



THE OPTIONS CLEARING
CORPORATION

May 7, 2004

VIA FEDERAL EXPRESS

Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

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OPTIONAL

Re: Rule Filing SR-OCC-2004-07 Rule Certification

Dear Secretary Webb:

Enclosed is a copy of the above-referenced rule filing, which The Options Clearing Corporation ("OCC") is submitting pursuant to the self-certification procedures of Commission Regulation 40.6. This rule filing has been, or is concurrently being, submitted to the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act").

In conformity with the requirements of Regulation 40.6(a)(3), OCC states the following: The text of the rule is set forth at Item 1 of the enclosed filing. The date of implementation of the rule is the date the proposed rule is approved by the SEC or otherwise becomes effective under the Exchange Act. Item 5 of the enclosed filing sets forth a description of any written comments on the rule filing, including any such comments expressing opposing views that were not incorporated into the proposed rule.

OCC hereby certifies that the rule set forth at Item 1 of the enclosed filing complies with the Commodity Exchange Act and the Commission's regulations thereunder.

JEAN M. CAWLEY

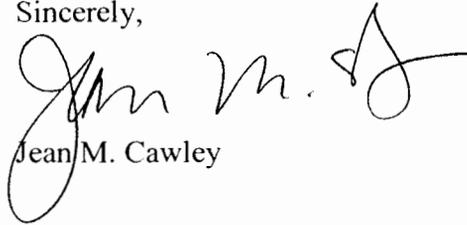
FIRST VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

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Should you have any questions regarding this matter, please do not hesitate to contact the undersigned at (312) 322-6269.

Sincerely,

A handwritten signature in black ink, appearing to read "Jean M. Cawley". The signature is fluid and cursive, with a large initial "J" and a stylized "C" at the end.

Jean M. Cawley

Enclosure

cc: CFTC Central Region (w/ enclosure)
525 West Monroe Street, Suite 1100
Chicago, IL 60661
Attn: Frank Zimmerle

Jerry W. Carpenter
Assistant Director (SEC)

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Page 1 of 25

File No. SR-OCC-2004-07

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

The Options Clearing Corporation ("OCC" or "the Corporation") proposes to amend Articles I, VI and XV of its By-Laws and Chapters VI, XI and XVI of its Rules as set forth below. Material proposed to be added by this rule change to OCC's By-Laws and Rules as currently in effect is underlined and material proposed to be deleted is enclosed in bold brackets.

THE OPTIONS CLEARING CORPORATION

BY LAWS

ARTICLE I - DEFINITIONS

* * *

I.

RESERVED.

[ICC

(1) The term "ICC" means The Intermarket Clearing Corporation.

ICC Future

(2) The term "ICC Future" means a foreign currency futures contract cleared by ICC.]

* * *

Joint Clearing Member; Pair of Affiliated Clearing Members; OCC Clearing Member; CCO Clearing Member

3. The term "Joint Clearing Member," in respect of a cross-margining program with one or more Participating CCOs, means a Clearing Member that is also a clearing member of each Carrying CCO[and, for purposes of Chapter XVI of the Rules, means a Clearing Member that is also a clearing member of ICC]. The term "Pair of Affiliated Clearing Members," in respect of a cross-margining program with one or more Participating CCOs, means two clearing members that are Affiliates of one another, one of which is an OCC Clearing Member and one or the other of which is a clearing member of each Carrying CCO. The term "OCC Clearing Member," in respect of a

cross-margining program with one or more Participating CCOs, means a Clearing Member of the Corporation. The term "CCO Clearing Member," in respect of a cross-margining program with one or more Participating CCOs, means a clearing member of a particular Carrying CCO.

* * *

Market Professional

(6) The term "Market Professional" means (i) any Market-Maker as defined in the Rules and (ii) any member of, or firm owning a membership in, a commodity exchange for which [ICC or]a Participating CCO is the clearing organization, to the extent he is trading for his own account and not for the account of others.

* * *

ARTICLE XV

Foreign Currency Options

Definitions

* * *

J.

RESERVED.

[Joint Clearing Member

(1) The term "Joint Clearing Member" means a Clearing Member that is also a clearing member of ICC.]

* * *

[Section 1 of this Article adds certain new definitions relevant to foreign currency options and replaces paragraphs A.(3), C.(1), (4), E.(8), (11), (14) and P.(9) of Section 1 of Article I of the By-Laws and supplements paragraphs B.(2) and U.(2) of that Section. The terms "Paying Clearing Member[.]" and "Collecting Clearing Member" [and "agent bank"] are defined in respect of foreign currency options in Chapter XVI of the Rules.]

* * *

RULES

* * *

CHAPTER VI – MARGINS

* * *

Margin on Positions in Non-Equity Options

RULE 602. (a) Margin Requirements. Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on every business day, every Clearing Member shall be obligated to deposit with the Corporation margin on the positions in non-equity securities option contracts, non-equity futures and stock loan baskets and stock borrow baskets [(and on cross-netted settlement obligations with respect to ICC Futures pursuant to paragraph (f) below)]maintained in each account with the Corporation at the opening of such business day (including positions resulting from Exchange transactions having a settlement time on such business day, but excluding short positions in option contracts for which a deposit in lieu of margin has been made in accordance with Rule 610 or an escrow deposit has been made in accordance with Rule 1801). The Corporation shall also utilize the following provisions of this Rule for purposes of determining margin requirements pursuant to any Participating CCO Agreement. In addition to the risk margin required to be deposited with the Corporation in accordance with this Rule in respect of non-equity futures, Clearing Members are also required to make settlement with the Corporation in respect of variation payments on non-equity futures in accordance with the Rules applicable thereto.

(b) – (e) [no change]

(f) **Special Rules.** (1)(A)-(C) [no change]

(2) From and after the opening of business on the business day (or, in the case of [an Exercise and Assignment Report]a report reflecting the number of exercised and assigned foreign currency option contracts made available on a Sunday designated as a business day following an expiration date, the second business day) following the date on which[an Exercise and Assignment Report] such a report is made available, a Clearing Member shall not be required to deposit margin with respect to exercised long positions and assigned short positions in foreign currency options or cross-rate foreign currency options reflected in such Report under paragraphs (a) through (d), and shall instead be required to deposit margin with respect to the settlement obligations resulting from such positions [(and any cross-

netted settlement obligations with respect to ICC Futures) under this paragraph (f)(2) and paragraph (f)(3), as applicable. The margin required on a Clearing Member's net obligation to deliver or receive any currency (after giving effect to the updated netting described in Rule 1605(b)(1)) or Rule 2105(b)(1), as applicable) on any exercise settlement date shall be equal to:

(A) in the case of a Delivering Clearing Member, the sum of (i) the marking price for the currency plus the applicable margin interval, multiplied by the number of units of currency required to be delivered, and (ii) the settlement amount (as defined in Rule 1605(b)(1)) or Rule 2105(b)(1), as applicable), if any, payable by such Clearing Member in respect of such currency on that date, less any portion thereof paid prior to that date pursuant to Rule 1606(b), minus (iii) the settlement amount, if any, receivable by such Clearing Member in respect of such currency on that date; or

(B) [no change]

(3) – (5) [no change]

CHAPTER XI – SUSPENSION OF A CLEARING MEMBER

* * *

Exercised Contracts

RULE 1107. (a)(1) – (4) [no change]

(5) If the suspended Clearing Member was a Paying Clearing Member (as defined in Rule 1605(b)(1)) in respect of an exercised foreign currency option contract, any amount due to the Corporation from the suspended Clearing Member shall be paid from the Liquidating Settlement Account of the suspended Clearing Member.

* * *

CHAPTER XVI – FOREIGN CURRENCY OPTIONS

* * *

**Assignment and Allocation of Foreign Currency Option Exercise Notices
to Foreign Currency Clearing Members**

RULE 1602. Exercise notices accepted by the Corporation shall be assigned and allocated in accordance with Rules 803 and 804 except that Delivery Advices shall not be made available by the Corporation for exercises of foreign currency option contracts. In lieu thereof, the Corporation shall make available [Exercise and Assignment Reports and Exercise Settlement Reports as provided in Rule 1605]reports reflecting the number of exercised and assigned foreign currency option contracts and the gross and net currency pairs, as defined in Rule 1605(a)(2) - (3), for each underlying foreign currency.

. . . Interpretations and Policies:

.01 The Corporation may designate the Sunday following an expiration date for foreign currency options as a business day for purposes of making available [Exercise and Assignment Reports]a report reflecting the exercise and assignment of options that were exercised on the expiration date.

* * *

Exercise Settlement Date for Foreign Currency Options

RULE 1604. (a) [no change]

(b) The [Board of Directors]Chairman, Management Vice Chairman or President or delegate of such officer may advance or postpone any exercise settlement date for foreign currency options whenever, in his or her opinion, such action is required in the public interest or to meet unusual conditions.

**[Determination of Exercise Settlement Obligations With Respect to Foreign
Currency Options**

RULE 1605. (a) Prior to 7:00 A.M. Central Time (8:00 A.M. Eastern Time) on the business day immediately following the day on which an exercise notice in respect of a foreign currency option has been properly tendered to the Corporation pursuant to Rule 801, the Corporation shall:

(1) Determine, as to each account of each Foreign Currency Clearing Member, the number of exercised and assigned option contracts of each series of foreign currency options for which exercise notices were properly tendered.

(2) Net the settlement obligations of each Foreign Currency Clearing

Member to the extent that such Clearing Member would be both a Delivering Clearing Member and a Receiving Clearing Member for foreign currency option contracts of the same class of options. The netting shall be performed in the following sequence: (i) within each account, (ii) customers' account against Market-Maker's account, (iii) customers' account against firm account, (iv) Market-Maker's account against firm account.

(3) Further net the settlement obligations of each Foreign Currency Clearing Member to the extent that such Clearing Member would be both a Delivering Clearing Member and a Receiving Clearing Member of the same currency for foreign currency option contracts regardless of the class of option. The netting shall be performed in the following sequence: (i) within each account; (ii) customers' account against Market-Maker's account; (iii) customers' account against firm account; (iv) Market-Maker's account against firm account; and (v) puts against calls.

(4) With respect to exercises settling on a date that is also a delivery date for ICC Futures on the same underlying currency, further net the settlement obligations of a Joint Clearing Member that has elected cross-netting in accordance with paragraph (c) of this Rule with its settlement obligations in respect of such ICC Futures to obtain a single net amount of such underlying currency to be delivered or received by such Clearing Member and a single net settlement amount to be paid or collected by such Clearing Member in respect of such underlying currency.

(5) Make available to each Foreign Currency Clearing Member an Exercise and Assignment Report (i) setting forth (A) the number of exercised and assigned foreign currency option contracts as determined by the Corporation pursuant to clause (1) above and the quantity of each currency to be delivered or received and the exercise settlement amount for each such exercise and assignment and (B), in the case of a Joint Clearing Member that has elected cross-netting in accordance with paragraph (c) of this Rule and that has settlement obligations in respect of ICC Futures to be performed on the date to which the Exercise and Assignment Report described in this clause (5) relates, the quantity of each currency to be delivered or received and the amount of currency to be collected or paid for each such quantity pursuant to such ICC Futures, and (ii) reflecting the netting performed by the Corporation pursuant to clauses (2), (3) and, if applicable, (4) above.

(b) Prior to 3:00 P.M. Central Time (4:00 P.M. Eastern Time) on each date on which an Exercise and Assignment Report is made available, the Corporation shall:

(1) Update the netting operations performed pursuant to clauses (2), (3) and, if applicable, (4) of paragraph (a) of this Rule, excluding from the netted settlement obligations (i) all obligations to deliver or receive currency as to which the Corporation has accepted DVP Authorizations pursuant to Rule 1606A and (ii) all

amounts to be paid or collected under such DVP Authorizations. For the purposes of these Rules, the term "Collecting Clearing Member" shall mean any Foreign Currency Clearing Member who is entitled to collect the settlement amount after giving effect to such updated netting; the term "Paying Clearing Member" shall mean any Foreign Currency Clearing Member who is obligated to pay the settlement amount after giving effect to such updated netting; and the term "settlement amount" shall mean the amount of the designated currency that a Paying Clearing Member is obligated to pay, or a Collecting Clearing Member is entitled to collect, as a result of such updated netting.

(2) Make available to each Foreign Currency Clearing Member an Exercise Settlement Report reflecting (i) the updated netting performed by the Corporation pursuant to clause (1) above, and (ii) all DVP Authorizations initiated by such Clearing Member and accepted by the Corporation pursuant to Rule 1606A. If a Foreign Currency Clearing Member remains obligated to deliver or receive currency (otherwise than pursuant to DVP Authorizations) after giving effect to such updated netting, the Exercise Settlement Report shall also specify the quantity of each currency to be delivered to or received from each such Clearing Member in accordance with Rule 1606. If a Foreign Currency Clearing Member is a Paying Clearing Member or Collecting Clearing Member after giving effect to such updated netting, the Exercise Settlement Report shall also specify the settlement amount to be paid or collected by such Clearing Member in accordance with Rule 1606.

Notwithstanding any other provision of the By-Laws and Rules, from and after the time an Exercise Settlement Report is made available to a Foreign Currency Clearing Member, the rights and obligations of such Clearing Member with respect to the settlement of each net quantity of currency described therein to be delivered or received by such Clearing Member in accordance with Rule 1606 shall be deemed to be in the firm account of such Clearing Member.

(c) A Joint Clearing Member may elect to have its settlement obligations in respect of ICC Futures cross-netted with its settlement obligations in respect of foreign currency options as provided in clause (4) of paragraph (a) of this Rule by submitting a written election to the Corporation and to ICC in such form as the Corporation and ICC shall specify. Such election shall remain in effect until revoked in writing by such Joint Clearing Member upon not less than 10 days' written notice to ICC and the Corporation. The Joint Clearing Member shall designate in such election the Corporation to act for it in respect of settlements that are cross-netted pursuant to such clause (4). Settlements to which cross-netting applies shall be effected between the Corporation and the Clearing Member in accordance with the Rules of this Chapter, and the Clearing Member shall be required to deposit margin with the Corporation in respect of any settlement subject to the cross-netting provisions of clause (4) of paragraph (a) of this Rule. In the event that the Clearing Member defaults in its obligations to the Corporation, the Corporation shall have the remedies provided in the By-Laws and Rules. In the event that a Joint Clearing Member is suspended or defaults in its obligations to the Corporation at or prior to the settlement time on the third business day following

the last day of trading for any series of foreign currency option contracts, any cross-netting of such Joint Clearing Member's settlement obligations pursuant to clause (4) of paragraph (a) of this Rule in respect of the ensuing delivery date for ICC Futures shall be revoked, and such Joint Clearing Member shall be required to make settlement in respect of its obligations to the Corporation separately in accordance with the By-Laws and Rules. In the event that a Joint Clearing Member defaults in its obligations to make settlement with the Corporation, such Joint Clearing Member shall be liable to the Corporation for any loss incurred by the Corporation as a result of such default, and any such default shall be deemed a failure to discharge an obligation in respect of non-equity options for purposes of the application of Section 5 of Article VIII of the By-Laws.

(d) Notwithstanding any other provision of the Rules, a Joint Clearing Member that has elected cross-netting pursuant to the preceding paragraph shall not carry in its firm account the positions of any non-customer of the Joint Clearing Member other than the Joint Clearing Member itself unless the Joint Clearing Member shall have obtained and submitted to the Corporation a subordination agreement for each such non-customer. Each such subordination agreement shall be executed by the non-customer and the Joint Clearing Member and shall provide that any claim of the non-customer against the Joint Clearing Member in respect of cash, securities, or other property at any time received, acquired, or held by or for the account of the Joint Clearing Member from or for the account of the non-customer is subordinated to the net equity claims of all customers of the Joint Clearing Member, and that such non-customer shall have no claim as a customer under the Securities Investor Protection Act of 1970 or Subchapter III of Chapter 7 of the Bankruptcy Code.

. . . Interpretations and Policies:

.01 The Corporation may perform the operations and make available the reports described in Rule 1605 on a day other than that specified in Rule 1605 if deemed by the Corporation to be necessary or desirable because of holidays or unforeseen circumstances.

.02 In the case of expiring foreign currency options, the Sunday following the expiration date for such options may be designated by the Corporation as a business day, and the last day of trading shall be deemed not a business day, for purposes of this Rule 1605. In the event that the Corporation has designated a Sunday following an expiration date as a business day, the Exercise and Assignment Report made available on such Sunday will include settlement obligations in respect of long and short positions in expiring foreign currency options resulting from exercises effected on the business day preceding the last trading day as well as exercises effected on the expiration date.

.03 Obligations to deliver or receive euros shall not be netted against obligations to deliver or receive legacy currencies, but a Clearing Member obligated to deliver a legacy currency may elect instead to deliver the equivalent amount in euros (based on the official conversion rate), provided that the euros (based on the official conversion rate), provided that the euros are delivered in

accordance with these Rules to the Corporation's correspondent bank in the country of origin of the legacy currency.}]

**Determination of Exercise Settlement Obligations
with Respect to Foreign Currency Options**

RULE 1605. (a) On the business day following the proper tender to the Corporation of an exercise notice in respect of a foreign currency option, the Corporation shall:

(1) Determine, as to each account of each Foreign Currency Clearing Member, the number of exercised and assigned option contracts of each series of foreign currency options for which exercise notices were properly tendered.

(2) Determine, as to each Clearing Member across all accounts: (i) the aggregate amount of each underlying foreign currency to be delivered and the aggregate U.S. dollar amount to be received in payment for such currency; and (ii) the aggregate amount of each underlying foreign currency to be received and the aggregate U.S. dollar amount to be paid for such currency. Each calculation under (i) and (ii) shall be referred to as a "gross currency pair."

(3) To the extent that a Clearing Member is obligated both to receive and deliver the same underlying foreign currency, net the gross currency pairs to determine a single amount of each underlying currency to be delivered or received and an amount of U.S. dollars to be paid or received for such underlying currency. Each remaining currency pair shall be referred to as a "net currency pair."

(4) Make available to each Foreign Currency Clearing Member a report reflecting the number of exercised and assigned foreign currency option contracts and the gross and net currency pairs for each underlying foreign currency.

(5) Notwithstanding any other provision of the By-Laws and Rules, from and after the time such report is made available to a Foreign Currency Clearing Member, the exercise settlement obligations of such Clearing Member with respect to exercised and assigned foreign currency options shall be deemed to be in the firm account of such Clearing Member.

(b) By a specified time prior to the exercise settlement date, the Clearing Member may identify in an instruction to the Corporation all or any portion of a gross currency pair that such Clearing Member desires to settle on a delivery versus payment ("DVP") basis in accordance with Rule 1606A. If the submitted instruction meets such criteria for acceptance as the Corporation may establish from time to time, the Corporation will communicate its acceptance to the Clearing Member. The Corporation will recalculate the net currency pairs determined under paragraph (a) of this Rule 1605 omitting the amount, if any, of each underlying foreign currency and the associated

U.S. dollar amount(s) which will be settled on a DVP basis. All remaining net currency pairs will be settled on a "Regular Way" basis pursuant to Rule 1606. The net U.S. dollar amount payable or receivable in respect of exercises or assignments of foreign currency options to be settled on a Regular Way basis shall be referred to as a "Payment Amount," the Clearing Member entitled to receive such amount shall be referred to as a "Collecting Clearing Member" and the Clearing Member obligated to pay such amount shall be referred to as a "Paying Clearing Member."

(c) By a specified time prior to the exercise settlement date, the Corporation shall make available to each Clearing Member a report reflecting the updated netting performed by the Corporation pursuant to clause (b) above and any other information as deemed appropriate by the Corporation.

... Interpretations and Policies:

.01 Where a single Clearing Member has been assigned more than one Clearing Member number in OCC's clearing system, settlement obligations will not be aggregated or netted across the separate numbers.

.02 In the event that, for whatever reason, settlement obligations with respect to any currency pair that arise from different exercise and assignment dates will settle on the same date, those settlements obligations will be aggregated and netted to the same extent as if they had arisen from exercises and assignments on the same date.

* * *

{Settlement

RULE 1606. (a) To the extent that the settlement obligations of a Clearing Member are netted out pursuant to Rule 1605(a) (as updated pursuant to Rule 1605(b)(1)), the Clearing Member shall be deemed to have fully discharged such obligations at the settlement time on the business day (or, in the case of an Exercise Settlement Report made available on a Sunday designated as a business day following an expiration date, the second business day) following the date the Corporation makes available an Exercise Settlement Report reflecting such netting. The Clearing Member's remaining obligations, to deliver or pay any amount in respect of any currency settlement, shall be deemed to be discharged at the time such delivery or payment is completed pursuant to the Rules of this Chapter.

(b) Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the business day immediately following the date on which the Corporation makes available an Exercise Settlement Report indicating that a Clearing Member is a Paying Clearing Member, such Clearing Member shall pay the Corporation, in immediately available funds, the settlement amount shown in such report as payable by such Clearing Member. Subject to the provisions of Rule 607, the Corporation

shall be authorized to withdraw that amount from the Clearing Member's bank account. The Corporation will allocate among Paying Clearing Members, in such manner as the Corporation deems equitable, any income earned by the Corporation on settlement amounts during the interim between the Corporation's receipt thereof and the exercise settlement date.

(c) Prior to such time as the Corporation shall prescribe on the second foreign business day immediately following the date on which the Corporation makes available an Exercise Settlement Report indicating that a Clearing Member is a Delivering Clearing Member, such Clearing Member shall cause an approved bank acting on its behalf ("agent bank") to guarantee, via international bank wire, that the currency shown in such report as deliverable by such Clearing Member will be delivered on the exercise settlement date to the account of the Corporation at the Corporation's correspondent bank in the country of origin. The Corporation will prescribe deadlines (which may vary for different currencies) and acceptable methods for guaranteeing delivery in written procedures, which may be changed from time to time on not less than five business days' notice to Foreign Currency Clearing Members. If a Delivering Clearing Member shall fail to guarantee delivery prior to the applicable deadline, such Clearing Member shall guarantee delivery as promptly as possible thereafter (such delivery to be made on the foreign business day immediately following the date of transmittal of the guarantee); and in the interim the Corporation shall be authorized to borrow the trading or underlying currency; the Delivering Clearing Member shall be obligated to pay the Corporation any fees, interest or other charges incurred by the Corporation in connection with such borrowings; and the Corporation shall be authorized to withdraw such amounts from the Delivering Clearing Member's bank account. A Delivering Clearing Member's continuing obligation to guarantee delivery after having failed to do so on a timely basis shall terminate if and when the Clearing Member is notified that a buy-in has been executed pursuant to Rule 1608, or at such earlier time as the Corporation may authorize.

(d) Subject to prior receipt of the settlement amount, if any, owing from a Receiving Clearing Member, the Corporation will deliver on the exercise settlement date the currency receivable by such Clearing Member, either (i) to the account of the Receiving Clearing Member at such Clearing Member's correspondent bank in the country of origin, or (ii) if a Receiving Clearing Member so authorizes, directly to an account in the country of origin of a bank designated by the Receiving Clearing Member and approved by the Corporation.

(e) At or before 10:00 A.M. Central Time (11:00 A.M. Eastern Time) on the exercise settlement date, the Corporation shall be obligated to pay any settlement amount specified as payable by the Corporation in the applicable Exercise Settlement Report, in immediately available funds, either (i) to the Collecting Clearing Member, or (ii) if a Collecting Clearing Member so authorizes, directly to a bank designated by the Collecting Clearing Member and approved by the Corporation. Notwithstanding the foregoing, if a Collecting Clearing Member that is also a Delivering Clearing Member fails either to guarantee delivery on a timely basis in accordance with paragraph (c) of this Rule or to make delivery on the exercise settlement date, the Corporation shall withhold, and shall apply against the margin payable by such Clearing Member by reason of such failure to deliver, an amount equal to the lesser of (x) the settlement amount otherwise payable to such Clearing Member,

or (y) the amount of such margin.]

Regular Way Exercise Settlement of Foreign Currency Options

RULE 1606. (a) To the extent that the settlement rights and obligations of a Clearing Member are netted out pursuant to Rule 1605, such rights and obligations shall be deemed to have been fully satisfied at the settlement time on the exercise settlement date. The Clearing Member's remaining rights and obligations in respect of exercised or assigned positions in foreign currency options shall be deemed to be satisfied at the time delivery and payment are completed pursuant to the Rules of this Chapter.

(b) Prior to the time specified by the Corporation on the business day following the date on which the Corporation issues a report under Rule 1605, the Corporation shall, subject to the provisions of Rule 607, withdraw the Payment Amount from the bank account of each Paying Clearing Member. In such manner as the Corporation determines, the Corporation will allocate among Clearing Members that have paid in U.S. dollars a portion of any income earned on such amounts during the interim between the Corporation's receipt thereof and the exercise settlement date.

(c) Prior to such time as the Corporation shall prescribe following the issuance of a report under Rule 1605, each Delivering Clearing Member delivering a foreign currency identified by the Corporation as requiring a delivery guarantee shall cause a bank acting on its behalf to guarantee, using a method approved by the Corporation, that such designated foreign currency shown in such report (as updated to reflect any amounts to be settled on a DVP basis) as deliverable by such Clearing Member will be delivered on the exercise settlement date to the bank account designated by the Corporation. If the Clearing Member that is obligated to provide such guarantee fails to do so prior to the applicable deadline, the Corporation may, in its discretion, permit the Clearing Member to provide such guarantee at a later date and the Corporation may, in the interim and in advance of the exercise settlement date, borrow the foreign currency. If the Corporation borrows such foreign currency, the Clearing Member who failed to guarantee delivery shall be obligated to pay an amount to the Corporation equal to any fees, interest or other charges incurred by the Corporation in connection with such borrowings and the Corporation may withdraw such amount from the Clearing Member's bank account. A Delivering Clearing Member shall have a continuing obligation to guarantee delivery until one of the following occurs: (i) the delivery is guaranteed, (ii) a buy-in of the currency has been executed pursuant to Rule 1608, or (iii) the Corporation otherwise directs.

(d) Subject to prior receipt of any Payment Amount owing from each Receiving Clearing Member in payment for foreign currency receivable by such Clearing Member, the Corporation will deliver such currency on the exercise settlement date to the bank account properly designated by the Clearing Member for that purpose in accordance with the Corporation's procedures.

(e) At the time prescribed by the Corporation on the exercise settlement date, the Corporation shall pay to each Collecting Clearing Member any Payment Amount owing to such Clearing Member in payment for foreign currency deliverable by the Clearing Member. Such payment shall be made to a bank account properly designated by the Clearing Member for that purpose in accordance with the procedures of the Corporation. Notwithstanding the foregoing, if a Collecting Clearing Member that is also a Delivering Clearing Member fails either to provide any delivery guarantee required under paragraph (c) of this Rule on a timely basis or to make delivery on the exercise settlement date, the Corporation may withhold, and may apply against the margin payable by such Clearing Member by reason of such failure to deliver, or may pledge to secure the borrowings referred to in paragraph (c) of this Rule, all or any portion of the Payment Amount as determined by the Corporation in its discretion.

. . . Interpretations and Policies:

.01 A Delivering Clearing Member is obligated not only to make delivery on the exercise settlement date, but also to guarantee delivery within prescribed time-frames in advance of the exercise settlement date, if such a guarantee is required pursuant to paragraph (c) of this Rule. If a delivery that is required to be guaranteed is not guaranteed on a timely basis, the Corporation will immediately instruct its [correspondent] bank to borrow the deliverable currency and the Delivering Clearing Member will be obligated to reimburse the Corporation for its borrowing costs whether or not the Clearing Member in fact makes delivery on the exercise settlement date. If a Delivering Clearing Member fails to provide any required guarantee of delivery on a timely basis, it will not be deemed to have met its delivery obligations until (i) delivery is actually made [or (ii) after having been guaranteed on the immediately preceding foreign business day.

.02 The Corporation will prescribe deadlines for delivery of currencies on the exercise settlement date. Ordinarily, a timely guarantee of delivery via international bank wire should ensure timely delivery. However, even if delivery is guaranteed on a timely basis, the risk of nondelivery remains with the Delivering Clearing Member. If, for any reason, a Clearing Member's [agent] bank fails to deliver good funds to the Corporation's [correspondent] bank prior to the applicable deadline on the exercise settlement date, the Delivering Clearing Member will be liable for interest and related charges and will run the risk of being bought in notwithstanding any prior guarantee of delivery.

* * *

[Alternative Settlement Procedure

RULE 1606A. (a) A Clearing Member that is obligated to deliver or receive a currency in settlement of an exercise of foreign currency options may, in lieu of following the settlement procedures prescribed in Rule 1606, settle such obligations in whole or in part through

the procedures provided in this Rule.

(b) At or before 12:00 Noon Central Time (1:00 P.M. Eastern Time) on the date on which any Exercise and Assignment Report is made available, or at such other times as the Corporation shall prescribe, a Clearing Member may submit to the Corporation one or more Delivery Versus Payment ("DVP) Authorization instructions through electronic means prescribed by the Corporation for such purposes. A DVP Authorization instruction shall constitute an instruction from the Clearing Member to an approved bank acting on its behalf ("agent bank") directing the agent bank to guarantee to OCC's correspondent bank, via international bank wire, delivery on the exercise settlement date in immediately available funds of either (i) a designated amount of currency against payment of a specified sum, or (ii) a specified sum against delivery of a designated amount of currency.

(c) A Clearing Member may submit DVP Authorization instructions to settle all or any part of the gross settlement obligations or any netted combination thereof reflected in an Exercise and Assignment Report pursuant to Rule 1605(a)(5). Notwithstanding the foregoing, under no circumstances may a Clearing Member submit DVP Authorization instructions for the delivery or receipt, on any exercise settlement date, of a amount of currency greater than the gross quantity shown as deliverable or receivable by the Clearing Member on that date in the applicable Exercise and Assignment Report.

(d) If a properly submitted DVP Authorization instruction (i) is consistent with the Corporation's records as to the initiating Clearing Member's settlement obligations on the applicable exercise settlement date; (ii) is addressed to an agent bank approved by the Corporation for the purposes of this Rule, and (iii) would not, when aggregated with other outstanding DVP Authorization instructions addressed to the same bank, cause the bank's obligations to the Corporation's correspondent bank to exceed such credit limits as the latter may from time to time impose; then the Corporation shall confirm its acceptance of the DVP Authorization instruction to the Clearing Member via an on-line confirmation of acceptance message. A Clearing Member may designate the Corporation's correspondent bank as the Clearing Member's agent bank, in which event clause (iii) of the preceding sentence shall be inapplicable.

(e) If a Clearing Member fails to meet its cash settlement obligations, as shown in an Exercise Settlement Report, the Corporation may revoke its acceptance of any or all DVP Authorization instructions taken into account by the Corporation in calculating the remaining delivery and payment obligations reflected in such Exercise Settlement Report, and the Clearing Member's settlement obligations under Rule 1606 shall be adjusted accordingly. If the Corporation revokes its acceptance of a DVP Authorization instruction, the Corporation shall promptly notify the affected Clearing Member and agent bank.

(f) After the Corporation accepts a DVP Authorization instruction, the initiating Clearing Member shall deliver to its agent bank a DVP Authorization report listing the accepted DVP Authorization instruction, and shall cause the agent bank to issue a message via international

bank wire to the Corporation's correspondent bank, not later than such time as the Corporation shall prescribe on the second foreign business day preceding the exercise settlement date, guaranteeing delivery or payment, as the case may be, in accordance with the terms of the DVP Authorization instruction.

(g) If the Corporation's correspondent bank receives a timely guarantee message from an agent bank, and the message agrees with the terms of the accepted DVP Authorization instruction, the Corporation shall cause its correspondent bank to deliver to the recipient named in the DVP Authorization instruction on the exercise settlement date, against receipt from the agent bank of the amount of currency specified in the DVP Authorization as receivable by the Corporation, the amount of currency specified in the DVP Authorization instruction as payable by the Corporation.

(h) If the Corporation's correspondent bank fails to receive a timely guarantee message from a Clearing Member's agent bank, or the message received fails to agree with the terms of the accepted DVP Authorization instruction, the Corporation shall (i) revoke its acceptance of the DVP Authorization instruction, (ii) promptly advise the Clearing Member and its agent bank thereof, and (iii) direct the Clearing Member to effect settlement in accordance with Rule 1606 for the delivery or payment obligations that were to have been settled pursuant to the DVP Authorization instruction. In such event, the settlement amount shown in the applicable Exercise Settlement Report shall be recalculated. If, after giving effect to such recalculation, the Clearing Member is a Paying Clearing Member for an amount greater than the amount (if any) specified in the updated Exercise Settlement Report, the Clearing Member shall pay such greater amount to the Corporation, in immediately available funds, (i) with respect to options other than ECU options, not later than 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the day on which the Corporation revoked its acceptance, or (ii) with respect to ECU options, not later than 2:00 P.M. Central Time (3:00 P.M. Eastern Time) on the day on which the Corporation revoked its acceptance. Such amount shall be disposed of in accordance with Rule 1606.

(i) If the Corporation's correspondent bank receives a guarantee message from an agent bank, and the Corporation thereafter revokes its acceptance of the underlying DVP Authorization instruction, the Corporation shall cause its correspondent bank to release the agent bank from any further obligation pursuant to the guarantee message.

(j) The settlement obligations of a Clearing Member that elects to effect settlement pursuant to this Rule shall be deemed to be discharged at the earlier of (i) the time when such Clearing Member's agent bank irrevocably pays or delivers currency to the Corporation's correspondent bank on behalf of such Clearing Member in accordance with the terms of the applicable DVP Authorization instruction, or (ii) the time when the Corporation's correspondent bank irrevocably credits such currency (whether or not irrevocably paid by such Clearing Member's agent bank to such correspondent bank) to the account of the Corporation.

. . . Interpretations and Policies:

.01 If unusual or unforeseen conditions (including but not limited to power failures or equipment malfunctions) prevent a Clearing Member from submitting any report, notice, instruction, data or other item to the Corporation by electronic data entry prior to any applicable cut-off time, the Corporation may in its discretion (i) require the Clearing Member to submit such item by other approved means, including the use of hard copy forms, and/or (ii) extend the applicable cut-off time by such period as the Corporation deems reasonable, practicable and equitable under the circumstances.]

DVP Exercise Settlement of Foreign Currency Options

RULE 1606A. (a) To the extent that a Delivering or Receiving Clearing Member has submitted to the Corporation one or more DVP instructions and such DVP instructions have been accepted by the Corporation, the settlement rights and obligations identified in such DVP instructions will be settled pursuant to this Rule 1606A. A DVP instruction shall constitute an instruction from the Clearing Member to a bank acting on its behalf directing the Clearing Member's bank to guarantee to the Corporation's bank, delivery and payment on the exercise settlement date in immediately available funds of either (i) a designated amount of underlying foreign currency against a specified U.S. dollar amount, or (ii) a specified U.S. dollar amount against a designated amount of the underlying foreign currency.

(b) A Clearing Member may submit DVP instructions to settle all or, subject to certain constraints incorporated in the procedures of the Corporation, any part of the gross settlement obligations shown in the report issued pursuant to Rule 1605(a). Notwithstanding the foregoing, under no circumstances may a Clearing Member submit DVP instructions for the delivery or receipt, on any exercise settlement date, of an amount of currency greater than the gross quantity shown as deliverable or receivable by the Clearing Member on that date.

(c) DVP settlement shall occur through a series of actions to be taken by the Corporation, the Corporation's bank, the Clearing Member and the Clearing Member's bank as specified in procedures promulgated by the Corporation. If the Clearing Member or its bank at any time fail to take the actions required to be taken under such procedures or the Clearing Member's bank rejects the Clearing Member's DVP instructions, the Corporation may revoke its acceptance of the DVP instructions. If a Clearing Member fails to meet its cash settlement obligations to the Corporation, the Corporation may revoke its acceptance of any or all outstanding DVP instructions. If the Corporation revokes its acceptance of a DVP instruction, the Corporation will adjust the Clearing Member's settlement obligations under Rule 1606 and the settlement obligations will be treated as a Regular Way settlement.

(d) The settlement obligations to the Corporation of a Clearing Member that elects to effect settlement pursuant to this Rule 1606A shall be deemed to be discharged at the earlier of

(i) the time when such Clearing Member's bank irrevocably pays or delivers currency to the Corporation's bank on behalf of such Clearing Member for the account of the Corporation in accordance with the terms of the applicable DVP instruction, or (ii) the time when the Corporation's bank irrevocably credits such currency (free of any obligation of the Corporation to pay for or repay such currency, but whether or not irrevocably paid by such Clearing Member's bank to the Corporation's bank) to the account of the Corporation.

* * *

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule changes were approved by the Board of Directors of OCC at a meeting held on January 15, 2004.

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 the proposed rule change is to update OCC's By-Laws and Rules pertaining to the settlement of exercised foreign currency options in anticipation of the installation of the portion of OCC's new ENCORE clearing system that will process those settlements. This installation, which is scheduled for May 7, 2004, will convert existing processing to the ENCORE technology with only a few variations. Nevertheless, OCC wishes to take this occasion to update its rules by eliminating detail that now seems more appropriately included in operational procedures than in the rulebook and by making a few other changes described below that are appropriate to reflect OCC's experience and certain developments since the rules were initially adopted. As proposed to be amended, these provisions of the By-Laws and Rules would be equally applicable both before and after the planned conversion to the ENCORE system. The specific changes are

described below.

Overview of the Exercise Settlement Process for Foreign Currency Options

As set forth in Rules 1605, 1606 and 1606A, following the assignment of exercise notices in respect of foreign currency options for all accounts within a particular clearing number, the gross settlement obligations for all accounts are netted down to a single amount for each currency pair. Netting occurs within a currency pair so that an obligation to deliver a specific foreign currency against the receipt of U.S. dollars will be netted against an obligation to receive that same foreign currency against payment of U.S. dollars. In the event that two or more settlements arising from different exercise/assignment dates for a currency pair will settle on the same date, those settlements will also be netted. If such processing nets out all settlement obligations for a currency, then such obligations are deemed discharged. To the extent a settlement obligation remains, OCC makes available to settling Clearing Members a report showing their projected settlements. Settlement obligations arising from multiple clearing numbers controlled by the same Clearing Member are not netted against each other.

In response to the projected settlement report, Clearing Members may submit instructions designating obligations to be settled on a delivery versus payment (“DVP”) basis. A Clearing Member may instruct OCC that it will settle all or, subject to certain constraints imposed by OCC’s procedures, any part of the gross obligation on a DVP basis, and any remaining net settlement may also be settled on a DVP basis. After the close of the DVP window, OCC recalculates the remaining net currency pairs, eliminating deliveries and payments to be settled under the submitted DVP instructions. If DVP instructions were not submitted for the entire remainder, those remaining net obligations will settle on a “Regular Way” basis. Final settlement

obligations, identifying the applicable settlement method, are then made available to Clearing Members and reported to their banks.

Two business days before settlement date, OCC debits the settling Clearing Members' bank accounts for U.S. dollar obligations settling on a Regular Way basis. The debited amount is held until settlement date. On settlement date, if a settling Clearing Member with a collect in U.S. dollars had no opposite foreign currency obligation, the U.S. dollar collect will be released during regular morning settlements. If the settling Clearing Member did have a foreign currency deliver obligation, OCC will make the corresponding U.S. dollar settlement upon receiving confirmation from its bank that the Clearing Member has satisfied its settlement obligations. If OCC receives a partial delivery of a foreign currency, the deficiency is treated as unsettled and only a portion of the U.S. dollars being held will be released to the collecting Clearing Member. OCC will issue new Regular Way settlement information for the unsettled foreign currency obligation.

As provided in Rule 1606(c) and Interpretation .01 following Rule 1606, OCC (or OCC's bank) requires in the case of certain currencies that the Clearing Member must obtain an advance guarantee from its bank that the bank will deliver the currency on the exercise settlement date. This requirement is imposed with respect to those currencies for which delivery is likely to be delayed in the absence of such guarantees as determined by OCC's bank through its experience in the currency markets. With respect to those currencies for which a guarantee is required, the Clearing Member must both provide a bank guarantee of the settlement and then make actual settlement in order to discharge its obligations. In the case of DVP settlements, the Clearing Member's bank advises OCC whether it has accepted or rejected the DVP instructions. If rejected, OCC's acceptance of the DVP instruction is revoked and the settlement obligation will be processed

as a Regular Way settlement. Obligations settling on a DVP basis are settled on the exercise settlement date.

Description of the Specific Rule Changes

The principal changes are in Rules 1605, 1606 and 1606A of Chapter XVI. These rules have been substantially redrafted, and accordingly the former rules are shown as deleted in their entirety and the new rules are shown as all new. The revised rules essentially set forth the settlement process described above.

The revised rules eliminate references to The Intermarket Clearing Corporation (“ICC”), which has been merged into OCC.

Rule 1604(b) is being amended to grant authority to the Chairman, Management Vice Chairman, President and any delegate of such officers the authority to advance or postpone the settlement date for exercises of foreign currency options because it may be impractical to convene a Board meeting in time to address unusual conditions as action is typically required on the day the conditions arise. The Board’s delegation increases OCC’s flexibility to respond to unexpected or unusual events affecting the exercise settlement date for foreign currency options. While OCC has not experienced any unusual events relating to the settlement of foreign currency obligations, management believes that it is important that OCC have a level of flexibility in order to immediately respond to unusual conditions that may make it necessary to change a settlement date for foreign currency obligations. A similar change to Rule 902, Obligations to Deliver, was made in 2002 to give these same officers authority to extend or postpone a settlement date for exercises of equity options. *See* SR-OCC-2002-21.

Certain nonsubstantive, conforming changes are made elsewhere in the rules.

Amendments to Rule 602(f)(2) of Chapter VI, Rule 1107 of Chapter XI, and Rule 1602 of Chapter XVI were necessary to correct references to Rule 1605 and to conform terminology to the defined terms contained in the other revised rules.

The proposed changes to OCC's rules are consistent with the purpose and requirements of Section 17A of the Securities and Exchange Act of 1934, as amended, because such changes are designed to promote the prompt and accurate clearance and settlement of transactions in, and exercises of, foreign currency options and to assure safeguarding of securities and funds in the custody and control of OCC.

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)

Pursuant to Section 19(b)(3)(A)(i) of the Securities Exchange Act of 1934, OCC believes that the proposed rule-change should take effect upon filing because it is, with one exception, a restatement of existing policies, practices and rules. The change in who can authorize a postponement of an exercise settlement date as set forth in the proposed amendment to Rule 1604(b), while a substantive change, should become effective on filing under Section 19(b)(3)(A)(iii) as relating solely to the administration of OCC.

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.

* * *

SIGNATURES

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

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-OCC-2004-07

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By
The Options Clearing Corporation

Relating to Settlements in Respect
To Exercises and Assignments of
Foreign Currency Options

Comments requested within days
after the date of this publication.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C.

'78s(b)(1), notice is hereby given that on _____, 2004, The Options

Clearing Corporation ("OCC") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the
Terms of Substance of the Proposed Rule Change**

The proposed rule change would amend Articles I, VI and XV of its By-Laws and Chapters VI, XI and XVI of its Rules.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

The purpose of the proposed rule change is to update OCC's By-Laws and Rules pertaining to the settlement of exercised foreign currency options in anticipation of the installation of the portion of OCC's new ENCORE clearing system that will process those settlements. This installation, which is scheduled for May 7, 2004, will convert existing processing to the ENCORE technology with only a few variations. Nevertheless, OCC wishes to take this occasion to update its rules by eliminating detail that now seems more appropriately included in operational procedures than in the rulebook and by making a few other changes described below that are appropriate to reflect OCC's experience and certain developments since the rules were initially adopted. As proposed to be amended, these provisions of the By-Laws and Rules would be equally applicable both before and after the planned conversion to the ENCORE system. The specific changes are described below.

Overview of the Exercise Settlement Process for Foreign Currency Options

As set forth in Rules 1605, 1606 and 1606A, following the assignment of exercise notices in respect of foreign currency options for all accounts within a particular clearing number, the gross settlement obligations for all accounts are netted down to a single amount for each currency pair. Netting occurs within a currency pair so that an obligation to deliver a specific foreign currency against the receipt of U.S. dollars will be netted against an obligation to receive that same foreign currency against payment of U.S. dollars. In the event that two or more settlements arising from different exercise/assignment dates for a currency pair will settle on the same date, those settlements will also be netted. If such processing nets out all settlement obligations for a currency, then such obligations are deemed discharged. To the extent a settlement obligation remains, OCC makes available to settling Clearing Members a report showing their projected settlements. Settlement obligations arising from multiple clearing numbers controlled by the same Clearing Member are not netted against each other.

In response to the projected settlement report, Clearing Members may submit instructions designating obligations to be settled on a delivery versus payment (“DVP”) basis. A Clearing Member may instruct OCC that it will settle all or, subject to certain constraints imposed by OCC’s procedures, any part of the gross obligation on a DVP basis, and any remaining net settlement may also be settled on a DVP basis. After the close of the DVP window, OCC recalculates the remaining net currency pairs, eliminating deliveries and payments to be settled under the submitted DVP instructions. If DVP instructions were not submitted for the entire remainder, those remaining net obligations will settle on a “Regular Way” basis. Final settlement obligations, identifying the applicable settlement method, are then made available to Clearing Members and reported to their banks.

Two business days before settlement date, OCC debits the settling Clearing Members' bank accounts for U.S. dollar obligations settling on a Regular Way basis. The debited amount is held until settlement date. On settlement date, if a settling Clearing Member with a collect in U.S. dollars had no opposite foreign currency obligation, the U.S. dollar collect will be released during regular morning settlements. If the settling Clearing Member did have a foreign currency deliver obligation, OCC will make the corresponding U.S. dollar settlement upon receiving confirmation from its bank that the Clearing Member has satisfied its settlement obligations. If OCC receives a partial delivery of a foreign currency, the deficiency is treated as unsettled and only a portion of the U.S. dollars being held will be released to the collecting Clearing Member. OCC will issue new Regular Way settlement information for the unsettled foreign currency obligation.

As provided in Rule 1606(c) and Interpretation .01 following Rule 1606, OCC (or OCC's bank) requires in the case of certain currencies that the Clearing Member must obtain an advance guarantee from its bank that the bank will deliver the currency on the exercise settlement date. This requirement is imposed with respect to those currencies for which delivery is likely to be delayed in the absence of such guarantees as determined by OCC's bank through its experience in the currency markets. With respect to those currencies for which a guarantee is required, the Clearing Member must both provide a bank guarantee of the settlement and then make actual settlement in order to discharge its obligations. In the case of DVP settlements, the Clearing Member's bank advises OCC whether it has accepted or rejected the DVP instructions. If rejected, OCC's acceptance of the DVP instruction is revoked and the settlement obligation will be processed as a Regular Way settlement. Obligations settling on a DVP basis are settled on the exercise settlement date.

Description of the Specific Rule Changes

The principal changes are in Rules 1605, 1606 and 1606A of Chapter XVI. These rules have been substantially redrafted, and accordingly the former rules are shown as deleted in their entirety and the new rules are shown as all new. The revised rules essentially set forth the settlement process described above.

The revised rules eliminate references to The Intermarket Clearing Corporation (“ICC”), which has been merged into OCC.

Rule 1604(b) is being amended to grant authority to the Chairman, Management Vice Chairman, President and any delegate of such officers the authority to advance or postpone the settlement date for exercises of foreign currency options because it may be impractical to convene a Board meeting in time to address unusual conditions as action is typically required on the day the conditions arise. The Board’s delegation increases OCC’s flexibility to respond to unexpected or unusual events affecting the exercise settlement date for foreign currency options. While OCC has not experienced any unusual events relating to the settlement of foreign currency obligations, management believes that it is important that OCC have a level of flexibility in order to immediately respond to unusual conditions that may make it necessary to change a settlement date for foreign currency obligations. A similar change to Rule 902, Obligations to Deliver, was made in 2002 to give these same officers authority to extend or postpone a settlement date for exercises of equity options. *See* SR-OCC-2002-21.

Certain nonsubstantive, conforming changes are made elsewhere in the rules. Amendments to Rule 602(f)(2) of Chapter VI, Rule 1107 of Chapter XI, and Rule 1602 of Chapter XVI were necessary to correct references to Rule 1605 and to conform terminology to the defined terms contained in the other revised rules.

The proposed changes to OCC’s rules are consistent with the purpose and

requirements of Section 17A of the Securities and Exchange Act of 1934, as amended, because such changes are designed to promote the prompt and accurate clearance and settlement of transactions in, and exercises of, foreign currency options and to assure safeguarding of securities and funds in the custody and control of OCC.

B. Self-Regulatory Organization's Statement on Burden on Competition

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

C. 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.

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

Pursuant to Section 19(b)(3)(A)(i) of the Securities Exchange Act of 1934, OCC believes that the proposed rule-change should take effect upon filing because it is, with one exception, a restatement of existing policies, practices and rules. The change in who can authorize a postponement of an exercise settlement date as set forth in the proposed amendment to Rule 1604(b), while a substantive change, should become effective on filing under Section 19(b)(3)(A)(iii) as relating solely to the administration of OCC.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by _____.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.

Secretary

Dated: _____