



THE OPTIONS CLEARING
CORPORATION

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June 23, 2004

VIA FEDERAL EXPRESS

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

Re: Rule Filing SR-OCC-2004-14 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

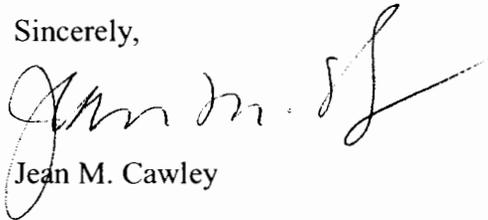
FIRST VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

ONE N. WACKER DRIVE, SUITE 600 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 the undersigned at (312) 322-6269.

Sincerely,



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)

2004-14cftc.ltr





THE OPTIONS CLEARING
CORPORATION

June 24, 2004

VIA COURIER DELIVERY

Jerry W. Carpenter
Assistant Director
Division of Market Regulation
Mail Stop 10-1
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

**Re: The Options Clearing Corporation
File No. SR-OCC-2004-14**

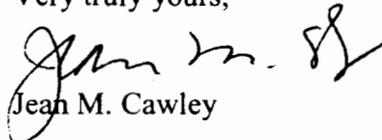
Dear Jerry:

The Options Clearing Corporation hereby files a manually signed original and eight copies of the referenced rule change. This rule change proposes to adopt an interpretation under Rule 611 to clarify when clearing members must issue re-segregation instructions to OCC regarding the long options leg of a spread after the short leg has been closed out.

Inasmuch as this filing concerns a stated policy, practice or interpretation with respect to the meaning, administration or enforcement of an existing rule it is being filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Securities Exchange Act of 1934, as amended, and Rule 19b-4(f)(2) thereunder. The Federal Register notice will be emailed to you.

Please call me at (312) 322-6269 with any questions you may have on this filing.

Very truly yours,


Jean M. Cawley

cc: Jean A. Webb
Secretary (CFTC)

2004-14sec.ltr

JEAN M. CAWLEY

FIRST VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

ONE N. WACKER DRIVE, SUITE 600 CHICAGO, ILLINOIS 60606 TEL 312.322.6269 FAX 312.322.6280

JCAWLEY@THEOCC.COM WWW.OPTIONSCLEARING.COM

File No. SR-OCC-2004-14

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 hereby proposes to amend OCC Rule 611 as set forth below. Underlining indicates material to be added brackets indicate material to be deleted.

THE OPTIONS CLEARING CORPORATION

RULES

Chapter VI

Margins

Segregation of Long Positions

RULE 611 [unchanged]

...Interpretations & Policies:

.01 When a customer or non-customer has closed out the short leg of a "spread," a Clearing Member shall be deemed to be in compliance with Rule 611(c) if the Clearing Member, as promptly thereafter as is reasonably practicable, instructs OCC to segregate the long leg of the spread; provided, however, that such instruction shall in any event be given to OCC at or prior to the time required by OCC in order to implement the segregation instruction not later than the opening of business on the second business day following the day on which the short leg was closed.

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 May 25, 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 amend Rule 611 in order to better align its provisions with those of SEC Rule 15c3-3 by clarifying when a clearing member must instruct OCC to segregate the long options leg of a spread after the short leg has been closed out.

Background

OCC clearing members conducting a public securities business are required under Article VI, Section 3(e) of the by-laws to maintain customer positions in a separate customers' account. As positions are carried in this account on an omnibus basis (i.e., identified by clearing member rather than by customer) and may include long options that are fully paid securities subject to the possession or control requirement of SEC Rule 15c3-3, OCC normally maintains all long positions in customers' accounts as segregated. Segregated long positions are free of any lien in favor of OCC, and their

value does not reduce the margin requirement on short positions in the account. (See Article I, Section S.(6) of OCC's by-laws and OCC Rules 601(d)(1) and 602(d)(1).)

However, OCC Rule 611(c), in recognition of exchange rules allowing a clearing member to give its customers margin relief on short option positions spread against qualified long option positions, affords the clearing member an opportunity to release such long positions from segregation. The effect of this release is to subject the long position to OCC's lien and provide corresponding margin relief to the clearing member. Rule 611(c) further provides that a clearing member shall not permit a long position to remain unsegregated after the spread is broken, but it does not specify how quickly the clearing member must re-segregate.

Segregation Instructions Under Rule 611

Clearing members may instruct OCC to release long customer positions from segregation or to re-segregate positions that were previously released from segregation either by submitting a machine-readable data file or by making appropriate entries on an online screen. In either case, OCC's window for accepting such instructions runs from the start of trading through 7:00 PM Central Time each day. Prior to submitting these instructions, however, many clearing members first reconcile their activity and end of day position records with OCC's records through files generated by OCC's data service. In addition, certain clearing members use these machine-readable data service files to generate their segregation instructions. As data service is typically not available until 10:00 PM Central Time, three hours after the closing of the window for accepting instructions, files containing segregation instructions based upon the current

day's closing position inventory are typically not processed until the following business day. Same day processing of instructions for clearing members not relying upon OCC's data service for balancing or generating segregation instructions is likewise impractical given the narrow processing timeframe between the close of trading and 7:00 PM Central Time.

The resulting one-day lag is likely to cause either a temporary under- or over-segregation of customer long option positions. The effect of an over-segregated situation would be an overstatement of the clearing member's margin requirement, as long contracts eligible for margin credit at OCC would not be recognized. There would, however, be no violation of either OCC Rule 611(c) or SEC Rule 15c3-3.

The effect of an under-segregated situation would be an understatement of the clearing member's margin requirement, as long contracts no longer eligible for margin credit at OCC would nevertheless be given credit for one more day in OCC's margin calculations. This situation would occur when a customer closes out the short leg of a spread. The long leg would remain subject to OCC's lien until the clearing member's re-segregation instructions were processed the following day.

OCC Rule 611(c) and SEC Rule 15c3-3

Rule 611(c) provides that no clearing member shall "instruct the Corporation to release from segregation, *or permit to remain unsegregated*, any long position in option contracts carried in a customers' account or firm non-lien account for any customer or non-customer unless the clearing member is *simultaneously* carrying in such account for such customer or non-customer a short position in option contracts and

the margin required to be deposited by such customer or non-customer in respect of such short position has been reduced as a result of the carrying of such long position.”

(Emphasis added).

As the purpose of Rule 611(c) has always been to facilitate compliance with SEC Rule 15c3-3 and not to establish any additional or more stringent requirements, Rule 15c3-3 is the appropriate point of reference for determining how quickly a clearing member is obligated to regain possession or control of the long leg of a spread once the short leg has been closed out.

Rule 15c3-3(b)(2) provides that a broker will not be deemed to be in violation of the Rule if, “...solely as the result of normal business operations, temporary lags occur between the time when a security is required to be in the possession or control of the broker or dealer and the time that it is placed in his physical possession or under his control, *provided* that the broker or dealer takes timely steps in good faith to establish prompt physical possession or control.”

Rule 15c3-3(d) provides further guidance as to when the broker must initially determine that control is required:

“Not later than the next business day, a broker or dealer, as of the preceding business day, shall determine from his books or records the quantity of fully-paid securities and excess margin securities in his possession or control and the quantity of fully-paid securities and excess margin securities not in his possession or control.”

Rule 15c3-3(d) goes on to provide that, “[i]f such books and records indicate, as of such close of the business day, that such broker or dealer has not obtained

physical possession or control of all fully-paid and excess margin securities as required by this rule,” certain specified maximum time limits for issuing instructions and/or obtaining possession or control will apply. Those time limits vary depending on the nature of the non-control location. In the case of securities subject to a lien securing moneys borrowed or in the case of securities loaned, the broker must issue instructions for release or return of the securities no later than the business day following the determination that control must be obtained, and must actually obtain possession or control within two business days after that (in the case of securities securing a loan) or within five days (in the case of loaned securities). Time frames of up to 45 days apply in other circumstances. These time frames appear to reflect an assessment of reasonableness given the nature of the situation and industry practices.

While there are no provisions of Rule 15c3-3 establishing such specific time lines in the context of long options, OCC believes a reasonable interpretation of the more general provisions of Rule 15c3-3 is that they do not require the segregation of long options more promptly than the second business day following the day on which the short leg of a spread is closed if, as seems to be the case, a lag of that duration occurs “as a result of normal business operations.” Accordingly, OCC believes it is appropriate to clarify Rule 611(c) to provide more certainty regarding when segregation should occur. Therefore, OCC is adopting an interpretation of Rule 611(c) providing that when the short leg of a spread is closed out, a clearing member must issue re-segregation instructions with respect to the long leg as soon thereafter as is reasonably practicable, and in any event at or prior to the time OCC requires so that OCC can implement the

instruction not later than the opening of business on the second business day following the day on which the short leg was closed.

* * *

The proposed rule change is consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), because it provides greater clarity as to when clearing members need to issue segregation instructions to OCC under Rule 611 to further the protection of investors.

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

Not applicable.

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) of the Exchange Act and Rule 19b-4(f)(1) thereunder, this rule has become effective upon filing inasmuch as it constitutes a stated policy, practice or interpretation with respect to the meaning, administration or enforcement of an existing rule.

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.

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: William H. Navin
William H. Navin
Executive Vice President and
Executive General Counsel

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-OCC-2004-14

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By
The Options Clearing Corporation

Relating to OCC Rule 611

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 OCC Rule 611(c) by adding an interpretation and policy thereunder as to when clearing members must instruct OCC to segregate the long options leg of a spread following the close out of the short leg.

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 section (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 amend Rule 611 in order to better align its provisions with those of SEC Rule 15c3-3 by clarifying when a clearing member must instruct OCC to segregate the long options leg of a spread after the short leg has been closed out.

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* * *

The proposed rule change is consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), because it provides greater clarity as to when clearing members need to issue segregation instructions to OCC under Rule 611 to further the protection of investors.

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) of the Exchange Act and Rule 19b-4(f)(1) thereunder, this rule has become effective upon filing inasmuch as it constitutes a stated policy, practice or interpretation with respect to the meaning, administration or enforcement of an existing rule.

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: _____