



THE OPTIONS CLEARING
CORPORATION

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August 21, 2003

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-2003-08 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

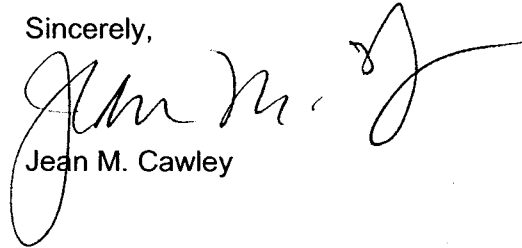
FIRST VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

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,

A handwritten signature in black ink, appearing to read "Jean M. Cawley". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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)

2003-08cftc.ltr





THE OPTIONS CLEARING
CORPORATION

August 21, 2003

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-2003-08**

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:

- ◆ Restructure the OCC rules applicable to physical settlement of exercised stock options and matured stock futures to reflect that such settlements are normally effected through NSCC;
- ◆ Require that BTB settlements be made on a delivery versus payment basis at DTC unless OCC directs otherwise;
- ◆ Revise the OCC rules applicable to BTB settlements to reflect the enhanced system capabilities to track such settlement offered by ENCORE Release 4.0;
- ◆ Revise the OCC rules relating to buy-ins and sell-outs in order to parallel the applicable NSCC rules relating to security balance orders; and
- ◆ Revise the OCC rule relating to protect provisions to parallel NSCC's rules relating to protect provisions in respect of security balance orders.

This filing is being made pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934, as amended, and Rule 19b-4 thereunder. The Federal Register notice will be emailed to you. However, OCC requests that the Commission determine that there is good cause to accelerate the effectiveness of this rule change so that it is approved by September 26, 2003 when OCC plans to install system changes relating to this filing.

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

Very truly yours,


Jean M. Cawley

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

cc: Jean A. Webb
Secretary (CFTC)

JC/sd
2003-08sec.ltr



File No. SR-OCC-2003-08

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

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

Item 1. Text of the Proposed Rule Change

The Options Clearing Corporation (“OCC”) proposes to amend its by-laws and rules as set forth below. Underlining indicates material proposed to be added and brackets indicate material proposed to be deleted.

THE OPTIONS CLEARING CORPORATION

BY-LAWS

Article I

Definitions

SECTION 1.

A. (1) – (6) [unchanged]

Appointed Clearing Member

(7) The term “Appointed Clearing Member” means a Clearing Member that, in accordance with the provisions of Rule [913]901, has been appointed by an Appointing Clearing Member to make settlement of obligations of the Appointing Clearing Member to deliver or receive underlying securities arising from the exercise or maturity of cleared securities.

Appointing Clearing Member

(8) The term “Appointing Clearing Member” means a Clearing Member that, in accordance with the provisions of Rule [913]901, has appointed an Appointed Clearing Member to make settlement of obligations of the Appointing Clearing Member to deliver or receive underlying securities arising from the exercise or maturity of cleared securities.

(9) – (15) [unchanged]

B. – Z. [unchanged]

RULES

**Chapter III
Financial Requirements**

Restrictions on Certain Transactions, Positions and Activities

RULE 305.

...Interpretations and Policies:

.01-.09 [unchanged]

.10 The Clearing Member, the Appointed Clearing Member of the Clearing Member or CDS (if the Clearing Member is a Canadian Clearing Member described in Rule [913]**901**) is experiencing such difficulty in meeting its obligations to the correspondent clearing corporation that the Chairman, the Management Vice Chairman, or the President determines that action under Rule 305 is necessary or advisable in the circumstances.

**Chapter VI
Margins**

**Margin on Positions in Stock Options, BOUNDS and Stock Loan and Borrow Positions;
Risk Margin on Positions in Stock Futures**

RULE 601.

(a) – (d) [unchanged]

(e) *Release of Margin.* (1) A Clearing Member shall not be entitled by this Rule to the release of margin with respect to exercised and assigned positions in stock options or settlement obligations resulting therefrom or from the expiration of a BOUND contract or the maturity of a stock future until:

(A) [unchanged]

(B) Where settlement obligations in respect of options are discharged through the facilities of the correspondent clearing corporation, the first business day following the exercise settlement date; and provided that, if prior to 6:00 A.M. Central Time (7:00 A.M. Eastern Time) on such business day the Corporation shall have received a notice from the correspondent clearing corporation to the effect that the Clearing Member (or its Appointed Clearing Member or, in the case of a Canadian Clearing Member described in Rule [913]901, CDS) has not performed any obligation to the correspondent clearing corporation in respect of any exercised or assigned position or settlement obligation arising therefrom of the Clearing Member or that the correspondent clearing corporation has suspended any such entity or prohibited or limited the access of any such entity to services offered by the correspondent clearing corporation, the Clearing Member shall not be entitled to the release of margin with respect to any exercised or assigned position or settlement obligation arising therefrom until the second business day following the exercise settlement date or, if the Clearing Member (or its Appointed Clearing Member or CDS) still has not performed such obligation to the correspondent clearing corporation as of 4:00 P.M. Central Time (5:00 P.M. Eastern Time) on the first business day following the exercise settlement date, until the business day after the date on which the Corporation receives satisfactory evidence, in such form as the Corporation may prescribe, of the performance of such obligation;

(f) [unchanged]

Chapter VIII
Exercise and Assignment

Assignment of Exercise Notices

RULE 803. Exercise notices accepted by the Corporation shall be assigned in accordance with the Corporation's procedures to Clearing Members with open short positions in the series of options involved, provided that:

(a) – (b) [unchanged]

Subject to the provisions of the By-Laws, exercise notices accepted by the Corporation shall be assigned at or before 8:00 A.M. Central Time (9:00 A.M. Eastern Time) on the following business day. Assignments shall be dated and effective as of the date the applicable exercise notices were accepted by the Corporation. A Clearing Member to which an exercise notice is assigned shall be notified thereof, and the Clearing Member submitting such exercise notice shall (subject to the provisions of Rule [913]901) be notified of the identity of the Assigned Clearing

Member, through the transmission of Delivery Advices as soon as practicable after such notice is assigned by the Corporation.

CHAPTER IX

Delivery and Payment

Introduction

The Rules in this Chapter are applicable to the discharge of delivery and payment obligations arising out of the exercise of physically settled stock option contracts and the maturity of physically settled stock futures contracts. As a general policy, the Corporation will direct that such obligations be settled through the facilities of the correspondent clearing corporation as specified in Rule 901 to the extent that the security to be delivered and received is CNS-eligible, and will direct that such obligations be settled on a broker-to-broker basis as specified in Rules 902 through 912 to the extent that the security to be delivered and received is not CNS-eligible. However, the Corporation may in its discretion make exceptions to this policy, either to direct that the delivery of CNS-eligible securities be made on a broker-to-broker basis as specified in Rules 902 through 912 or (with the agreement of the correspondent clearing corporation) to direct that the delivery of non-CNS eligible securities be made through the facilities of the correspondent clearing corporation. The Corporation may alter a previous designation of a settlement method at any time before the designated delivery date by giving the affected Clearing Members such notice thereof as is practicable under the circumstances.

Settlement Through Correspondent Clearing Corporation¹

RULE 901[913]. (a) Every Stock Clearing Member and every Clearing Member that effects transactions in physically-settled stock futures shall be and remain a participant in good standing of the correspondent clearing corporation; provided, however, that the foregoing shall not apply to: (i) an Appointing Clearing Member during a period when such Appointing Clearing Member has in effect an appointment of an Appointed Clearing Member pursuant to subparagraph (f) hereof; or (ii) a Canadian Clearing Member on behalf of which CDS maintains an identifiable subaccount in a CDS account at the correspondent clearing corporation, provided that CDS is a participant in good standing of the correspondent clearing corporation during the period when such Canadian Clearing Member has in effect an appointment of CDS pursuant to subparagraph (g) hereof.

¹ Rule 913 has been moved to Rule 901, and its content reproduced in its entirety to facilitate the Commission's review of this filing.

(b) [Notwithstanding anything to the contrary in Rules 901 through 912, the Corporation may specify in any] **In the event a** Delivery Advice or Exercise and Assignment Activity Report **directs** that settlement in respect of the exercised or matured cleared security or securities identified therein shall be made through the facilities of the correspondent clearing corporation[. In such event], the Corporation shall report such settlement obligations to the correspondent clearing corporation, furnishing such information with respect thereto as shall be necessary to enable settlement to be effected in respect of such obligations in accordance with the rules of the correspondent clearing corporation on the delivery date (or, if the correspondent clearing corporation is not open for business on that date, on the next date on which it is open for business). [If settlement is to be made through the correspondent clearing corporation, any Delivery Advice made available to the Receiving Clearing Member need not specify the name or address of the Delivering Clearing Members, and any Delivery Advice made available to the Delivering Clearing Member need not specify the name or address of the Receiving Clearing Member.] In reporting settlement obligations to the correspondent clearing corporation hereunder, the Corporation may net obligations of a Clearing Member to deliver and receive the same underlying security on the same delivery date; provided, however, that obligations arising from exercised option contracts may not be netted against obligations arising from matured stock futures contracts.

(c) If settlement obligations are reported to and are not rejected by the correspondent clearing corporation prior to the time when it becomes unconditionally obligated, in accordance with its rules, to effect settlement in respect thereof or to close out the securities contract arising therefrom (the "obligation time"), the Corporation shall have no further obligation in respect of such settlement obligations, other than such obligations as the Corporation may have pursuant to its agreement with the correspondent clearing corporation, and, except as provided in subparagraph (h) hereof, full settlement shall be deemed to have been made by the Corporation in respect of such settlement obligations, from and after the obligation time. If an obligation to make delivery is netted by the Corporation against an obligation to receive in accordance with subparagraph (b) hereof, full settlement shall be deemed to have been made in respect thereof at the opening of business of the Corporation on the delivery date. If the Corporation takes action pursuant to subparagraph (d) hereof, settlement shall be made in accordance with the provisions of subparagraph (d). Except as provided in subparagraph (h) hereof, from and after the time when settlement is deemed to have been made pursuant to the first sentence of this subparagraph (c), the obligations of the Delivering and the Receiving Clearing Member in respect of the contracts deemed to have been settled, and any other obligations resulting from settlement in respect thereof, shall be determined by the rules and procedures of the correspondent clearing corporation.

(d) A specification in any Delivery Advice that settlement is to be made through the facilities of the correspondent clearing corporation may be revoked by the Corporation at any time prior to the opening of business on the delivery date by an appropriate notice to the Receiving and Delivering Clearing Members. In the event of such revocation, delivery and

payment shall be made in accordance with Rules [902]903 through 912 [at the office established pursuant to Rule 201 by the Receiving Clearing Member]; provided, however, that the Chairman, the Management Vice Chairman, or the President of the Corporation may, upon the application of the Receiving or the Delivering Clearing Member, extend or postpone the time for delivery to a date not more than three business days after the date of such revocation.

(e) When an exercise notice is properly tendered to the Corporation pursuant to Rule 801, or when the maturity date of a physically-settled stock future occurs, prior to an "ex" date (as fixed by the primary market for the underlying security) for any distribution, whether or not an adjustment is required to be made pursuant to the By-Laws, Clearing Members effecting settlement in respect thereof pursuant to this Rule shall have such rights and obligations in respect of such distribution as may be provided under the rules and procedures of the correspondent clearing corporation; provided, however, that the [Board of Directors of the] Corporation may in its discretion direct that additional adjustments be made as between Receiving and Delivering Clearing Members to prevent inequities in respect of any distribution.

(f) An Appointing Clearing Member may, in lieu of being a participant of the correspondent clearing corporation, appoint, in such manner as the Corporation shall from time to time prescribe, an Appointed Clearing Member to act on its behalf with respect to the settlement of all exercised or matured cleared securities in the accounts of the Appointing Clearing Member which are settled through the correspondent clearing corporation pursuant to this Rule 901[913]. An appointment pursuant to this subparagraph shall become effective as of the second business day following the day on which the Corporation shall receive written notice, in such form as the Corporation shall from time to time prescribe, from the Appointed Clearing Member of its acceptance of the appointment, or such later date as may be specified by the Appointed Clearing Member, and (unless the Corporation shall terminate the appointment at an earlier time) shall remain effective until the close of the third business day following the day on which the Corporation shall have received, from either the Appointing Clearing Member or the Appointed Clearing Member, written notice of revocation of the appointment, and shall remain effective thereafter, with respect to each obligation to make delivery or payment in respect of exercised or matured cleared securities directed to the Appointed Clearing Member for settlement prior to the effective date of the revocation, until settlement of such obligation is completed. During the effectiveness of such an appointment, the Corporation shall report each obligation of the Appointing Clearing Member to make delivery or payment in respect of an exercised or matured cleared security to the correspondent clearing corporation, and the Appointed Clearing Member shall be deemed to be the Delivering Clearing Member or the Receiving Clearing Member, as the case may be, in respect of each such contract for all purposes under this Rule 901[913]. For purposes of Rule 208, any report made available to an Appointed Clearing Member shall be deemed to have been made available to the Appointing Clearing Member at the time that it is made available to the Appointed Clearing Member.

(g) A Canadian Clearing Member on behalf of which CDS maintains an identifiable subaccount in a CDS account at the correspondent clearing corporation may appoint, in such manner as the Corporation shall from time to time prescribe, CDS to act on its behalf with respect to the settlement of all exercised or matured cleared securities in the accounts of the Canadian Clearing Member which are settled through the correspondent clearing corporation pursuant to this Rule 901[913]. An appointment pursuant to this subparagraph shall become effective as of the second business day following the day on which the Corporation shall receive written notice of the appointment from the Canadian Clearing Member, or such later date as may be specified by the Canadian Clearing Member, and (unless the Corporation shall terminate the appointment at an earlier time) shall remain effective until the close of the third business day following the day on which the Corporation shall have received, from either the Canadian Clearing Member or CDS, written notice of revocation of the appointment, and shall remain effective thereafter, with respect to each obligation to make delivery or payment in respect of exercised or matured cleared securities directed to CDS for settlement prior to the effective date of the revocation, until settlement of such obligation is completed. During the effectiveness of an appointment pursuant to this subparagraph, the Corporation shall report each obligation of the Canadian Clearing Member to make delivery or payment in respect of an exercised or matured cleared security to the correspondent clearing corporation.

(h) Notwithstanding any other provision of the By-Laws and Rules, the obligations of a Clearing Member to the Corporation in respect of the settlement of any securities contract arising from an exercised or matured cleared security which is settled by or on behalf of the Clearing Member through the correspondent clearing corporation pursuant to this Rule 901[913] will not be deemed to be completed and performed until settlement is completed in respect of such securities contract with the correspondent clearing corporation and the Corporation has no further responsibility in respect of such securities contract to the correspondent clearing corporation. The terms of any securities contract arising from an exercised or matured cleared security which is to be settled pursuant to this Rule 901[913] through the correspondent clearing corporation shall include any guarantee made by the Corporation to the correspondent clearing corporation of the performance by the Clearing Member (or an Appointed Clearing Member or CDS, if any such entity has been appointed by the Clearing Member to act on its behalf) of its obligations to effect settlement with the correspondent clearing corporation, and the obligations of the Clearing Member in connection with the settlement of such securities contract shall include the obligation to reimburse the Corporation for any payments made by the Corporation to the correspondent clearing corporation [of such Clearing Member (or its Appointed Clearing Member)] in respect of such settlement pursuant to such guarantee.

...Interpretations and Policies:

.01 When the Corporation extends or postpones settlements pursuant to Rule 903[902], the Corporation may for technical reasons defer reporting affected exercised or matured contracts to

the correspondent clearing corporation until a new delivery date is fixed. If an ex-date for a dividend or other distribution on the underlying stock occurs between the date of an exercise of an option or maturity date of a stock future and the date when the Corporation reports the resulting settlement obligations to the correspondent clearing corporation, the Delivering Clearing Member may not be obligated, under the rules of the correspondent clearing corporation, to deliver the distributed property. In order to prevent resulting inequities, the Board of Directors has determined pursuant to Rule 901[913](e) that in such cases Delivering Clearing Members shall be obligated to deliver the distributed cash or other property on the delivery date notwithstanding the absence of an obligation to do so under the rules of the correspondent clearing corporation. In the case of cash distributions, such delivery shall be made by appropriate charges and credits to the settlement accounts of Delivering and Receiving Clearing Members with the Corporation. In the case of non-cash distributions, delivery shall be made in such manner as the Corporation shall direct.

[.02 It will ordinarily be the policy of the Corporation to cause settlement of exercised stock option contracts to be made through the facilities of the correspondent clearing corporation to the extent that the security or securities to be delivered and received in such settlement are CNS-eligible, and to cause settlement of exercised stock option contracts to be made pursuant to Rules 901 through 912 to the extent that the security or securities to be delivered and received in such settlement are not CNS-eligible. However, the Corporation may in its discretion determine to alter this policy in particular circumstances, either to cause delivery of CNS-eligible securities to be made pursuant to Rules 901 through 912 or (with the agreement of the correspondent clearing corporation) to cause delivery of non-CNS-eligible securities to be made through the facilities of the correspondent clearing corporation. It will ordinarily be the policy of the Corporation to cause delivery and payment obligations arising from matured, physically-settled stock futures to be effected through the correspondent clearing corporation whether or not the security to be delivered is CNS-eligible; provided, however, that the Corporation may in its discretion direct that delivery and payment be made pursuant to Rules 901 through 912.]

Delivery Advices

RULE 902[1]. Subject to the provisions of Rule 901[913], Delivery Advices [forms] made available **to a Clearing Member** by the Corporation pursuant to Rule 803 or Rule 1302 shall **identify** [show the name of the exercising Clearing Member and the Assigned Clearing Member,] **the designated settlement method**, the quantity and description of [the] **each** underlying security [or securities] to be delivered **against receipt of payment therefor, the quantity and description of each underlying security to be received against payment therefor, the delivery date, the event resulting in the obligation to deliver, receive or make payment, the exercise price (in the case of options), the final settlement price (in the case of stock futures), the allocation percentage of the exercise price or final settlement price, and, for settlements to be effected on a broker-to-broker basis, the contra Clearing Member to**

the settlement obligation[the aggregate purchase price (which is equal to the exercise settlement amount in the case of options) and the address of the office where delivery of the underlying security or securities is to be made (which shall be the office established pursuant to Rule 201 by the Clearing Member entitled to receive delivery)]. **In the event that the Corporation directs that settlement be effected by a method different than a previously designated method, the Corporation shall provide notice thereof to the affected Clearing Members, but shall not revise any outstanding Delivery Advice.**

...Interpretations and Policies:

.01 In the event that more than one underlying security is deliverable upon the exercise or maturity of a contract, the Corporation shall have the discretion to allocate a percentage of the exercise price or final settlement price to each underlying security to be delivered or received to determine the amount to be paid or received in respect of such security. Such allocation shall reflect the value of the underlying security relative to the aggregate value of the contract as determined by the Corporation.

Obligation to Deliver

RULE 903[2]. When a Delivery Advice or the Corporation directs that settlement be made on a broker-to-broker basis, t[T]he Delivering Clearing Member shall deliver [the] **each** underlying security [or securities] specified in the Delivery Advice [in good deliverable form] against payment of the aggregate purchase price **therefor** on [or before 12:00 noon Central Time (1:00 P.M. Eastern Time) on the date set forth in the Delivery Advice as] the delivery date **specified therein**, which, in the case of options, shall be the third business day following the day on which the exercise notice was, or is deemed to have been, properly tendered to the Corporation pursuant to Chapter VIII of the Rules, and, in the case of security futures, shall be the third business day following the maturity date, provided that:

(a) - (b) [unchanged]

Method [Place] of Delivery and Payment; Stock Transfer Taxes

RULE 904[3]. (a) Unless the Corporation directs otherwise, broker-to-broker settlements shall be made on a delivery-versus-payment basis through the facilities of The Depository Trust Company.

(b) If the Corporation directs that a broker-to-broker settlement be made otherwise than as provided in subsection (a), [Unless another place has been] the Delivering Clearing Member and Receiving Clearing Member shall mutually agree[d] upon[,] the

location and method for effecting delivery of [the] **each** underlying security and payment **therefor** [shall be made at the office specified in the Delivery Advice].

(c) Clearing Members shall make appropriate arrangements for the payment of any applicable stock transfer or similar taxes in the manner prescribed by the applicable laws and regulations of the taxing jurisdiction, and shall jointly and severally hold the Corporation harmless from any liability in respect thereof. Clearing Members shall furnish to the Corporation upon request such evidence as the Corporation may require with respect to the payment of such taxes. Any stock transfer or similar tax payable in accordance with applicable laws and regulations of a taxing jurisdiction upon the transfer of securities pursuant to the exercise of an option contract shall be the responsibility of the Delivering Clearing Member except where the incidents of the tax are attributable solely to the Receiving Clearing Member (or his customer or customers), in which case the tax will be the responsibility of the Receiving Clearing Member.

Manner of Delivery [Good Deliverable Form]

RULE 905[4]. Securities required to be delivered pursuant to Rule 904(b) shall be delivered by book-entry through the facilities of a securities depository registered as a clearing agency with the Securities and Exchange Commission or by delivery of a certificate or certificates in good deliverable form. A certificate [A security] shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of the certificate in such form would constitute good delivery under the rules of the primary market for the security.

Acceptance of Delivery

RULE 906[5]. The Receiving Clearing Member shall accept a partial delivery if tendered in round lots or multiples thereof, or, if the unit of trading is or includes an odd lot, in such odd lot or multiples thereof [lots of one unit of trading or multiples thereof, or in lots of property deliverable on an exercised or matured cleared security as a result of an adjustment of such cleared security in accordance with the By-Laws and Rules].

Delivery Prior to [Exercise Settlement] Specified Delivery Date

RULE 90[6]7. The acceptance of a delivery prior to the delivery date shall be at the option of the Receiving Clearing Member.

Payment on Delivery

RULE 90[7]8. When settlement is made pursuant to Rule 904(b), t[T]he Delivering Clearing Member shall have the right to require the allocable [aggregate] purchase price of the delivered units of the underlying security to be paid by customary means in immediately available funds.

[RULE 908. Reserved.]

Notice of Delivery and Payment

RULE 909. Unless settlement is made through the correspondent clearing corporation pursuant to Rule 901[913], the Delivering Clearing Member and the Receiving Clearing Member shall each promptly **submit notices to [notify] the Corporation, [on forms prescribed by the Corporation, when delivery and payment have been made] in accordance with the procedures and within the timeframes periodically specified by the Corporation, as to the number of units of the underlying security delivered (received) and the amount received (paid) therefor.**

(a) During times to be specified by the Corporation, the Corporation shall make available to the affected Delivering Clearing Member and Receiving Clearing Member reports reflecting the notices submitted by each such Clearing Member regarding delivery, payment, or receipt of delivery or payment in respect of an underlying security.

(b) If the reported number of units of the underlying security delivered equals the reported number of units received, the delivery obligation with respect to such number of units shall be deemed discharged. If an equal number of units of such underlying security are reported to have been delivered and received, but such number is less than the total delivery obligation in respect of the underlying security, the remaining portion of such obligation shall be deemed outstanding. The delivery obligation in respect of such underlying security shall be deemed to be fully discharged when the total number of units reported to be delivered and received equals the total quantity of the underlying security to be delivered (received) as set forth in the applicable Delivery Advice. Once the total delivery obligation in respect of an underlying security has been fully discharged, the Delivering Clearing Member, the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

(c) If the reported payment amount received equals the reported amount paid in respect of an underlying security, then the payment obligation with respect to such amount shall be deemed discharged. If equal amounts are reported to have been paid and received, but such amount is less than the total payment obligation,

the remaining portion of the payment obligation shall be deemed outstanding. The payment obligation in respect of such underlying security shall be deemed to be fully discharged when the total amount reported to be paid and received equals the aggregate purchase price for such underlying security in the applicable Delivery Advice. Once the total payment obligation has been fully discharged, the Delivering Clearing Member, the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

(d) In the event a Delivering Clearing Member or a Receiving Clearing Member (as applicable) submits to the Corporation notice of a delivery, payment, or receipt of delivery or payment, and the contra Clearing Member to the settlement obligation does not respond to such notice two business days after such notice was made available to such Clearing Member, the contraparty's failure to respond shall constitute its acknowledgment to the Corporation that particular obligation has been settled as indicated in the notice furnished by the submitting Clearing Member, provided that the designated delivery date has occurred.

(e) In the event that the notice submitted by the Delivering Clearing Member and the notice submitted by the Receiving Clearing Member regarding a delivery (receipt) of units of an underlying security, or payment (receipt of payment) therefor, contain contradictory information as to such delivery (receipt) or payment (receipt of payment), each such notice shall be deemed null and void and given no effect.

[Such notice shall be submitted to the Corporation as promptly as possible and in any event not later than 11:00 A.M. Central Time (12:00 noon Eastern Time) on the business day following the day on which delivery occurs. Notwithstanding the foregoing, in the event that a Receiving Clearing Member is informed by the Corporation that a Delivering Clearing Member has notified the Corporation that delivery has been made to such Receiving Clearing Member, and the Receiving Clearing Member does not advise the Corporation to the contrary by the close of business on the succeeding business day, the Receiving Clearing Member's failure to do so shall constitute its acknowledgment to the Corporation that delivery has been made in the manner indicated in the notice furnished by the Delivering Clearing Member. A Delivering Clearing Member shall also notify the Corporation whenever it ships securities (whether through a bank, a correspondent broker, another clearing system or otherwise) for the purpose of effecting delivery, which notice shall state the certificate numbers of the securities being shipped.]

Failure to Deliver

RULE 910. (a) If the Delivering Clearing Member [required to make a delivery under Rule 902 shall] has not completed a required [such] delivery by the close of business on the delivery date, the Receiving Clearing Member shall issue a [written] buy-in notice, in paper

format or in automated format through the facilities of a self-regulatory organization that provides an automated communications system, with respect to the undelivered units of the underlying security, within [undelivered securities on or before the expiration of] 20 calendar days following the delivery date, and shall thereupon buy in the undelivered securities. Except as otherwise directed by the Corporation, the buy-in shall be effected, as nearly as may be, in accordance with the then current procedures and interpretations of the correspondent clearing corporation for buy-ins of receive balance orders, and the Delivering Clearing Member and the Receiving Clearing Member shall have the rights and obligations set forth therein, provided that (i) buy-in notices shall not be retransmitted except to other Delivering Clearing Members, and (ii) extensions of time may be granted only by the Corporation (and not by the correspondent clearing corporation). [One copy each of such buy-in notice shall be delivered to the Corporation and to the office of the Delivering Clearing Member not later than 12:00 noon Central Time (1:00 P.M. Eastern Time) of the business day preceding the execution of the proposed buy-in. Attached to or accompanying each buy-in notice shall be a copy of the Delivery Advice. Every notice shall state the option contract to be closed, the date of exercise or the maturity date, the aggregate purchase price, the quantity and description of the undelivered security, the delivery date, and shall state further that unless delivery is effected at or before a certain specified time, which may not be prior to 12:00 noon Central Time (1:00 P.M. Eastern Time) of the business day following the issuance of the notice, nor later than the close of the fifth business day following the date of issuance of the notice, the undelivered security may be bought-in on the date specified.]

(b) [Upon the failure of the Corporation or the Delivering Clearing Member to effect delivery in accordance with the buy-in notice, or to obtain a stay as hereinafter provided, the Receiving Clearing Member may close the contract by purchasing for "cash" in the best available market, or at the option of the Receiving Clearing Member for guaranteed delivery not later than five business days after the regular settlement date for such purchase, for the account and liability of the defaulting party (as defined below), all or any part of the securities necessary to complete the required delivery. In the event a buy-in is not completed pursuant hereto on the day specified in the notice, or as such date may be extended pursuant to subparagraph (c) hereof, the buy-in notice shall remain in force for five business days thereafter. Except as the Corporation may otherwise authorize, the Receiving Clearing Member shall buy-in prior to the expiration of the buy-in notice. In all cases, Clearing Members must be prepared to defend the price at which the buy-in is executed relative to the current market at the time of the buy-in.

(c) If prior to the execution of a buy-in, the Receiving Clearing Member receives from the Corporation or the Delivering Clearing Member written notice stating that the securities are in transfer or in transit or are being shipped that day, and giving the certificate numbers, then the Receiving Clearing Member may not execute the buy-in for a period of five business days from the date delivery was due under the buy-in notice. Upon request of the Delivering Clearing Member, the Corporation may grant additional extensions of time provided the securities are in transfer and, due to the transfer agent, transfer is delayed.

(d)] The Clearing Member executing a buy-in shall as promptly as possible on the day of execution notify the Corporation and the Delivering Clearing Member, **in such manner as the Corporation shall specify**, as to the quantity purchased and the price paid[, and shall promptly mail or deliver formal confirmation thereof]. The defaulting party shall promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) of the following business day, pay the Receiving Clearing Member the **excess**[difference], if any, **of**[between] **(i)** the price paid on such buy-in **over (ii)**[and] the settlement amount of the securities bought-in **less any portion thereof already paid by the Receiving Clearing Member. Notwithstanding any other provision of the By-Laws and Rules, from and after the time when the Receiving Clearing Member has received payment of such difference, if any, the settlement obligation in respect of the undelivered units of the underlying security shall be deemed fulfilled and the Delivering Clearing Member and the Corporation shall have no further obligation in respect thereof.**

(c[e]) As used herein, the term “defaulting party” shall mean the Corporation when the buy-in notice is issued in respect of a call option contract and shall mean the Delivering Clearing Member when the buy-in notice is issued in respect of a put option contract. When the buy-in notice is issued in respect of a call option contract, the Delivering Clearing Member shall be obligated to pay to the Corporation the amount specified in subparagraph (d) not later than [the close of business] **settlement time on the business day [of] following** the execution of the buy-in **and the Corporation shall be authorized to withdraw such amount from such Clearing Member’s bank account established in respect of its firm account.**

(d[f]) The failure of the Receiving Clearing Member to issue [or to execute] a buy-in notice within the time[s] specified in this Rule 910 **or to execute the buy-in in a timely manner** shall not affect the contract rights of the parties except that the defaulting party may limit the amount which it is obligated to pay pursuant to subparagraph (d) hereof to the highest amount it would have been required to pay if the buy-in **notice** had been issued and executed on a timely basis.

Protect Procedures

RULE 910A. (a) The protect procedures set forth in paragraph (b) of this Rule apply to deliveries of securities that are effected on a broker-to-broker basis pursuant to Rules 902 through [909]**912** and such procedures shall not apply to any delivery to be made through a correspondent clearing corporation. A delivery to be made through the correspondent clearing corporation shall be subject to the protect procedures, if any, provided by the rules or procedures of the correspondent clearing corporation.

(b) If a Receiving Clearing Member is entitled to receive warrants, rights, convertible securities or other securities which have been called for redemption or are due to expire or with respect to which a call or expiration date is impending or which are subject to a tender or

exchange offer or other offer which will expire, and if the expiration time (as hereafter defined) is on or after the delivery date, such Receiving Clearing Member may deliver a notice (a "Liability Notice") to the Delivering Clearing Member not later than 9:00 a.m. Central Time on the business day preceding the expiration date. If a Liability Notice is so delivered to the Delivering Clearing Member, and the Delivering Clearing Member fails to deliver the securities [sufficiently in advance of] **by** the expiration time [to permit the Receiving Clearing Member to obtain the benefit of the offer], the defaulting party (as defined in paragraph (c) below) shall be liable for any damages which may accrue thereby. All claims for such damage shall be made promptly. For the purposes of this paragraph, the term "expiration time" means the latest time **and date [at] on** which securities [may] **must** be delivered or surrendered [under the terms of the offer or the expiration] **up to and including the last day** of the protect period, if any [whichever is later].

(c) [unchanged]

Failure to Receive

RULE 911. (a) If a Receiving Clearing Member shall refuse to receive [or fail to pay the aggregate purchase price for] all **of the units of the underlying security** [securities] **duly** delivered to it [in good deliverable form] in fulfillment of a delivery obligation, and such refusal [or failure] shall continue beyond **the close of business** [12:00 noon Central Time (1:00 P.M. Eastern Time)] on the delivery date, the Delivering Clearing Member may, without notice, sell out in the best available market, for the account and liability of the defaulting party, all or any part of the undelivered **units** [securities]. Notice of such sell-out, **including the quantity sold and the price received, shall be submitted as promptly as possible on the date of execution, in such manner as the Corporation shall specify,** [immediately] to the Corporation and the Receiving Clearing Member. As used **in this Rule 911** [above], the term "defaulting party" shall mean the Receiving Clearing Member in the case of a call option contract and the Corporation in the case of a put option contract or a security future. The defaulting party shall be obligated to pay promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time) of the business day following the sell-out, to the Delivering Clearing Member the **excess** [difference], if any, **of** [between] the aggregate purchase price of the undelivered **units over** [securities and] the price at which such **units** [securities] were sold out; and if the Corporation is the defaulting party, the Receiving Clearing Member shall pay such amount to the Corporation not later than **settlement time on** the [close of] business [on the] day [of] **immediately following** the sell-out **and the Corporation shall be authorized to withdraw such amount from the bank account established by the Receiving Clearing Member in respect of its firm account. Notwithstanding any other provision of the By-Laws and Rules, from and after the time when the Delivering Clearing Member has received payment of such difference, if any, the settlement obligation in respect of the units of the underlying**

security for which there was a refusal to receive shall be deemed fulfilled and the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

(b) If a Receiving Clearing Member shall fail to pay the aggregate purchase price for all of the units of the underlying security duly delivered to it in fulfillment of a delivery obligation, and such failure shall continue beyond the close of business on the delivery date, the defaulting party shall be obligated to pay such aggregate purchase price to the Delivering Clearing Member promptly, and in any event prior to 10:00 A.M. Central Time (11:00 A.M. Eastern Time), on the following business day, and if the Corporation is the defaulting party, the Receiving Clearing Member shall pay such amount to the Corporation not later than settlement time on such following business day and the Corporation shall be authorized to withdraw such amount from the bank account established by the Receiving Clearing Member in respect of its firm account. Notwithstanding any other provision of the By-Laws and Rules, from and after the time when the Delivering Clearing Member has received payment of such aggregate purchase price, the settlement obligation in respect of the units of the underlying security for which there was a refusal to pay shall be deemed fulfilled and the Receiving Clearing Member and the Corporation shall have no further obligation in respect thereof.

Delivery After "Ex" Date

RULE 912. Subject to the provisions of Rule [913]901(e), when an exercise notice is properly tendered to the Corporation pursuant to Rule 801, or when the maturity date of a physically-settled stock future occurs, prior to an "ex" date (as fixed by the primary market for the underlying security) for a distribution that causes an adjustment to be made pursuant to the By-Laws, the Delivering Clearing Member shall make delivery as required by such adjustment unless the parties otherwise agree. When an exercise notice is properly tendered to the Corporation, or when the maturity date of a physically-settled stock future occurs, prior to such an "ex" date for a distribution that does not cause an adjustment to be made pursuant to the By-Laws, and delivery of the underlying security is made too late to enable the Receiving Clearing Member to transfer the security into its name and to receive such distribution, the Delivering Clearing Member shall, at the time of delivery, issue its due bill check to the Receiving Clearing Member for the amount of the distribution, which check shall be payable on the payment date of such distribution.

[Settlement Through Correspondent Clearing Corporation

RULE 913. (a) Every Stock Clearing Member and every Clearing Member that effects transactions in physically-settled stock futures shall be and remain a participant in good standing of the correspondent clearing corporation; provided, however, that the

foregoing shall not apply to: (i) an Appointing Clearing Member during a period when such Appointing Clearing Member has in effect an appointment of an Appointed Clearing Member pursuant to subparagraph (f) hereof; or (ii) a Canadian Clearing Member on behalf of which CDS maintains an identifiable subaccount in a CDS account at the correspondent clearing corporation, provided that CDS is a participant in good standing of the correspondent clearing corporation during the period when such Canadian Clearing Member has in effect an appointment of CDS pursuant to subparagraph (g) hereof.

(b) Notwithstanding anything to the contrary in Rules 901 through 912, the Corporation may specify in any Delivery Advice or Exercise and Assignment Activity Report that settlement in respect of the exercised or matured cleared security or securities identified therein shall be made through the facilities of the correspondent clearing corporation. In such event, the Corporation shall report such settlement obligations to the correspondent clearing corporation, furnishing such information with respect thereto as shall be necessary to enable settlement to be effected in respect of such obligations in accordance with the rules of the correspondent clearing corporation on the delivery date (or, if the correspondent clearing corporation is not open for business on that date, on the next date on which it is open for business). If settlement is to be made through the correspondent clearing corporation, any Delivery Advice made available to the Receiving Clearing Member need not specify the name or address of the Delivering Clearing Members, and any Delivery Advice made available to the Delivering Clearing Member need not specify the name or address of the Receiving Clearing Member. In reporting settlement obligations to the correspondent clearing corporation hereunder, the Corporation may net obligations of a Clearing Member to deliver and receive the same underlying security on the same delivery date; provided, however, that obligations arising from exercised option contracts may not be netted against obligations arising from matured stock futures contracts.

(c) If settlement obligations are reported to and are not rejected by the correspondent clearing corporation prior to the time when it becomes unconditionally obligated, in accordance with its rules, to effect settlement in respect thereof or to close out the securities contract arising therefrom (the "obligation time"), the Corporation shall have no further obligation in respect of such settlement obligations, other than such obligations as the Corporation may have pursuant to its agreement with the correspondent clearing corporation, and, except as provided in subparagraph (h) hereof, full settlement shall be deemed to have been made by the Corporation in respect of such settlement obligations, from and after the obligation time. If an obligation to make delivery is netted by the Corporation against an obligation to receive in accordance with subparagraph (b) hereof, full settlement shall be deemed to have been made in respect thereof at the opening of business of the Corporation on the delivery date. If the Corporation takes action pursuant to subparagraph (d) hereof, settlement shall be made in accordance with the provisions of subparagraph (d). Except as provided in subparagraph (h) hereof, from

and after the time when settlement is deemed to have been made pursuant to the first sentence of this subparagraph (c), the obligations of the Delivering and the Receiving Clearing Member in respect of the contracts deemed to have been settled, and any other obligations resulting from settlement in respect thereof, shall be determined by the rules and procedures of the correspondent clearing corporation.

(d) A specification in any Delivery Advice that settlement is to be made through the facilities of the correspondent clearing corporation may be revoked by the Corporation at any time prior to the opening of business on the delivery date by an appropriate notice to the Receiving and Delivering Clearing Members. In the event of such revocation, delivery and payment shall be made in accordance with Rules 902 through 912 at the office established pursuant to Rule 201 by the Receiving Clearing Member; provided, however, that the Chairman, the Management Vice Chairman, or the President of the Corporation may, upon the application of the Receiving or the Delivering Clearing Member, extend or postpone the time for delivery to a date not more than three business days after the date of such revocation.

(e) When an exercise notice is properly tendered to the Corporation pursuant to Rule 801, or when the maturity date of a physically-settled stock future occurs, prior to an "ex" date (as fixed by the primary market for the underlying security) for any distribution, whether or not an adjustment is required to be made pursuant to the By-Laws, Clearing Members effecting settlement in respect thereof pursuant to this Rule shall have such rights and obligations in respect of such distribution as may be provided under the rules and procedures of the correspondent clearing corporation; provided, however, that the Board of Directors of the Corporation may in its discretion direct that additional adjustments be made as between Receiving and Delivering Clearing Members to prevent inequities in respect of any distribution.

(f) An Appointing Clearing Member may, in lieu of being a participant of the correspondent clearing corporation, appoint, in such manner as the Corporation shall from time to time prescribe, an Appointed Clearing Member to act on its behalf with respect to the settlement of all exercised or matured cleared securities in the accounts of the Appointing Clearing Member which are settled through the correspondent clearing corporation pursuant to this Rule 913. An appointment pursuant to this subparagraph shall become effective as of the second business day following the day on which the Corporation shall receive written notice, in such form as the Corporation shall from time to time prescribe, from the Appointed Clearing Member of its acceptance of the appointment, or such later date as may be specified by the Appointed Clearing Member, and (unless the Corporation shall terminate the appointment at an earlier time) shall remain effective until the close of the third business day following the day on which the Corporation shall have received, from either the Appointing Clearing Member or the Appointed Clearing Member, written notice of revocation of the appointment, and shall remain effective thereafter, with respect to each obligation to make delivery or payment in respect of exercised or matured cleared securities directed to the

Appointed Clearing Member for settlement prior to the effective date of the revocation, until settlement of such obligation is completed. During the effectiveness of such an appointment, the Corporation shall report each obligation of the Appointing Clearing Member to make delivery or payment in respect of an exercised or matured cleared security to the correspondent clearing corporation, and the Appointed Clearing Member shall be deemed to be the Delivering Clearing Member or the Receiving Clearing Member, as the case may be, in respect of each such contract for all purposes under this Rule 913. For purposes of Rule 208, any report made available to an Appointed Clearing Member shall be deemed to have been made available to the Appointing Clearing Member at the time that it is made available to the Appointed Clearing Member.

(g) A Canadian Clearing Member on behalf of which CDS maintains an identifiable subaccount in a CDS account at the correspondent clearing corporation may appoint, in such manner as the Corporation shall from time to time prescribe, CDS to act on its behalf with respect to the settlement of all exercised or matured cleared securities in the accounts of the Canadian Clearing Member which are settled through the correspondent clearing corporation pursuant to this Rule 913. An appointment pursuant to this subparagraph shall become effective as of the second business day following the day on which the Corporation shall receive written notice of the appointment from the Canadian Clearing Member, or such later date as may be specified by the Canadian Clearing Member, and (unless the Corporation shall terminate the appointment at an earlier time) shall remain effective until the close of the third business day following the day on which the Corporation shall have received, from either the Canadian Clearing Member or CDS, written notice of revocation of the appointment, and shall remain effective thereafter, with respect to each obligation to make delivery or payment in respect of exercised or matured cleared securities directed to CDS for settlement prior to the effective date of the revocation, until settlement of such obligation is completed. During the effectiveness of an appointment pursuant to this subparagraph, the Corporation shall report each obligation of the Canadian Clearing Member to make delivery or payment in respect of an exercised or matured cleared security to the correspondent clearing corporation.

(h) Notwithstanding any other provision of the By-Laws and Rules, the obligations of a Clearing Member to the Corporation in respect of the settlement of any securities contract arising from an exercised or matured cleared security which is settled by or on behalf of the Clearing Member through the correspondent clearing corporation pursuant to this Rule 913 will not be deemed to be completed and performed until settlement is completed in respect of such securities contract with the correspondent clearing corporation and the Corporation has no further responsibility in respect of such securities contract to the correspondent clearing corporation. The terms of any securities contract arising from an exercised or matured cleared security which is to be settled pursuant to this Rule 913 through the correspondent clearing corporation shall include any guarantee made by the Corporation to the correspondent clearing corporation of the performance by the Clearing Member (or an

Appointed Clearing Member or CDS, if any such entity has been appointed by the Clearing Member to act on its behalf) of its obligations to effect settlement with the correspondent clearing corporation, and the obligations of the Clearing Member in connection with the settlement of such securities contract shall include the obligation to reimburse the Corporation for any payments made by the Corporation to the correspondent clearing corporation of such Clearing Member (or its Appointed Clearing Member) in respect of such settlement pursuant to such guarantee.

...Interpretations and Policies:

.01 When the Corporation extends or postpones settlements pursuant to Rule 902, the Corporation may for technical reasons defer reporting affected exercised or matured contracts to the correspondent clearing corporation until a new delivery date is fixed. If an ex-date for a dividend or other distribution on the underlying stock occurs between the date of an exercise of an option or maturity date of a stock future and the date when the Corporation reports the resulting settlement obligations to the correspondent clearing corporation, the Delivering Clearing Member may not be obligated, under the rules of the correspondent clearing corporation, to deliver the distributed property. In order to prevent resulting inequities, the Board of Directors has determined pursuant to Rule 913(e) that in such cases Delivering Clearing Members shall be obligated to deliver the distributed cash or other property on the delivery date notwithstanding the absence of an obligation to do so under the rules of the correspondent clearing corporation. In the case of cash distributions, such delivery shall be made by appropriate charges and credits to the settlement accounts of Delivering and Receiving Clearing Members with the Corporation. In the case of non-cash distributions, delivery shall be made in such manner as the Corporation shall direct.

.02 It will ordinarily be the policy of the Corporation to cause settlement of exercised stock option contracts to be made through the facilities of the correspondent clearing corporation to the extent that the security or securities to be delivered and received in such settlement are CNS-eligible, and to cause settlement of exercised stock option contracts to be made pursuant to Rules 901 through 912 to the extent that the security or securities to be delivered and received in such settlement are not CNS-eligible. However, the Corporation may in its discretion determine to alter this policy in particular circumstances, either to cause delivery of CNS-eligible securities to be made pursuant to Rules 901 through 912 or (with the agreement of the correspondent clearing corporation) to cause delivery of non-CNS-eligible securities to be made through the facilities of the correspondent clearing corporation. It will ordinarily be the policy of the Corporation to cause delivery and payment obligations arising from matured, physically-settled stock futures to be effected through the correspondent clearing corporation whether or not the security to be delivered is CNS-eligible; provided, however, that the Corporation may in

its discretion direct that delivery and payment be made pursuant to Rules 901 through 912.]

[Maintenance and Elimination of Positions in Exercise Settlement Accounts

RULE 914. [Deleted October 29, 1982.]

Failure to Deliver by Correspondent Clearing Corporation

RULE 915. [Deleted October 29, 1982.]

Failure to Receive by Correspondent Clearing Corporation

RULE 916. [Deleted October 29, 1982.]]

CHAPTER XXI

Cross-Rate Foreign Currency Options

RULE 2108. Every Cross-Rate Foreign Currency Clearing Member shall designate, with respect to each foreign currency that is a trading currency or an underlying currency, a bank account established and maintained by it at a Clearing Bank (in the country of origin of such currency or in such other location as the Corporation may approve) for each account maintained by it with the Corporation. Each Cross-Rate Foreign Currency Clearing Member shall authorize the Corporation to withdraw funds from such bank accounts in accordance with the Rules.

[Rule 2108 replaces Rules [913]901, et seq. and supplements Rule 203.]

CHAPTER XXIV

FX INDEX OPTIONS

RULE 2406. Every FX Index Option Clearing Member shall designate, with respect to each foreign currency that is a trading currency, a bank account established and maintained by it at a Clearing Bank (in the country of origin of such currency or in such other location as the Corporation may approve) for each account maintained by it with the Corporation. Each FX Index Option Clearing Member shall authorize the Corporation to withdraw funds from such bank accounts in accordance with the Rules.

[Rule 2406 replaces Rules [913]901, et seq. and supplements Rule 203.]

CHAPTER XXV

BOUNDs

RULE 2503. (a) Following the close of trading on the business day preceding the expiration date for a series of BOUNDs, the Corporation shall determine whether such series of BOUNDs are to be settled in cash or by delivery of the underlying securities. If the Closing Price of the underlying security is greater than the strike price of the BOUND, the BOUND shall be settled in cash in accordance with paragraph (b) of this Rule 2503. If the Closing Price of the underlying security at expiration of the BOUND contract is less than or equal to the strike price of the BOUND, the BOUND shall be settled by delivery of the underlying security in accordance with paragraph (c) of this Rule 2503.

[Rule 2503 replaces paragraphs (b) through (e) of Rule [913]901 and supplements the other Rules in Chapter IX. Rule [911] shall have no application to BOUNDs.]

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 20, 2003.

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

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

The purpose of this rule change is to:

- Restructure the OCC rules applicable to physical settlement of exercised stock options and matured stock futures to reflect that such settlements are normally effected through NSCC (i.e., the correspondent clearing corporation) with broker-to-broker ("BTB") settlement procedures as a backup;
- Require that BTB settlements be made on a delivery-versus-payment basis at The Depository Trust Company ("DTC") unless OCC directs otherwise.
- Revise the OCC rules applicable to BTB settlements basis to reflect the enhanced system capabilities to track such settlements offered by ENCORE Release 4.0, which is scheduled for installation on September 26, 2003²
- Revise the OCC rules relating to buy-ins and sell-outs to parallel NSCC's rules relating to buy-ins in respect of security balance orders;
- Revise the OCC rule relating to protect provisions to parallel NSCC's rules relating to protect provisions in respect of security balance orders.

² ENCORE Release 4.0, which includes updated systems for settlement physical delivery stock options and stock futures, is the next major installation in OCC's multiyear project to rewrite its clearance and settlement system.

the settlement obligation.

OCC will normally require that BTB settlements be made on a delivery-versus-payment basis through the facilities of DTC. That avoids the need for OCC to margin “Herstatt risk”-- i.e., the risk that a party may fail to make delivery or payment, as the case may be, after having itself received payment or delivery. However, the rule change retains provisions for BTB settlements outside DTC to provide for the rare case where an underlying security may not be DTC-eligible.

ENCORE Release 4.0 provides enhanced system capabilities to process and monitor BTB settlements. The rule change reflects those capabilities. For BTB settlements, the delivering clearing member will enter into ENCORE the number of units of the underlying security delivered (up to the total delivery requirement) and the amount received in respect thereof. The receiving clearing member will enter the number of units of the underlying security received and the amount paid. These entries can occur at different times. Only if the entries match (i.e., the number of units delivered equals the number received or the amount received equals the amount paid, as the case may be) will the settlement obligation be discharged. In the event that the matched number of units or payment amounts is less than the total settlement obligation, only the deficiency will be treated as unsettled. An entry for which no response has been given by the second business day after its posting will be deemed settled, provided that the specified delivery date has passed. Contradictory entries will be treated as unmatched items and will be deemed

Article XIII, Section 4) may result in more than one underlying security being deliverable upon exercise or maturity.

unsettled. All unsettled obligations will be margined.⁶ Partial deliveries will be permitted, but only in round lots (except where an adjustment has resulted in a unit of trading other than a round lot, in which case partial deliveries will also be permitted in the odd lot component or multiples thereof).⁷

Rule Changes

Chapter IX of OCC's Rules sets forth the delivery and payment rules for stock options and stock futures. Those Rules will be restructured to reflect that settlement normally occurs through NSCC, with BTB settlement as the backup. Consistent with other OCC Rule Chapters, an introductory section has been added to Chapter IX of the Rules. This section sets forth OCC's authority to designate a settlement method in respect of exercised stock options and matured stock futures, OCC's general policy to effect such settlement through NSCC, and OCC's authority to alter a previous designation of a settlement method. Former Rule 913, which concerns settlements through NSCC, has been renumbered as Rule 901. Other conforming changes have been made to the Rule to reflect the general policy that settlement will occur through NSCC.

Former Rules 901 through 907, which pertain to BTB settlements, have been renumbered as Rules 902 through 908. These Rules, along with Rule 909, have been modified to reflect the enhanced system for monitoring and tracking BTB settlements described above. Rules 910 and 911 (which concern fails to deliver and receive, respectively) and 910A (which concerns protect procedures) have been modified to more closely parallel applicable provisions of NSCC's rules. Obsolete rule references have been deleted, and conforming changes have been made to

⁶ The total obligation will continue to be margined until the installation of the margin subsystem.

⁷ For example, where the unit of trading for an adjusted contract is 133 shares, a writer of three assigned calls could deliver in increments of 100 shares, 200 shares, 300 shares, 33 shares, 66 shares, and/or 99 shares, separately or in any combination up to a total of 399 shares.

other by-law and rule provisions as necessary.

* * *

The proposed rule change is consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), because it enhances physical settlement of exercised options and matured security futures contracts.

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)

OCC requests accelerated approval of this rule change to the extent necessary to ensure that it becomes effective by September 26, 2003, the proposed installation date of ENCORE Release 4.0. OCC believes that there is good cause for such accelerated effectiveness as ENCORE Release 4.0 provides enhanced processing and tracking capabilities for BTB settlements.

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

Except as referenced in Item 3, the proposed rule change is not based on a rule of another self-regulatory organization or of the Commission.

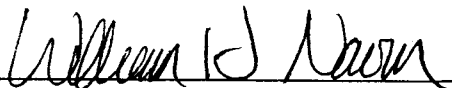
Item 9. Exhibits

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

SIGNATURES

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

THE OPTIONS CLEARING CORPORATION

By: 

William H. Navin
Executive Vice President and
General Counsel

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-OCC-2003-08)

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By
The Options Clearing Corporation

Relating to Delivery Settlement
Of Exercised Stock Options and Matured
Stock Futures

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 _____, 2003, 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: (1) restructure the rules applicable to delivery settlement of exercised stock options and matured stock futures to reflect that such settlements are normally effected through NSCC (i.e., the correspondent clearing corporation) with broker-

to-broker (“BTB”) settlement procedures as a backup; (2) require that BTB settlements be made on a DVP basis at DTC unless OCC directs otherwise; (3) revise the rules applicable to delivery settlement effected on a BTB basis in order to reflect the enhanced system capabilities to track such settlements offered by ENCORE Release 4.0, which is scheduled for installation on September 26, 2003; (4) revise the rules relating buy-ins and sell-out on the failure to deliver or receive an underlying security to more closely parallel NSCC rules relating to buy-ins and sell-outs for security balance orders; and (5) revise the rule relating to protect provisions to more closely parallel NSCC rule relating to protect provisions for security balance orders.

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:

- Restructure the OCC rules applicable to physical settlement of exercised stock options and matured stock futures to reflect that such settlements are normally effected through NSCC (i.e., the correspondent clearing corporation) with broker-to-broker (“BTB”) settlement procedures as a backup;

- Require that BTB settlements be made on a delivery-versus-payment basis at The Depository Trust Company (“DTC”) unless OCC directs otherwise.
- Revise the OCC rules applicable to BTB settlements basis to reflect the enhanced system capabilities to track such settlements offered by ENCORE Release 4.0, which is scheduled for installation on September 26, 2003¹
- Revise the OCC rules relating to buy-ins and sell-outs to parallel NSCC’s rules relating to buy-ins in respect of security balance orders;
- Revise the OCC rule relating to protect provisions to parallel NSCC’s rules relating to protect provisions in respect of security balance orders.

Physical Settlement for Stock Options and Stock Futures

OCC’s by-laws define an “underlying security” in respect of physically settled stock options and stock futures to mean the security or other asset that OCC is obligated to sell or purchase upon exercise or maturity of the contract. Normally, underlying securities are delivered and paid for through the facilities of NSCC, but under certain circumstances settlement must be made on a BTB basis.² If more than one underlying security is deliverable in respect of an exercised or matured contract, ENCORE Release 4.0 will treat the delivery of each underlying security as a separate settlement obligation. Payment of the aggregate purchase price for an underlying security is also a separate settlement obligation.³ As is the case today, OCC will allocate a percentage of the exercise price or the final settlement price to each underlying security

¹ ENCORE Release 4.0, which includes updated systems for settlement physical delivery stock options and stock futures, is the next major installation in OCC’s multiyear project to rewrite its clearance and settlement system.

² Such circumstances include cases where NSCC excludes an underlying security from its continuous net settlement system or OCC suspends a clearing member with pending settlements that have not yet been guaranteed by NSCC.

³ If the “underlying security” includes a cash component, e.g., cash in lieu amounts or the proceeds of a cash merger, the cash is settled through OCC’s cash settlement system.

to be delivered.⁴

OCC will provide clearing members with Delivery Advices indicating whether settlements are to be effected via NSCC or on a BTB basis. Delivery Advices will specify settlement information for the clearing member, including: each underlying to be delivered (received), the aggregate purchase price to be received (paid) in respect of such security, the delivery date, the exercise price or final settlement price, the percentage of the exercise price allocated to the underlying security, the contra clearing member to the settlement (for BTB settlements) and, in the case of options, the activity (i.e., exercise or assignment) giving rise to the settlement obligation.

OCC will normally require that BTB settlements be made on a delivery-versus-payment basis through the facilities of DTC. That avoids the need for OCC to margin “Herstatt risk”-- i.e., the risk that a party may fail to make delivery or payment, as the case may be, after having itself received payment or delivery. However, the rule change retains provisions for BTB settlements outside DTC to provide for the rare case where an underlying security may not be DTC-eligible. ENCORE Release 4.0 provides enhanced system capabilities to process and monitor BTB settlements. The rule change reflects those capabilities. For BTB settlements, the delivering clearing member will enter into ENCORE the number of units of the underlying security delivered (up to the total delivery requirement) and the amount received in respect thereof. The receiving clearing member will enter the number of units of the underlying security received and the amount paid. These entries can occur at different times. Only if the entries match (i.e., the number of units delivered equals the number received or the amount received

⁴ An adjustment of a contract in response to a corporate action (See, OCC By-Laws, Article VI, Section 11, and Article XIII, Section 4) may result in more than one underlying security being deliverable upon exercise or maturity.

equals the amount paid, as the case may be) will the settlement obligation be discharged. In the event that the matched number of units or payment amounts is less than the total settlement obligation, only the deficiency will be treated as unsettled. An entry for which no response has been given by the second business day after its posting will be deemed settled, provided that the specified delivery date has passed. Contradictory entries will be treated as unmatched items and will be deemed unsettled. All unsettled obligations will be margined.⁵ Partial deliveries will be permitted, but only in round lots (except where an adjustment has resulted in a unit of trading other than a round lot, in which case partial deliveries will also be permitted in the odd lot component or multiples thereof).⁶

Rule Changes

Chapter IX of OCC's Rules sets forth the delivery and payment rules for stock options and stock futures. Those Rules will be restructured to reflect that settlement normally occurs through NSCC, with BTB settlement as the backup. Consistent with other OCC Rule Chapters, an introductory section has been added to Chapter IX of the Rules. This section sets forth OCC's authority to designate a settlement method in respect of exercised stock options and matured stock futures, OCC's general policy to effect such settlement through NSCC, and OCC's authority to alter a previous designation of a settlement method. Former Rule 913, which concerns settlements through NSCC, has been renumbered as Rule 901. Other conforming changes have been made to the Rule to reflect the general policy that settlement will occur through NSCC.

⁵ The total obligation will continue to be margined until the installation of the margin subsystem.

⁶ For example, where the unit of trading for an adjusted contract is 133 shares, a writer of three assigned calls could deliver in increments of 100 shares, 200 shares, 300 shares, 33 shares, 66 shares, and/or 99 shares, separately or in any combination up to a total of 399 shares.,

Former Rules 901 through 907, which pertain to BTB settlements, have been renumbered as Rules 902 through 908. These Rules, along with Rule 909, have been modified to reflect the enhanced system for monitoring and tracking BTB settlements described above. Rules 910 and 911 (which concern fails to deliver and receive, respectively) and 910A (which concerns protect procedures) have been modified to more closely parallel applicable provisions of NSCC's rules. Obsolete rule references have been deleted, and conforming changes have been made to other by-law and rule provisions as necessary.

* * *

The proposed rule change is consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), because it enhances physical settlement of exercised options and matured security futures contracts.

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

OCC requests that the Commission accelerate the effectiveness of this rule change to the extent necessary so that they are effective by September 26, 2003, the proposed installation date of ENCORE Release 4.0. OCC believes that there is good cause for such accelerated effectiveness as ENCORE Release 4.0 provides enhanced processing and tracking capabilities for BTB settlements.

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: _____