scheduled trading day and before the expiration time on the expiration date will be deemed to have been received on the expiration date. If a credit event confirmation is received after the credit event confirmation deadline on the expiration date and before the expiration time, the Corporation may extend the exercise settlement date pursuant to Rule 1503(c).

[Rule 1501 supplements Rule 805 and replaces Rule 802.]

Assignment and Allocation of Credit Default Option Exercises

RULE 1502. Following the automatic exercise of credit default option contracts in any series, the exercises shall be assigned and allocated to all open short positions in such series of options. The Corporation shall make available to each Clearing Member on the business

² This entire Chapter is proposed to be added. For ease of review, it is not underlined.

day following the date of exercise a report or reports reflecting all automatic exercises of credit default options in the accounts of such Clearing Member effected on such date, and all assignments of exercises to short positions in the accounts of such Clearing Member.
[Rule 1502 replaces Rules 803 and 804.]

Exercise Settlement Date for Credit Default Options

RULE 1503. (a) The exercise settlement date for a credit default option shall be the third business day following the date on which the option is deemed to have been exercised; provided, however, that in the case of an option that is deemed to have been exercised on the expiration date, the exercise settlement date shall be the business day following the expiration date.

(b) The Corporation may extend or postpone any exercise settlement date for credit default options whenever, in its opinion, such action is required in the public interest or to meet unusual conditions.

[Rule 1503, together with Rule 1504, replaces Rule 902.]

Settlement of Credit Default Options

RULE 1504. (a) Exercised credit default options and short positions in credit default options to which exercises have been assigned shall be settled through the payment of the exercise settlement amount by the Corporation to the holder of the credit default option and by the writer of the credit default option to the Corporation.

(b) On each exercise settlement date for credit default options, at or before such time as the Corporation may specify, the Corporation shall:

(1) Determine, as to each account of each Clearing Member, the number of exercised and assigned option contracts of each series of credit default options for which the current business day is the exercise settlement date.

(2) Net the exercise settlement amounts to be paid by the Clearing Member against the exercise settlement amounts to be paid to the Clearing Member to obtain a single net settlement amount for credit default option exercises with respect to each account of each Clearing Member.

(3) Make available to each Clearing Member a report showing the results of the netting described herein.

(c) At or before 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on each exercise settlement date for credit default options, each Clearing Member shall be obligated to pay to the Corporation any net settlement amount in any account of such Clearing Member shown to be due to the Corporation on the report referred to in paragraph (b) of this Rule for such day, and the Corporation shall be authorized to withdraw from the Clearing Member's bank account established in respect of such account an amount equal to such net settlement amount, provided that the Corporation may, but is not required to, offset against any such net settlement amount any credit balance which may be due from the Corporation to the Clearing Member in the same or any other account.

(d) At or before 10:00 A.M. Central Time (11:00 A.M. Eastern Time) on each exercise settlement date for credit default options, the Corporation shall be obligated to pay to the Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules and has deposited the full amount of any net daily premium due to the Corporation under Rule 502) the net settlement amount in any account shown to be due from the Corporation to such Clearing Member on the report referred to in paragraph (b) of this Rule for such day.

(e) Solely for purposes of Rule 601, exercised and assigned credit default option contracts shall be deemed settled as of the opening of business on the exercise settlement date. No margin shall be required and no margin credit shall be given in respect of such contracts on such date.

[Rule 1504 replaces Chapter IX of the Rules and supplements Rules 502 and 607.]

Suspension of Clearing Members - Exercised Contracts

RULE 1505. Exercised credit default option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 1504 provided that the net settlement amount in respect of such contracts shall be paid from or, subject to the rights of any Pledgeses under Rule 614, credited to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 1504 with all Clearing Members that have been assigned an exercise of a suspended Exercising

Clearing Member or that have exercised credit default option contracts that were assigned to a suspended Assigned Clearing Member without regard to such suspension.

[Rule 1505 supplements Rule 1104 and Rule 1107(b) and replaces Rule 1107(a) and (c).]

Deposits in Lieu of Margin Prohibited

RULE 1506. Rule 610 shall not apply to credit default options.

[Rule 1506 replaces Rule 610.]

Acceleration of Expiration Date

RULE 1507. If a credit default option is deemed to have been exercised on any day prior to the expiration date, the expiration date will be accelerated to fall on the date of exercise.

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of OCC at a meeting held on December 5, 2006.

Questions regarding the proposed rule change should be addressed to Jean M. Cawley, First Vice President and Deputy General Counsel, at (312) 322-6269.

Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of this rule change is to permit OCC to clear and settle a type of option that is related to the creditworthiness of an issuer or guarantor ("reference entity") of one

or more specified debt securities (“reference obligation(s)”).³ Credit default options (“CDOs”) are binary options that pay a fixed amount to the holder of the option upon the occurrence of a “credit event” affecting the reference obligations. Characteristics of CDOs are described below, followed by an explanation of the specific rule changes being proposed to clear them.

Description of Credit Default Options. CDOs are structured as binary options⁴ with an automatic exercise feature. A CDO will be automatically exercised and the exercise settlement amount will be payable if a “credit event” occurs at any time prior to the last day of trading. A “credit event” is defined, generally speaking, as any failure to pay on any of the reference obligations or any other occurrence that would constitute an “event of default” or “restructuring” under the terms of any of the reference obligations and that the listing exchange has determined would be a credit event for purposes of the CDO. Under CBOE’s current proposal, the payout or “settlement amount” for a single exercised option would be \$100,000. CDOs represent a type of binary option that is automatically exercised immediately upon confirmation of the occurrence of a defined event.

³ The options are proposed to be traded on the CBOE. CBOE’s proposed rules for CDOs were filed for approval by the Commission in SR-CBOE-2006-84 and Amendment No. 1, 2, 3 and 4 thereto. *See* Securities Exchange Act Release 55251 (February 7, 2007).

⁴ “Binary” options (also sometimes referred to as “digital” options) are all-or-nothing options that pay a fixed amount if automatically exercised and otherwise nothing.

By-Law and Rule Amendments Applicable to CDOs. In order to accommodate trading in CDOs, OCC proposes to add a new By-Law Article and a new Chapter to its Rules, incorporating several new defined terms and procedures for clearing and settling CDOs.

1. Terminology—Article I, Section 1 and Article XIV, Section 1

The definition of “expiration time” in Article I of the By-Laws is modified to be a default provision, permitting the expiration time to be defined differently for different classes of options. The definition of “option contract” in Article I of the By-Laws is amended to include a credit default option, and to provide a more generic definition of “cash-settled option.”

“Adjustment event” is defined in Article XIV by reference to the rules of the listing exchange. Similarly, “credit event” is defined by reference to exchange rules. The terms “credit event confirmation” and “credit event confirmation deadline” are used, respectively, to refer to the notice that must be provided by the listing exchange or other reporting authority to OCC that a credit event has occurred (and that a CDO will therefore automatically be exercised) and to the deadline for receipt of such notice if it is to be treated as having been received on the business day on which it is submitted. Credit event confirmations received after the deadline on the expiration date but before the expiration time will be given effect but may result in delayed exercise settlement.

OCC also proposes to define the term “exercise settlement amount” in Article XIV for purposes of credit default options. The exercise settlement amount of a credit default

option is the amount specified by the Exchange on which the option is traded that will be paid in settlement of an automatically exercised option. CBOE has specified the exercise settlement amount for a single CDO as \$100,000. OCC's proposed definition would permit an exchange to specify a different exercise settlement amount. The exercise settlement amount will be determined by the Exchange at the time of listing, when the Exchange fixes the other variable terms for the options of a particular class or series.

OCC proposes to replace the definitions of "variable terms," "premium" and "multiplier" in Article I of the By-Laws with revised definitions in Article XIV, Section 1, that are applicable to credit default options. The term "class" is also redefined in Article XIV, Section 1. To be within the same class, CDOs must have the same reporting authority, which OCC anticipates will ordinarily be the listing exchange. This is necessary because of the degree of discretion that the reporting authority will have in determining whether a credit event has occurred.

CDOs will be a category of options where exercise is triggered by a discrete event such as a "credit event" affecting the "reference obligations" issued by a "reference entity," which terms are defined to have the meanings given to them in the rules of the listing exchange. The term "underlying interest" is defined to be the reference obligation(s) in respect of which the credit event will or will not occur.

2. *Terms of Cleared Contracts—Article VI, Section 10(e)*

A new paragraph (e) is added to Article VI, Section 10, so that an Exchange is required to designate the exercise settlement amount and expiration date for a series of credit default options at the time the series is opened for trading. Section 10(e) also reminds the reader that credit default options are subject to adjustment under Article XIV.

3. *Rights and Obligations—Article XIV, Section 2*

Article XIV, Section 2 defines the general rights and obligations of holders and writers of credit default options. As noted above, the holder of a credit default option that is automatically exercised has the right to receive the fixed exercise settlement amount from OCC, and the assigned writer has the obligation to pay that amount to OCC.

4. *Adjustments of Credit Default Options—Article XIV, Section 3; Determination of Occurrence of Credit Event—Article XIV, Section 4*

Article XIV, Section 3 provides for adjustment of CDOs in accordance with the rules of the listing exchange. CBOE's proposed rules provide for adjustment of CDOs in the case of certain corporate events affecting the reference obligations, and OCC proposes simply to defer to those rules and to the determinations of CBOE pursuant to those rules. Accordingly, OCC will have no responsibility for adjustment determinations with respect to CDOs.

Similarly, Section 4 provides that the listing exchange for a class of credit default options will have responsibility for determining the occurrence of a credit event that will result in automatic exercise of the options of that class. The listing exchange has the obligation to provide

a credit event confirmation to OCC in order to trigger the automatic exercise.

5. *Exercise and Settlement—Chapter XV of the Rules and Rule 801*

Credit default options would not be subject to the exercise-by-exception procedures applicable to most other options under OCC's Rules, but would instead be automatically exercised at expiration if the specified criterion for exercise is met. The procedures for the automatic exercise of credit default options, as well as their assignment and settlement (including during periods when a Clearing Member is suspended), are set forth in Rules 1501 through 1505 of new Chapter XV and in revised Rule 801(b).

6. *Special Margin Requirements—Rule 601; Deposits in Lieu of Margin—Rule 1506*

OCC will not initially margin CDOs through its usual "STANS" system. Because of CDOs' fixed payout feature, further systems development is needed to accommodate these options in STANS. Until such development is completed, OCC has initially determined to require that writers of such options post margin in a fixed amount that will be set at 100% of the fixed exercise settlement amount applicable to each series of CDOs. OCC would have discretion to reduce the requirement to something less than 100% if research, analysis and experience suggest that a lower percentage is sufficient. Initially, long positions in CDOs will be valued at zero and will provide no offset against margin requirements on the shorts. Again, based on research, analysis and experience, OCC may determine to give some value to the longs. Ultimately, CDOs will be incorporated into the STANS system and valued and margined on a

risk basis.

OCC does not propose to accept escrow deposits in lieu of clearing margin for credit default options. Therefore, Rule 1506 states that Rule 610, which otherwise would permit such deposits, does not apply to credit default options.

7. *Acceleration of Expiration Date—Rule 1507*

This provision would permit OCC to accelerate the expiration date of a credit default option when the option is deemed to have been exercised on any day prior to the expiration date.

* * *

The proposed changes to OCC's By-Laws and Rules are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because they are designed to promote the prompt and accurate clearance and settlement of transactions in, including exercises of, credit default options, and to foster cooperation and coordination with persons engaged in the clearance and settlement of such transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of such transactions, and, in general, to protect investors and the public interest. They accomplish this purpose by applying substantially the same rules and procedures to these transactions as OCC applies to similar transactions in other cash-settled options. Other than as described in Item 3 above, the proposed rule change is not inconsistent

with the existing rules of OCC, including rules proposed to be amended.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition.

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

Item 6. Extension of Time Period for Commission Action

OCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Securities Exchange Act of 1934.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

OCC requests that the Commission accelerate the effectiveness of this filing to the extent necessary to make it effective not later than the effectiveness of CBOE's proposed rule filing, as amended, relating to CDOs. OCC believes there is good cause for such accelerated effectiveness because CBOE will not be able commence trading CDOs, even if its filing is

approved, until OCC's rule change is approved. This proposed filing implements CBOE's filing, which was initially submitted to the Commission on October 26, 2006. However, OCC will delay implementation of this rule change until distribution of a supplement to the options disclosure document, Characteristics and Risks of Standardized Options, addressing credit default options.

Item 8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

Not applicable.

Item 9. Exhibits

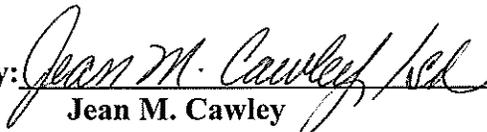
Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 4. Full text of the proposed rule change marked to indicate additions to, and deletions from, the immediately preceding filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

THE OPTIONS CLEARING CORPORATION

By: 
Jean M. Cawley
First Vice President and
Deputy General Counsel