



THE OPTIONS CLEARING
CORPORATION

April 20, 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: Rule Filing SR-OCC-2007-06 —Request for Commission Rule
Approval**

Dear Ms Donovan:

The Options Clearing Corporation (“OCC”) hereby submits the above referenced rule filing for approval 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 has been, or is concurrently being, submitted to the Securities and Exchange Commission (the “SEC”) for approval under the Securities Exchange Act of 1934 (the “Exchange Act”). The purpose of this rule filing is to obtain approval for OCC to clear “credit default basket options” (“CDBOs”) 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

In conformity with the requirements of Regulation 40.5(a), OCC states the following: the proposed effective date of the rule change is the earliest date on which all of the following have occurred: (i) the proposed rule change has been approved by the SEC (or otherwise becomes effective under the Exchange Act); (ii) the SEC has approved, pursuant to the SEC’s Rule 9b-1, a supplemental disclosure document relating to CDBOs; and (iii) the proposed rule change has been, or is deemed to have been, approved by the Commission pursuant to regulation Section 40.5. The text of the proposed rule is set forth in Item 1 of the enclosed filing. The proposed rule was duly adopted by the Board of Directors of OCC as described in Item 2 of the enclosed filing, pursuant to the powers granted to the Board by Article III, Section 8 of OCC’s By-Laws. Item 3 of the enclosed filing sets forth the operation, purpose, and effect of the proposed rule. 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.

¹ CBOE’s proposed rule filing relating to CDBOs was filed with the SEC in SR-CBOE-2007-26.

JEAN M. CAWLEY

FIRST VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

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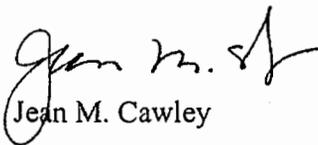
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OCC proposes to clear CDBOs as securities options subject to the jurisdiction of the SEC, and would therefore not require Clearing Members that carry such options for the accounts of their customers to hold them in accounts that are subject to the segregation requirements of the CEA. OCC believes that this practice would not violate the CEA because such options are within the definition of a "security" under Section 3(a)(10) of the Exchange Act and therefore excluded from the Commission's jurisdiction under Section 2(a)(1)(C)(i) of the CEA.

As a derivatives clearing organization subject to the jurisdiction of the Commission as well as a registered securities clearing agency, OCC is filing this rule change 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 CDBOs as securities rather than commodity options. Should you have any questions regarding this matter, please do not hesitate to contact William H. Navin, Executive Vice President and General Counsel, OCC, at (312) 322-1817 or the undersigned.

Sincerely,



Jean M. Cawley

Enclosures

cc: CFTC Central Region (w/ enclosures)
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Ananda K. Radhakrishnan
Director
Division of Clearing and Intermediary Oversight

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Division of Clearing and Intermediary Oversight

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

In order to clear and settle “credit default basket options” proposed to be listed by the Chicago Board Options Exchange, Incorporated (“CBOE”), The Options Clearing Corporation (“OCC” or the “Corporation”) proposes to amend and supplement its By-Laws and Rules as set forth below. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in bold brackets. Material that was proposed to be added in Amendment No. 1 to SR-OCC-2007-01, which was previously filed with the Commission and has not yet been approved, is indicated by double underlining. Material proposed to be deleted in that previous filing is indicated by double bold brackets. In the event that this filing is approved before the previous filing is approved, the text of the By-Laws and Rules as amended by this filing is set forth on Exhibit 5.

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.- 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 or credit default basket 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. 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 or credit default basket options, the expiration date and exercise settlement amount(s) of each series of credit default options or credit default basket 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] for a credit default option[s], and each component exercise settlement amount for a credit default basket option, 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 and Credit Default Basket Options

Introduction

By-Laws in this Article are applicable only to credit default options and credit default basket options. In addition, the By-Laws in Articles I-XI are also applicable to credit default options and credit default basket 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 or credit default basket 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

¹ This entire Article was proposed to be added in Amendment No. 1 to SR-OCC-2007-01. For ease of review, double underlining and double bracketing have been omitted.

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 or a credit default basket 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) 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. When applied to credit default basket options, the term means all credit default basket options having the same basket of reference entities, reference obligations, 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 [D]efault options have only two possible payoff outcomes: either a fixed automatic exercise settlement amount or nothing at all.

Credit Default Basket Option

(3) The term “credit default basket option” means an option that is based on a basket comprised of at least two reference entities and that is either a “multiple payout credit default basket option” or a “single payout credit default basket option.” A “multiple payout credit default basket option” means a credit default basket option that automatically pays an exercise settlement amount each time a credit event is confirmed with respect to any one of the reference entities prior to expiration of the option. A “single payout credit default basket option” is automatically exercised and pays a single exercise settlement amount only when the first credit event is confirmed with respect to a reference entity prior to expiration of the option.

Credit Event

([3]4) The term “credit event” when used in respect of a credit default option or a credit default basket 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 of a reference entity for such option.

Credit Event Confirmation

([4]5) The term “credit event confirmation” when used in respect of a credit default option or a credit default basket 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]6) The term “credit event confirmation deadline” when used in respect of a credit default option or a credit default basket 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 after the credit event confirmation deadline shall be treated as having been received on the following business day. 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. When used in respect of a credit default basket option, such term shall mean the fixed amount of cash to be paid to a holder of an option that is automatically exercised with respect to any reference entity in the basket because of a credit event occurring with respect to such reference entity prior to expiration of the option. Different exercise settlement amounts may be specified by the listing options exchange with respect to different reference entities. The exercise settlement amount(s) shall be specified by the listing Exchange at or before the time when a series of credit default options or credit default basket options is first opened for trading.

Expiration Date

(2) The term “expiration date” when used in respect of a series of credit default options or credit default basket options means the last day on which the options may be automatically exercised. [In the case of a series of credit default options, the] The expiration date for any such series 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 or single payout credit default basket 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 or credit default basket 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 or credit default basket 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.] The term “reference entity” means the issuer or guarantor of the reference obligation(s) that underlie a credit default option or any one of the issuers or guarantors of reference obligations that underlie a credit default basket option. The term “reference obligation” means any debt security the terms of which are used to define the occurrence of a credit event with respect to the reference entity that is its issuer or guarantor.

Reporting Authority

(2) The term “reporting authority” when used in respect of a class of credit default options or credit default basket options, means the person or entity responsible for confirming the occurrence of [the relevant] a credit 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 or a credit default basket 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 or credit default basket options means the event(s) the occurrence of which will trigger automatic exercise, reference entity or basket of reference entities, the reference obligation(s), the expiration date and the exercise settlement amount(s) of such option contract.

W. – Z.

Reserved

[Section 1 of this Article adds certain new definitions relevant to credit default options and credit default basket 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. [no change]

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

SECTION 2A. (a) Multiple Payout Credit Default Basket Option.

(i) The holder of a multiple payout credit default basket option has the right to receive from the Corporation the exercise settlement amount specified for a particular reference entity in the basket of reference entities underlying such option, if a credit event is determined to have occurred with respect to such reference entity within the time specified therefor in the Exchange Rules of the listing Exchange, in each case in accordance with Exchange Rules and the By-Laws and Rules. A multiple payout credit default basket option may be exercised once and only once with respect to each reference entity.

(ii) The writer of a multiple payout credit default basket option is obligated, upon assignment to such writer of an exercise in respect of a reference entity for such option, to pay to the Corporation the exercise settlement amount specified for such reference entity, in accordance with Exchange Rules and the By-Laws and Rules. A writer of a multiple payout credit default basket option may be assigned an exercise notice once, and only once, with respect to each reference entity.

(b) Single Payout Credit Default Basket Option.

(i) The holder of a single payout credit default basket option has the right to receive from the Corporation the exercise settlement amount specified for the first reference entity in the basket of reference entities underlying such option in respect of which a credit event is determined to have occurred within the time specified therefor in the Exchange Rules of the listing Exchange, in each case in accordance with Exchange Rules and the By-Laws and Rules. A single payout credit default basket option may be automatically exercised once and only once.

(ii) The writer of a single payout credit default basket option is obligated, upon assignment to such writer of an exercise in respect of a reference entity for such option, to pay to the Corporation the exercise settlement amount specified for such reference entity, in accordance with Exchange Rules and the By-Laws and Rules. A writer of a single payout credit default

basket option may be assigned an exercise notice once, and only once, with respect to such option.

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

Adjustments of Credit Default Options and Credit Default Basket Options

SECTION 3. The listing Exchange is vested with complete discretionary authority to confirm adjustment events and make adjustments to credit default options and credit default basket 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. A class of credit default basket options will be exercised automatically, without any action on the part of the holders, if a credit event confirmation is received by the Corporation with respect to any reference entity for such class of options at any time prior to the expiration time on the expiration date for the class of options. 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 and credit default basket 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 or credit default basket 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 and credit default basket 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 or credit default basket 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]

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CHAPTER XV²

Credit Default Options and Credit Default Basket Options

Introduction

Rules in this Chapter are applicable only to credit default options and credit default basket options (as defined in the By-Laws). In addition, the Rules in Chapters I through XII are also applicable to credit default options and credit default basket 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 and credit default basket 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.

² This entire Chapter was proposed to be added in Amendment No. 1 to SR-OCC-2007-01. For ease of review, double underlining has been omitted.

Automatic Exercise of Credit Default Options and Credit Default Basket 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).

(b) In the case of a credit default basket 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 with respect to a particular reference entity 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). A multiple-payout credit default basket option shall be deemed to be exercised each time a credit event is confirmed in accordance with this paragraph (b) with respect to a different reference entity; provided, however, that a credit event may be confirmed only once with respect to any single reference entity. A single-payout credit default basket option will be deemed to be exercised only the first time that a credit event is confirmed in accordance with this paragraph (b) with respect to a reference entity and cannot be exercised with respect to any other reference entity thereafter.

[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 or credit default basket 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 day following the date of exercise a report or reports reflecting all automatic exercises of credit default options and credit default basket 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 and Credit Default Basket Options

RULE 1503. (a) The exercise settlement date for a credit default option or credit default basket 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 and Credit Default Basket Options

RULE 1504. (a) Exercised credit default options or credit default basket options and short positions in [credit default] such 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 or credit default basket 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 and credit default basket 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 or credit default basket 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 or credit default basket 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 options [contracts] or credit default basket options 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] options 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 options [contracts] and credit default basket options 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 Pledges 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 options [contracts] or credit default basket options 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 or credit default basket options.

[Rule 1506 replaces Rule 610.]

Acceleration of Expiration Date

RULE 1507. (a) 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.

(b) If a multiple payout credit default basket option has been automatically exercised with respect to every reference entity underlying such option prior to the expiration date, the expiration date will be accelerated to fall on the date on which an automatic exercise has occurred with respect to the last reference entity.

(c) If a single payout credit default basket option has been automatically exercised with respect to any reference entity underlying such option prior to the expiration date, the expiration date will be accelerated to fall on the date on which such automatic exercise has occurred.

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, Senior 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 a group or "basket" of "reference entities" each of which is an issuer or guarantor of one or more specified debt securities ("reference obligation(s)").³ Credit default basket options ("CDBOs") 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 of a reference entity. Characteristics of CDBOs are described below, followed by an explanation of the specific rule changes being proposed to clear them.

Description of Credit Default Basket Options. CDBOs are structured as binary options⁴ with an automatic exercise feature. They are very similar to credit default options ("CDOs") that were previously proposed for trading by CBOE⁵ except that CDBOs are based upon multiple reference entities instead of a single reference entity. A CDBO will be automatically exercised and an exercise settlement amount will be payable if a "credit event"

³ The options are proposed to be traded on the CBOE. CBOE's proposed rules for CDBOs were filed for approval by the Commission in SR-CBOE-2007-26.

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.

occurs with respect to any one of the reference entities at any time prior to the last day of trading. As in the case of a CDO, 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 of a particular reference entity and that the listing exchange has determined would be a credit event for purposes of the CDBO.

CDBOs may be thought of as a bundle of CDOs in that there is a fixed exercise settlement amount that is determined for each of the reference entities included in the basket of reference entities underlying the CDBO. The exercise settlement amount may be the same for all of the reference entities or it may be different for each one.

CDBOs come in two types: multiple payout CDBOs and single payout CDBOs. A multiple payout CDBO is automatically exercised each time there is a credit event affecting any one of the reference entities. Once the CDBO has been exercised with respect to that reference entity, such reference entity is removed from the basket. In the unlikely event that a CDBO is exercised with respect to all of the reference entities in the basket, the expiration of the option would be accelerated. A single payout CDBO, on the other hand, is automatically exercised only the first time that a credit event is confirmed with respect to any one of the

⁵ See SR-CBOE-2006-84 and Amendment No. 1, 2, 3 and 4 thereto.

reference entities. A single payout CDBO cannot be exercised again with respect to any other reference entity and its expiration date will be accelerated. In either case, the exercise settlement amount is the exercise settlement amount that was assigned by the listing exchange to the reference entity affected by the credit event.

By-Law and Rule Amendments Applicable to CDBOs. In order to accommodate trading in CDBOs, OCC proposes to amend the By-Law Article and Rule Chapter that were proposed for CDOs.

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

The definition of “option contract” in Article I of the By-Laws is amended to include a CDBO.

“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 CDBO 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 amend the definition of the term “exercise settlement amount” in Article XIV for purposes of CDBOs. The exercise settlement amount of a CDBO is the amount specified by the Exchange on which the option is traded that will be paid in settlement when a CDBO is automatically exercised as a result of a credit event affect a particular reference entity. The exercise settlement amount for each reference entity 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 CDBOs. The term “class” is also redefined in Article XIV, Section 1. To be within the same class, CDBOs 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.

Other terms that were created or amended for CDOs will be modified to apply to CDBOs as well.

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 CDBOs at

the time the series is opened for trading. Section 10(e) also reminds the reader that CDBOs are subject to adjustment under Article XIV.

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

Article XIV, Section 2A defines the general rights and obligations of holders and writers of CDBOs. As noted above, the holder of a CDBO that is automatically exercised has the right to receive the fixed exercise settlement amount for the particular reference entity affected by a credit event, and the assigned writer has the obligation to pay that amount.

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

Article XIV, Section 3 provides for adjustment of CDBOs in accordance with the rules of the listing exchange. CBOE's proposed rules provide for adjustment of CDBOs 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, as in the case of CDOs, OCC will have no responsibility for adjustment determinations with respect to CDBOs.

Similarly, Section 4 provides that the listing exchange for a class of CDBOs will have responsibility for determining the occurrence of a credit event that will result in automatic exercise of the options of that class with respect to a particular reference entity. 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*

CDBOs 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 prior to or at expiration if the specified criterion for exercise is met. The procedures for the automatic exercise of CDBOs, 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*

As in the case of CDOs, OCC will not initially margin CDBOs through its usual "STANS" system. Because of CDBOs' fixed payout feature, further systems development is needed to accommodate these options in STANS. Until such development is completed, OCC has determined to require that writers of such options post margin in a fixed amount based on the maximum potential exercise settlement amount. In the case of single payout CDBOs, that amount will initially be set at 100% of the maximum potential payout, but OCC would have discretion to reduce the ~~requirement~~ requirement to something less than 100% if research, analysis and experience suggest that a lower percentage is sufficient. In the case of multiple payout CDBOs, the amount will be set at a percentage of the maximum potential payout reflecting the low probability of simultaneous credit events affecting multiple reference entities. Initially, long

positions in CDBOs 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, CDBOs 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 CDBOs. Therefore, Rule 1506 states that Rule 610, which otherwise would permit such deposits, does not apply to CDBOs.

7. *Acceleration of Expiration Date—Rule 1507*

This provision would accelerate the expiration date of a single payout CDBO when the option is deemed to have been exercised on any day prior to the expiration date, and to accelerate the expiration date of a multiple payout CDBO when the option is deemed to have been automatically exercised with respect to every reference entity underlying such option 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 basket 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 except to the extent that special rules and procedures are required in order to accommodate unique features of credit default basket 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 CDBOs. OCC believes there is good cause for such accelerated effectiveness because CBOE will not be able commence trading CDBOs, 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 April 5, 2007. 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 basket options.

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

Not applicable.

Item 9. Exhibits

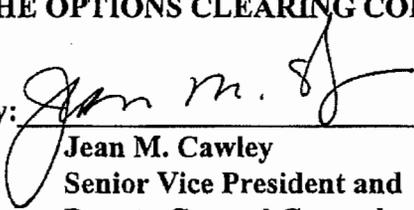
Exhibit 1. Completed Notice of Proposed Rule Change for publication in the
Federal Register.

Exhibit 5. Text of the OCC By-Laws and Rules as amended by File No. SR-
OCC-2007-06 (this filing), if File No. SR-OCC-2007-01, as amended, is not approved before this
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
Senior Vice President and
Deputy General Counsel

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-OCC-2007-06

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By
The Options Clearing Corporation

Relating to Credit Default Basket 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 _____, 2007, 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 the Substance of the Proposed Rule Change**

The proposed rule change would permit OCC to clear and settle a type of option that is related to the creditworthiness of a group or "basket" of "reference entities" each of which is an issuer or guarantor of one or more specified debt securities.

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 this rule change is to permit OCC to clear and settle a type of option that is related to the creditworthiness of a group or “basket” of “reference entities” each of which is an issuer or guarantor of one or more specified debt securities (“reference obligation(s)”).¹ Credit default basket options (“CDBOs”) 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 of a reference entity. Characteristics of CDBOs are described below, followed by an explanation of the specific rule changes being proposed to clear them.

Description of Credit Default Basket Options. CDBOs are structured as binary options² with an automatic exercise feature. They are very similar to credit default options (“CDOs”) that were previously proposed for trading by CBOE³ except that CDBOs are based upon multiple reference entities instead of a single reference entity. A CDBO will be automatically exercised and an exercise settlement amount will be payable if a “credit event”

¹ The options are proposed to be traded on the CBOE. CBOE’s proposed rules for CDBOs were filed for approval by the Commission in SR-CBOE-2007-26.

² “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.

³ See SR-CBOE-2006-84 and Amendment No. 1, 2, 3 and 4 thereto.

occurs with respect to any one of the reference entities at any time prior to the last day of trading. As in the case of a CDO, 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 of a particular reference entity and that the listing exchange has determined would be a credit event for purposes of the CDBO.

CDBOs may be thought of as a bundle of CDOs in that there is a fixed exercise settlement amount that is determined for each of the reference entities included in the basket of reference entities underlying the CDBO. The exercise settlement amount may be the same for all of the reference entities or it may be different for each one.

CDBOs come in two types: multiple payout CDBOs and single payout CDBOs. A multiple payout CDBO is automatically exercised each time there is a credit event affecting any one of the reference entities. Once the CDBO has been exercised with respect to that reference entity, such reference entity is removed from the basket. In the unlikely event that a CDBO is exercised with respect to all of the reference entities in the basket, the expiration of the option would be accelerated. A single payout CDBO, on the other hand, is automatically exercised only the first time that a credit event is confirmed with respect to any one of the reference entities. A single payout CDBO cannot be exercised again with respect to any other reference entity and its expiration date will be accelerated. In either case, the exercise settlement amount is the exercise settlement amount that was assigned by the listing exchange to the reference entity affected by the credit event.

By-Law and Rule Amendments Applicable to CDBOs. In order to accommodate trading in CDBOs, OCC proposes to amend the By-Law Article and Rule Chapter that were proposed for CDOs.

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

The definition of “option contract” in Article I of the By-Laws is amended to include a CDBO.

“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 CDBO 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 amend the definition of the term “exercise settlement amount” in Article XIV for purposes of CDBOs. The exercise settlement amount of a CDBO is the amount specified by the Exchange on which the option is traded that will be paid in settlement when a CDBO is automatically exercised as a result of a credit event affect a particular reference entity. The exercise settlement amount for each reference entity 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 CDBOs. The term “class” is also redefined in Article XIV, Section 1. To be within the same class, CDBOs 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.

Other terms that were created or amended for CDOs will be modified to apply to CDBOs as well.

3. *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 CDBOs at the time the series is opened for trading. Section 10(e) also reminds the reader that CDBOs are subject to adjustment under Article XIV.

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

Article XIV, Section 2A defines the general rights and obligations of holders and writers of CDBOs. As noted above, the holder of a CDBO that is automatically exercised has the right to receive the fixed exercise settlement amount for the particular reference entity affected by a credit event, and the assigned writer has the obligation to pay that amount.

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

Article XIV, Section 3 provides for adjustment of CDBOs in accordance with the rules of the listing exchange. CBOE’s proposed rules provide for adjustment of CDBOs 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, as in the case of CDOs, OCC will have no responsibility for adjustment determinations with respect to CDBOs.

Similarly, Section 4 provides that the listing exchange for a class of CDBOs will have responsibility for determining the occurrence of a credit event that will result in automatic exercise of the options of that class with respect to a particular reference entity. The listing exchange has the obligation to provide a credit event confirmation to OCC in order to trigger the automatic exercise.

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

CDBOs 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 prior to or at expiration if the specified criterion for exercise is met. The procedures for the automatic exercise of CDBOs, 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).

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

As in the case of CDOs, OCC will not initially margin CDBOs through its usual "STANS" system. Because of CDBOs' fixed payout feature, further systems development is needed to accommodate these options in STANS. Until such development is completed, OCC has determined to require that writers of such options post margin in a fixed amount based on the maximum potential exercise settlement amount. In the case of single payout CDBOs, that amount will initially be set at 100% of the maximum potential payout, but 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. In the case of multiple payout CDBOs, the amount will be set at a percentage of the maximum potential payout reflecting the low probability of simultaneous credit events affecting multiple reference entities. Initially, long positions in CDBOs 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, CDBOs 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 CDBOs. Therefore, Rule 1506 states that Rule 610, which otherwise would permit such deposits, does not apply to CDBOs.

7. *Acceleration of Expiration Date—Rule 1507*

This provision would accelerate the expiration date of a single payout CDBO when the option is deemed to have been exercised on any day prior to the expiration date, and to accelerate the expiration date of a multiple payout CDBO when the option is deemed to have been automatically exercised with respect to every reference entity underlying such option 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 basket 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 except to the extent that special rules and procedures are required in order to accommodate unique features of credit default basket 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.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2007-06 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2007-06. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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, 100F Fifth Street, N.E., Washington, D.C. 20549-1090. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory

organization. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-OCC-2007-06 and should be submitted on or before [insert date 21 days from publication in the Federal Register] _____.

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

Secretary

Dated: _____

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. [No change.]

O.

(1) – (3) [No change.]

Option Contract

(4) The term “option contract” or “option” means a put option, a call option, a credit default basket 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. 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 basket options, the expiration date and exercise settlement amount of each series of credit default basket 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. Each component exercise settlement amount for a credit default basket option 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 Basket Options

Introduction

By-Laws in this Article are applicable only to credit default basket options. In addition, the By-Laws in Articles I-XI are also applicable to credit default basket 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 basket 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 basket 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) The term “class” when applied to credit default basket options means all credit default basket options having the same basket of reference entities, reference obligations, credit event(s), and reporting authority.

Credit Default Basket Options

(2) The term “credit default basket option” means an option that is based on a basket comprised of at least two reference entities and that is either a “multiple payout credit default basket option” or a “single payout credit default basket option.” A “multiple payout

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

credit default basket option” means a credit default basket option that automatically pays an exercise settlement amount each time a credit event is confirmed with respect to any one of the reference entities prior to expiration of the option. A “single payout credit default basket option” is automatically exercised and pays a single exercise settlement amount only when the first credit event is confirmed with respect to a reference entity prior to expiration of the option.

Credit Event

(3) The term “credit event” when used in respect of a credit default basket 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 of a reference entity for such option.

Credit Event Confirmation

(4) The term “credit event confirmation” when used in respect of a credit default basket 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 basket 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 after the credit event confirmation deadline shall be treated as having been received on the following business day. 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 basket option means the fixed amount of cash to be paid to a holder of an option that is automatically exercised with respect to any reference entity in the basket because of a credit event occurring with respect to such reference entity prior to expiration of the option. Different exercise settlement amounts may be specified by the listing Exchange with respect to different reference entities. The exercise settlement amount(s) shall be specified by the listing Exchange at or before the time when a series of credit default basket options is first opened for trading.

Expiration Date

(2) The term "expiration date" when used in respect of a series of credit default basket option means the last day on which the options may be automatically exercised. The expiration date for any such series is the fourth business day after the last trading day for such series 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 single payout credit default basket 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 basket 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 basket 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" means any one of the issuers or guarantors of reference obligations that underlie a credit default basket option. The term "reference

obligation” means any debt security the terms of which are used to define the occurrence of a credit event with respect to the reference entity that is its issuer or guarantor.

Reporting Authority

(2) The term “reporting authority” when used in respect of a class of credit default basket options, means the person or entity responsible for confirming the occurrence of a credit 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 basket option means the reference obligations.

V.

Variable Terms

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

W. – Z.

Reserved

[Section 1 of this Article adds certain new definitions relevant to credit default basket 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 Basket Options

SECTION 2. (a) Multiple Payout Credit Default Basket Option.

(i) Subject to the provisions of the By-Laws and Rules, the holder of a multiple payout credit default basket option has the right to receive from the Corporation the exercise settlement amount specified for a particular reference entity in the basket of reference entities underlying such option, if a credit event is determined to have occurred with respect to such reference entity 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. A multiple payout credit default basket option may be exercised once and only once with respect to each reference entity.

(ii) The writer of a multiple payout credit default basket option is obligated, upon assignment to such writer of an exercise in respect of a reference entity for such option, to pay to the Corporation the exercise settlement amount specified for such reference entity, in accordance with Exchange Rules and the By-Laws and Rules. A writer of a multiple payout credit default basket option may be assigned an exercise notice once, and only once, with respect to each reference entity.

(b) Single Payout Credit Default Basket Options

(i) Subject to the provisions of the By-Laws and Rules, the holder of a single payout credit default basket option has the right to receive from the Corporation the exercise settlement amount specified for the first reference entity in the basket of reference entities underlying such option in respect of which a 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. A single payout credit default basket option may be automatically exercised once and only once.

(ii) The writer of a single payout credit default basket option is obligated, upon assignment to such writer of an exercise in respect of a reference entity for such option, to pay to the Corporation the exercise settlement amount specified for such reference entity, in accordance with Exchange Rules and the By-Laws and Rules. A writer of a single payout credit default basket option may be assigned an exercise notice once, and only once, with respect to such option.

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

Adjustments of Credit Default Basket Options

SECTION 3. The listing Exchange is vested with complete discretionary authority to confirm adjustment events and make adjustments to credit default basket 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 basket options will be exercised automatically, without any action on the part of the holders, if a credit event confirmation is

received by the Corporation with respect to any reference entity for such class of options at any time prior to the expiration time on the expiration date for the class of options. 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 basket 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 basket 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 basket 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 basket 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]

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CHAPTER XV²

Credit Default Basket Options

Introduction

Rules in this Chapter are applicable only to credit default basket options (as defined in the By-Laws). In addition, the Rules in Chapters I through XII are also applicable to credit default basket 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 basket 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 Basket Options

RULE 1501. In the case of a credit default basket 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 with respect to a particular reference entity. 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

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

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). A multiple-payout credit default basket option shall be deemed to be exercised each time a credit event is confirmed in accordance with this paragraph (b) with respect to a different reference entity; provided, however, that a credit event may be confirmed only once with respect to any single reference entity. A single-payout credit default basket option will be deemed to be exercised only the first time that a credit event is confirmed in accordance with this paragraph (b) with respect to a reference entity and cannot be exercised with respect to any other reference entity thereafter.

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

Assignment and Allocation of Credit Default Basket Option Exercises

RULE 1502. Following the automatic exercise of credit default basket 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 day following the date of exercise a report or reports reflecting all automatic exercises of credit default basket 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 Basket Options

RULE 1503. (a) The exercise settlement date for a credit default basket 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 Basket Options

RULE 1504. (a) Exercised credit default basket options and short positions in credit default basket 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 option and by the writer of the 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 basket 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 basket 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 basket 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 basket 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 basket options 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 options 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 basket options 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 Pledges 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 basket options 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 basket options.

[Rule 1506 replaces Rule 610.]

Acceleration of Expiration Date

RULE 1507. (a) If a multiple payout credit default basket option has been automatically exercised with respect to every reference entity underlying such option prior to the expiration date, the expiration date will be accelerated to fall on the date on which an automatic exercise has occurred with respect to the last reference entity.

(b) If a single payout credit default basket option has been automatically exercised with respect to any reference entity underlying such option prior to the expiration date, the expiration date will be accelerated to fall on the date on which such automatic exercise has occurred.