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Page 1 of 29

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 binary “fixed return options” proposed to be listed by the American Stock Exchange, Inc. (“AMEX”), The Options Clearing Corporation (“OCC” or “the Corporation”) proposes to amend Articles I and VI of its By-Laws and Chapters IV and VIII of its Rules and to add a new Article XIV and Chapter XV to 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.

THE OPTIONS CLEARING CORPORATION

BY-LAWS

ARTICLE I

Definitions

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. – N. [unchanged]

O.

(1) – (3) [unchanged]

Option Contract

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

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

P. – Z. [unchanged]

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ARTICLE VI

Clearance of Exchange Transactions

* * *

Terms of Cleared Contracts

SECTION 10. (a) - (d) [unchanged]

(e) Except to the extent provided otherwise in the By-Laws and Rules with respect to transactions in fixed return options, the expiration date, exercise price, and the fixed settlement amount of each series of fixed return 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. In the absence of a contrary designation, the fixed settlement amount of a series shall be \$100. The exercise price and fixed settlement amount are subject to adjustment in accordance with Section 3 of Article XIV of the By-Laws.

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

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ARTICLE XIV¹

Fixed Return Options

Introduction

By-laws in this Article are applicable only to fixed return options. In addition, the By-Laws in Articles I-XI are also applicable to fixed return 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 fixed return 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. – D.

Reserved

E.

Exercise Price

(1) The term “exercise price” when used in respect of a fixed return option means the price or value of the underlying interest that is compared to the final underlying interest value to determine whether the fixed return option will be automatically exercised at expiration.

F.

Final Underlying Interest Value

(1) The term “final underlying interest value” when used in respect of a fixed return option means the price or level of the underlying interest at expiration of the option that is used to determine whether or not the option is in the money and will be automatically exercised.

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

Finish High Fixed Return Option

(2) The term “finish high fixed return option” means a fixed return option that is settled by payment from the writer to the holder of the fixed settlement amount if at the option’s expiration the final underlying interest value is above the exercise price for the option.

Finish Low Fixed Return Option

(3) The term “finish low fixed return option” means a fixed return option that is settled by payment from the writer to the holder of the fixed settlement amount if at the option’s expiration the final underlying interest value is below the exercise price for the option.

Fixed Return Option

(4) The term “fixed return option” means a European-style option that is automatically settled by payment of the fixed settlement amount for the option from the writer to the holder if the final underlying interest value exceeds the exercise price of the option (in the case of a finish high fixed return option) or is below the exercise price of the option (in the case of a finish low fixed return option) on the option’s expiration date. The term “fixed return equity option” means a fixed return option having an equity security as its underlying interest, and the term “fixed return index option” means a fixed return option having an index of securities as its underlying interest.

Fixed Settlement Amount

(5) The term “fixed settlement amount” when used in respect of a series of fixed return options means the amount to be paid at expiration to a holder of (a) a finish high fixed return option of such series if the final underlying interest value is above the exercise price for the option and (b) a finish low fixed return option of such series if the final underlying interest value is below the exercise price for the option. If no fixed settlement amount is specified by the Exchange, the fixed settlement amount shall be \$100.

G. – L.

Reserved

M.

Multiplier

(1) The term “multiplier” when used in respect of an Exchange transaction in fixed return options means the number by which the price agreed upon by the purchaser and seller is multiplied in order to calculate the aggregate price per contract. If no other multiplier is set by the Exchange, the multiplier will be 100.

N. – R.

Reserved

P.

Premium

(1) The term “premium” when used in respect of an Exchange transaction in fixed return 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. – R.

Reserved

S.

Series

(1) The term “series” when used in respect of fixed return options means all option contracts of the same class and having otherwise identical terms including exercise price, expiration date, and fixed settlement amount.

T.

Type of Option

(1) The term “type of option” when used in respect of a fixed return option means the classification of that option as a finish high fixed return option or a finish low fixed return option.

U.

Underlying Index

(1) The term “underlying index” when used in respect of a fixed return index option means the index whose final underlying interest value is compared to the option’s exercise price to determine whether the option will be automatically exercised.

Underlying Interest

(2) The term “underlying interest” when used in respect of a fixed return option means the underlying security (in the case of a fixed return equity option) or the underlying index (in the case of a fixed return index option).

Underlying Security

(4) The term “underlying security” when used in respect of a fixed return equity option means the equity security whose final underlying interest value is compared to the option’s exercise price to determine whether the option will be automatically exercised.

Unit of Trading

(5) The term “unit of trading” as used in respect of a fixed return equity option means the quantity of the underlying security to which the final underlying interest value relates and shall be a single share unless otherwise specified by the Corporation; provided, however, that the unit of trading shall also include property distributed with respect to an underlying security that is included as part of the unit of trading as the result of an adjustment provided for in Section 3 of Article XIV of the By-Laws. The term “unit of trading” is inapplicable to fixed return index options.

V.

Variable Terms

(1) The term “variable terms” when used in respect of a series of fixed return options means the exercise price, the expiration date and the fixed settlement amount.

W - Z.

Reserved

[Section 1 of this Article adds certain new definitions relevant to fixed return options and replaces the definitions of Exercise Price, Premium, Series, Type of Option, Underlying Interest, Underlying Security, Unit of Trading and Variable Terms in Article I, Section 1 of the By-Laws.]

General Rights and Obligations of Holders and Writers of Fixed Return Options

SECTION 2. (a) *Finish High Fixed Return Option Contracts.*

(1) Subject to the provisions of the By-Laws and Rules, the holder of a single finish high fixed return option has the right to receive from the Corporation the fixed settlement amount for such option if the final underlying interest value is above the exercise price of such contract at expiration, in accordance with Exchange Rules and the By-Laws and Rules.

(2) Subject to the provisions of the By-Laws and Rules, the writer of a single finish high fixed return option is obligated, upon the assignment to him of an exercise in respect of such option, to pay the fixed settlement amount for such option, in accordance with Exchange Rules and the By-Laws and Rules.

(b) Finish Low Fixed Return Option Contracts

(1) Subject to the provisions of the By-Laws and Rules, the holder of a single finish low fixed return option has the right to receive from the Corporation the fixed settlement amount for such option if the final underlying interest value is below the exercise price of such option at expiration, in accordance with Exchange Rules and the By-Laws and Rules.

(2) Subject to the provisions of the By-Laws and Rules, the writer of a single finish low fixed return option is obligated upon the assignment to him of an exercise in respect of such option, to pay the fixed settlement amount for such option, in accordance with Exchange Rules and the By-Laws and Rules.

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

Adjustments

SECTION 3. (a) *Article VI, Section 11 Inapplicable.* Section 11 of Article VI of the By-Laws shall not apply to fixed return option contracts, except as provided in this Section 3.

(b) Adjustment Panel Vested with Complete Discretionary Authority to Make Adjustments.

(1) Determinations with respect to adjustments pursuant to this Section shall be made by an adjustment panel consisting of two designated representatives of each Exchange on which affected fixed return option contracts are open for trading (one of whom shall be such Exchange's representative on the Securities Committee provided for in Article VI, Section 11 of the By-Laws) and the Chairman of the Corporation. An adjustment panel shall determine whether to make adjustments to reflect particular events, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of options on the underlying interest, the maintenance of a fair and orderly market in such options, consistency of interpretation and practice, efficiency of premium and exercise settlement procedures, and coordination with other markets in related contracts. The provisions of Article VI, Section 11(k) of the By-Laws with respect to the vote required to constitute the determination of an adjustment panel, the voting rights of members of adjustment panels, the ability of such panels to conduct their business by telephone, and the ability of the Chairman of

the Corporation and Exchange representatives to designate others to serve in their place on such panels shall apply equally to adjustment panels convened pursuant to this Section.

(2) In the case of any event for which adjustment is not provided in this Section 3, an adjustment panel may make such adjustments, if any, with respect to the affected fixed return options as the adjustment panel determines is appropriate. Additionally, notwithstanding the general rules set forth in this Section, including the interpretations and policies to this Section, an adjustment panel shall have the power to make exceptions in cases or groups of cases, although the general rules shall be applied unless the adjustment panel affirmatively determines to make an exception in a particular case or group of cases.

(3) In making any adjustment determination an adjustment panel shall apply the factors set forth in this Section 3 in light of the circumstances known to it at the time such determination is made. If an adjustment panel does not learn, or does not learn in a timely manner, of an event for which the adjustment panel would have otherwise made an adjustment, neither the Corporation nor the adjustment panel shall be liable for any failure to make such adjustment or delay in making such adjustment.

(4) Every determination of an adjustment panel pursuant to this Section 3 shall be within the sole discretion of such panel and shall be conclusive and binding on all investors and not subject to review.

(c) *Fixed Return Equity Options*

(1) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the exercise price, the fixed settlement amount, the underlying security, the final underlying interest value, the unit of trading, or any of them, with respect to all outstanding fixed return equity option contracts open for trading in that underlying security may be adjusted in accordance with this Section 3(c).

(2) It shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions or ordinary stock dividends or distributions (collectively, "ordinary distributions") by the issuer of the underlying security.

(3) Subject to Section 3(c)(2), it shall be the general rule that in the case of a stock dividend, stock distribution or stock split whereby one or more shares (whether in whole numbers or not) of the underlying security are issued with respect to each outstanding share, the exercise price in effect immediately prior to such event shall be proportionately reduced, and conversely, in the case of a reverse stock split or combination of shares, the exercise price in effect immediately prior to such event shall be proportionately increased. In either event, the number of option contracts shall remain the same.

(4) It shall be the general rule that in the case of any distribution made with respect to shares of an underlying security, other than ordinary distributions and other than distributions for which adjustments are provided in Section 3(c)(3), if an adjustment is determined to be appropriate, (i) the exercise price in effect immediately prior to such event shall be reduced by the value per share of the distributed property or (ii) the unit of trading shall be adjusted to include the distributed property. An adjustment panel shall, with respect to adjustments under this paragraph or any other paragraph of this Section 3(c), have the authority to determine the value of distributed property.

(5) Adjustments pursuant to this Section 3(c) shall as a general rule become effective in respect of outstanding fixed return options on the "ex-date" established by the primary market for the underlying security.

(6) It shall be the general rule that all adjustments to the exercise price of an outstanding fixed return equity option contract shall be rounded to the nearest adjustment increment and when an adjustment causes an exercise price to be equidistant between two adjustment increments, the exercise price shall be rounded up to the next highest adjustment increment.

(d) *Fixed Return Index Options*

(1) No adjustments will ordinarily be made in the terms of fixed return index options in the event that one or more underlying securities are added to or deleted from the underlying index or when the relative weight of one or more securities in the underlying index is changed. However, if an adjustment panel shall determine in its sole discretion that any such addition, deletion, or change causes significant discontinuity in the level of the underlying index, the adjustment panel may adjust the terms of the affected fixed return index options by adjusting the exercise price with respect to such contracts or by taking such other action as the adjustment panel in its sole discretion deems fair to both the holders and writers of such contracts.

(2) If a reporting authority shall change the method of calculation of an underlying index so as to create a discontinuity or change in the level of the index that does not reflect a change in the prices or values of the constituent securities in the underlying index, or an adjustment panel shall substitute one underlying index for another pursuant to Section 3(d)(3) of this Article, the adjustment panel shall make such adjustments to the exercise prices of such options or such other adjustments, if any, as the adjustment panel in its sole discretion deems fair to both the holders and the writers of such options.

(3) In the event an adjustment panel determines that: (A) publication of an underlying index has been discontinued; (B) an underlying index has been replaced by another index; or (C) the composition or method of calculation of an underlying index is so materially changed since its selection as an underlying index that it is deemed to be a different index, the adjustment panel may substitute another index (a "successor index") as the underlying

index. A successor index shall be reasonably comparable, as determined by the adjustment panel in its sole discretion, to the original underlying index for which it substitutes. An index may be created specifically for the purpose of becoming a successor index.

. . . Interpretations and Policies:

.01 Dividends or distributions by the issuer of the underlying security for a fixed return equity option in an aggregate amount per dividend or distribution which does not exceed 10% of the market value (as of the close of trading on the declaration date) of the underlying security outstanding will, as a general rule, be deemed to be "ordinary dividends or distributions" within the meaning of Section 3(c)(2). Stock dividends or distributions by the issuer of the underlying security (i) in an aggregate amount per dividend or distribution which does not exceed 10% of the number of shares or other units of the underlying security outstanding as of the close of trading on the declaration date, and (ii) which an adjustment panel believes to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis, will, as a general rule, be deemed to be "ordinary dividends or distributions" within the meaning of Section 3(c)(2). An adjustment panel will determine on a case-by-case basis whether other dividends or distributions are "ordinary distributions" or whether they are dividends or distributions for which an adjustment should be made. Where an adjustment panel determines to adjust for a dividend or distribution, the adjustment shall be made in accordance with Section 3(c)(4).

.02 Notwithstanding Interpretation and Policy .01, (i) distributions of short-term and long-term capital gains in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be "ordinary dividends or distributions" within the meaning of Section 3(c)(2) and (ii) other distributions in respect of fund shares by the issuer thereof shall not, as a general rule, be deemed to be "ordinary dividends or distributions" within the meaning of Section 3(c)(2) if (x) the fund tracks the performance of an index that underlies a class of index options or index futures, and the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security that resulted in an adjustment of the index divisor; or (y) the distribution on the fund shares includes or reflects a dividend or other distribution on a portfolio security (I) that results in an adjustment of options on other fund shares pursuant to clause (ii)(x) or (II) in an aggregate amount exceeding 10% of the market value (as of the close of trading on the declaration date) of the portfolio security outstanding. Adjustments for distributions described in clause (i) or (ii) above to the terms of fixed return equity options that have such fund shares as their underlying security shall be made in accordance with Section 3(c)(4), unless an adjustment panel determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution where the amount of the adjustment would be less than \$.125 per fund share.

.03 Adjustments will not ordinarily be made to reflect the issuance of so-called "poison pill" rights that are not immediately exercisable, trade as a unit or automatically with the underlying

security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, an adjustment panel will determine whether an adjustment is appropriate.

.04 Adjustments will not be made to reflect a tender offer or exchange offer to the holders of an underlying security, whether such offer is made by the issuer of the underlying security or by a third person or whether the offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favorably or adversely affected by the offer or whether the offer may be deemed to be "coercive." Outstanding options ordinarily will be adjusted to reflect a merger, consolidation or similar event that becomes effective following the completion of a tender offer or exchange offer.

.05 Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the securities that are underlying securities outstanding in the hands of the public (other than dissenters' shares) are not changed into another security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an underlying security) of new or additional debt, stock, or options, warrants or other securities convertible into or exercisable for the underlying security, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the underlying securities outstanding, or the sale by the issuer of significant capital assets.

.06 If all outstanding shares of an underlying security are acquired in a merger or consolidation, an adjustment panel may adjust affected fixed return equity options so that the cash, securities, or other property received by holders of the underlying security with respect to a single share of such security becomes the underlying security, or the adjustment panel may adjust or fix the final underlying interest value to reflect the value of some or all of the non-cash property received. When an adjustment panel fixes the final underlying interest value for all non-cash property received, or an underlying security is converted into a right to receive a fixed amount of cash, the final underlying interest value fixed or the conversion price will be deemed to be the final underlying interest value on the option's expiration date, and if the date on which the final underlying interest value is fixed or the conversion date is before the expiration date, the expiration date will be accelerated, as provided in Rule 807, to the date on which the final underlying interest value is fixed or the conversion date. The fixed settlement amount will not be adjusted to reflect the accelerated expiration date.

.07 When an underlying security is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding options that have been adjusted to include such debt security or preferred stock as part of the underlying security shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to also include the securities distributed as interest or dividends thereon.

.08 In the event that a new series of fixed return options is introduced with an exercise price expressed in decimals and there is an outstanding series of fixed return options on the same underlying security with an exercise price expressed as a fraction that could be expressed in whole cents, an adjustment panel may restate the exercise price of the outstanding series as its equivalent decimal price. If the exercise price for the outstanding series is a fraction that cannot be expressed in whole cents, the exercise price may not be restated as a decimal.

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

Unavailability or Inaccuracy of Final Underlying Interest Value

SECTION 4. (a) *Fixed Return Equity Options.* If an underlying security for a fixed return equity option did not open or remain open for trading on the primary market(s) (as determined by the Corporation) for such security on the last trading day before the expiration date at or before the time when the final underlying interest value would ordinarily be determined, or a value or price to be used as, or to determine, the final underlying interest value is otherwise unreported, inaccurate, unavailable or inappropriate for such use, then, in addition to any other actions that the Corporation may be entitled to take under the By-Laws and Rules, the Corporation shall be empowered to fix a final underlying interest value for expiring series of fixed return options on such security.

(b) *Fixed Return Index Options.* If the Corporation shall determine that the primary market(s) (as determined by the Corporation) for one or more component securities of an index that is the underlying index for a fixed return index option did not open or remain open for trading (or that any such security or securities did not open or remain open for trading on such market(s)) on the last trading day before expiration at or before the time when the final underlying interest value would ordinarily be determined, or that a value or price to be used as, or to determine, the final underlying interest value is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for such use, then, in addition to any other actions that the Corporation may be entitled to take under the By-Laws and Rules, the Corporation shall be empowered to fix a final underlying interest value for expiring series of fixed return index options on such index.

(c) *Panel Vested with Complete Discretionary Authority to Fix Final Underlying Interest Value*

(1) Determinations by the Corporation under this Section shall be made by a panel consisting of two designated representatives of each Exchange on which the affected series is open for trading (one of whom shall be such Exchange's representative on the Securities Committee provided for in Article VI, Section 11 of the By-Laws) and the Chairman of the Corporation. The panel shall fix the final underlying interest value based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of expiring series of fixed return options on the

underlying interest (“affected series”), the maintenance of a fair and orderly market in the affected series, consistency of interpretation and practice, and consistency with actions taken in related futures or other markets. Without limiting the generality of the foregoing, the panel may fix the final underlying interest value using: (i) the reported price or value for the relevant security or securities or index at the close of regular trading hours (as determined by the Corporation) on the last preceding trading day for which such a price or value was reported by the reporting authority; (ii) the reported price or value for the relevant security or securities or index at the opening of regular trading hours (as determined by the Corporation) on the next trading day for which such an opening price or value is reported by the reporting authority; or (iii) a price or value for the relevant security or securities or index at such other time, or representing a combination or average of prices or values at such time or times, as the Corporation deems appropriate. The provisions of Article VI, Section 11(k) of the By-Laws with respect to the vote required to constitute the determination of an adjustment panel, the voting rights of members of adjustment panels, the ability of such panels to conduct their business by telephone, and the ability of the Chairman of the Corporation and Exchange representatives to designate others to serve in their place on such panels shall apply equally to panels convened pursuant to this Section. Every determination of a panel convened pursuant to this Section shall be within the sole discretion of such panel and shall be conclusive and binding on all investors and not subject to review.

(2) If a panel acting pursuant to subsection (1) above delays fixing the final underlying interest value for a series of options past the last trading day before expiration of that series, Rule 1501 shall not apply to expiring fixed return options of the affected series. The exercise settlement date for such options shall be postponed until the business day next following the day on which the Corporation announces the final underlying interest value. Expiring fixed return options series for which the final underlying interest value announced by the Corporation is above the exercise price (in the case of a series of finish high fixed return options) or below the exercise price (in the case of a series of finish low fixed return options) shall be deemed to have been exercised automatically immediately prior to the expiration time on the expiration date. All other expiring series of fixed return options on the underlying interest shall be deemed to have expired unexercised.

(d) Unless the Corporation directs otherwise, the final underlying interest value as initially reported by the reporting authority shall be conclusively presumed to be accurate and shall be deemed final for the purpose of determining whether a fixed return index option will be exercised, even if such value is subsequently revised or determined to have been inaccurate.

... Interpretations and Policies:

.01 The Corporation will not adjust officially reported final underlying interest values for determining whether a fixed return option will be exercised, even if those values are subsequently found to have been erroneous, except in extraordinary circumstances. Such

circumstances might be found to exist where, for example, the final underlying interest value as initially reported is clearly erroneous and inconsistent with values reported earlier in the same trading day, and a corrected final underlying interest value is promptly announced by the reporting authority. In no event will a completed settlement be adjusted due to errors in officially reported final underlying interest values.

.02 A panel will ordinarily exercise its authority under subsection (c) of this Section as necessary to fix final underlying interest values consistent with settlement prices fixed in related markets.

[Section 4 of this Article replaces Article VI, Section 19 of the By-Laws and supplements Rule 801.]

Determination of Final Underlying Interest Value

SECTION 5. The method for determining the final underlying interest value at expiration of a series of fixed return options shall be as specified in the Exchange Rules of the Exchange on which the series of options is traded; provided, however, that in the event of any conflict between such Exchange rules and the By-Laws and Rules of the Corporation, the By-Laws and Rules of the Corporation shall control. The final underlying interest value may be based upon the price or level of the underlying interest at the open or close of trading on the last trading day prior to the expiration date of the series, or it may be based upon an average, including a volume weighted average, of prices or levels during an appropriate period of time on such last trading day. Subject to the authority of the Corporation to adjust or fix such values as provided under the By-Laws and Rules, the final underlying interest value for a series of fixed return options shall be the value reported to the Corporation by the Exchange on which such options are traded. If a series of fixed return options is traded on more than one Exchange, the Corporation, in its sole discretion, may (i) designate one of them as the principal market for the series and obtain the final underlying interest value for the series solely from such principal market or (ii) calculate the final underlying interest value from values obtained from some or all of such Exchanges in accordance with procedures specified by the Corporation from time to time.

* * *

CHAPTER IV

Trade Reporting and Matching

Report of Matched Trades

RULE 401. (a) Each business day each Exchange, security futures market, futures market, and international market shall report to the Corporation information with respect

to each Exchange transaction made on such Exchange or market during said business day (or on a previous day and reconciled on said business day) and as to which matching trade information has been submitted by or on behalf of the Purchasing Clearing Member and the Writing or Selling Clearing Member.

(1) Options. If the relevant transaction is in options, the matching trading information for such transaction shall include (A) the identity of the Purchasing Clearing Member and the Writing Clearing Member, (B) the series of options[underlying interest], (C) [the exercise price (or, in the case of packaged spread options, the base exercise price and the spread interval), (D) the currency in which the option is denominated, (E) the cap price, if any, (F) the expiration date, (G)] the number of option contracts, [(H)](D) the agreed upon premium[per unit], [(I)](E) except for a transaction in a Market-Maker's account, whether an opening or closing transaction, [(J)](F) the type of option, [(K)](G) the ticker symbol, and [(L)](H) such other information as may be required by the Corporation. In the case of futures options, such matching trade information shall also include a notation identifying any transaction that is a block trade, exchange-for-physical, or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade.

(2) – end [unchanged]

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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) – (b) [unchanged]

(c) 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. Notwithstanding the foregoing, any expiring fixed return option contract that meets the exercise parameters set forth in Rule 1501 and any expiring flexibly structured 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] the applicable rule. No expiring option contract other than an American style flexibly structured option contract, a foreign currency option contract, or a cross-rate foreign currency option contract may be exercised on the business day immediately preceding its expiration date.

(d) – end [unchanged]

* * *

Acceleration of Expiration Date

RULE 807. When a European-style stock option contract is adjusted pursuant to Section 11 of Article VI of the By-Laws to require the delivery upon exercise of a fixed amount of cash, as would ordinarily occur in the event of a merger whereby the underlying security is converted into a right to receive a fixed amount of cash, the expiration date of the option contract will ordinarily be accelerated to fall on or shortly after the date on which the conversion of the underlying security to a right to receive cash occurs. Similarly, in the case of a fixed return option contract, if the Corporation determines in its discretion that the price of the underlying security has become fixed prior to the expiration of the option, such price will be treated as the closing price of the underlying security and the expiration date of the option contract will ordinarily be accelerated to fall on or shortly after the date determined by the Corporation to be the date on which such price became fixed.

* * *

CHAPTER XV²

Fixed Return Options

Introduction

Rules in this Chapter are applicable only to fixed return options (as defined in the By-Laws). In addition, the Rules in Chapters I through XII are also applicable to fixed return options, in some cases supplemented by one or more Rules in this Chapter, except for Rules that have been replaced in respect of fixed return 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 Fixed Return Options

RULE 1501. A Clearing Member shall automatically be deemed to have exercised, immediately prior to the expiration time on each expiration date, every expiring fixed return option contract that has an exercise price below (in the case of a finish high fixed return option) or above (in the case of a finish low fixed return option) the final underlying interest value.

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

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

Assignment and Allocation of Fixed Return Option Exercises

RULE 1502. (a) Automatic exercises of fixed return options shall be assigned and allocated in accordance with Rules 803 and 804, except as provided in paragraph (b) of this Rule, and except that Delivery Advices shall not be made available by the Corporation for exercises of fixed return option contracts. In lieu thereof, the Corporation shall make available to each Clearing Member on the business day following each expiration date for fixed return options a report or reports reflecting all automatic exercises of fixed return options in the accounts of such Clearing Member effected on such expiration date, and all assignments of exercises on such expiration date of such options in the accounts of other Clearing Members to short positions in the accounts of such Clearing Member.

(b) Following the automatic exercise of fixed return option contracts in any series, the exercises shall be assigned and allocated to all open short positions (including all short positions established in an opening writing transaction on the trading day preceding the day of the automatic exercise, but excluding short positions that were subject to closing purchase transactions on such day) in such series of options. Subject to the provisions of the By-Laws, the Corporation shall assign such obligations, at or before such time as the Corporation may specify, on the business day following the date of the automatic exercise. Rule 804 shall apply to allocations of automatic exercises of such options.

[Rule 1502 supplements Rules 803 and 804.]

Exercise Settlement Date for Fixed Return Options

RULE 1503. The exercise settlement date for an exercised fixed return option shall be the business day following the expiration date. The Corporation may extend or postpone any exercise settlement date for fixed return 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 Fixed Return Option Exercises

RULE 1504. (a) Exercised fixed return options and short positions in fixed return 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 fixed return option and by the writer of the fixed return option to the Corporation.

(b) On each exercise settlement date for fixed return 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 fixed return 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 fixed return 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 fixed return index 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 fixed return 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. The Corporation may make such payment by the issuance to the Clearing Member of the Corporation's uncertified check for such amount.

(e) Solely for purposes of Rules 601 and 602, exercised and assigned fixed return option contracts shall be deemed settled as of the opening of business on the exercise settlement date. No margin shall be required and no margin credit shall be given in respect of such contracts on such date.

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

Suspension of Clearing Members - Exercised Contracts

RULE 1505. Exercised fixed return option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 1504 provided that the net settlement

amount in respect of such contracts shall be paid from or, subject to the rights of any 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 fixed return option contracts that were assigned to a suspended Assigned Clearing Member without regard to such suspension.

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

Deposits in Lieu of Margin Prohibited

RULE 1506. Rule 610 shall not apply to fixed return options.

[Rule 1506 replaces Rule 610.]

Item 2.

Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of OCC at a meeting held on May 25, 2004.

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

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

The purpose of this rule change is to permit OCC to clear and settle binary "fixed return options" ("FROs") proposed to be listed by AMEX. As described by AMEX (*see* File No. SR-AMEX-2004-27 and Amendment 1 to that filing), FROs are European-style, binary options that, if in the money by any amount at expiration, will be automatically exercised and settled for a fixed sum of \$100 per option contract. AMEX will list two types of FROs: (1) "finish high" and (2) "finish low." Finish high contracts, which may be viewed as call options, will be automatically settled for \$100 if the price or value of the underlying is above the exercise price at expiration; finish low contracts, which may be viewed as put options, will be automatically settled for \$100 if the price or value of the underlying is below the exercise price at expiration.

AMEX initially intends to list FROs on exchange traded funds and certain highly liquid stocks, and Amendment 1 limits SR-AMEX-2004-27 to FROs on those underlying interests. However, AMEX has stated that it intends to make a separate rule filing to permit it to list FROs on trust issued receipts and stock indexes. For the sake of efficiency, this proposed rule filing would permit OCC to clear and settle FROs on all such underlying interests.

A. Rule Changes

FROs differ from most other cash-settled options issued by OCC in certain important respects—most notably in that the exercise settlement amount is fixed and does not vary according to the amount by which the FRO is in the money. In order to accommodate these differences, OCC proposes to add a new By-Law Article and a new Chapter to its Rules, incorporating several new defined terms and procedures for clearing, settling and, if necessary, adjusting FROs on both equity securities and indexes.

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 an FRO, and to provide a more generic definition of “cash-settled option.” “Fixed return option” is defined in Article XIV, Section 1, in a manner that describes an FRO’s characteristics. New defined terms “finish high fixed return option” and “finish low fixed return option” are added to Article XIV, Section 1, to further describe the characteristics of the two types of FROs that AMEX is currently proposing to trade. The term “type of option” is added to Article XIV, Section 1 (replacing that term in Article I, Section 1) defining both finish high FROs and finish low FROs as a type of option. Because a “class” of option is comprised of all option contracts of the same type and style with the same underlying, defining type of option to specifically include finish high and finish low FROs will allow OCC to distinguish FROs from ordinary European-style puts and calls on the same underlying interests.

OCC also proposes to replace the term “exercise price” as defined in Article I with a revised definition in Article XIV, Section 1. Because FROs will be settled by a cash

payment of \$100, the “exercise price” of an FRO is not, as defined in Article I, Section 1, an amount that is paid in exchange for underlying securities. Instead, the exercise price is simply a benchmark: if the price or value of the underlying is above that benchmark at expiration, a finish high FRO will be automatically exercised and will pay \$100 to the holder; if the price or value of the underlying is at or below that benchmark at expiration, it will expire unexercised and worthless. Similarly, a finish low FRO will pay \$100 to the holder if the price or value of the underlying is below the exercise price at expiration and will otherwise expire worthless. The definition of “exercise price” in Article XIV, Section 1 is drafted accordingly.

OCC proposes to add a new defined term, “fixed settlement amount,” in Article XIV for use in conjunction with FROs. The fixed settlement amount of a fixed return option is the amount specified by the Exchange on which the FRO is traded that will be paid in settlement of an in-the-money FRO. Amex has specified the fixed settlement amount as \$100 for all of its proposed FROs. OCC’s proposed definition would permit an exchange to specify a different fixed settlement amount, but includes a default provision stating that, in the absence of any other specified amount, the fixed settlement amount will be \$100.

OCC proposes to replace the definitions “variable terms” and “series” in Article I with revised definitions of those terms in Article XIV, Section 1. To be within the same series, FROs must have the same fixed settlement amount. The fixed settlement amount will be determined by the Exchange at the time of listing, when the Exchange fixes the other variable terms for the options. The term “premium” is also re-defined in Article XIV, Section 1 because AMEX has determined that premiums for FROs will be quoted in an amount that, multiplied by

a “multiplier” set by the exchange, equals the aggregate premium per contract. The term “unit of trading” is defined in Article XIV, Section 1 to apply to FROs on equity securities. The term is not used in respect of index FROs. The term “final underlying interest value” is defined to mean the value or level of the underlying interest used to determine whether the option is in the money at expiration. The terms “underlying security” and “underlying index” are defined to mean the underlying equity security or index whose final underlying interest value is compared to the exercise price of the option to determine whether the option will be exercised. The term “underlying interest” means the underlying security or underlying index.

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 fixed settlement amount, expiration date, and exercise price for a series of FROs at the time the series is opened for trading. Section 10(e) also reminds the reader that FROs are subject to adjustment under Article XIV.

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

Article XIV, Section 2 defines the rights and obligations of holders and writers of finish high and finish low FROs, respectively. Specifically, and as already noted above, the holder of an FRO that is automatically exercised has the right to receive the fixed settlement amount from OCC, and the assigned writer has the obligation to pay that amount to OCC.

4. *Adjustments—Article XIV, Section 3; Unavailability or Inaccuracy of Current Index Value—Article XIV, Section 4; Determination of Final Underlying Interest Value—Article XIV, Section 5*

Article XIV, Section 3 describes the methods by which FROs generally will be

adjusted, if adjustments are deemed to be necessary. Special rules are needed for FRO adjustments because of the fixed, cash-settlement feature of FROs. For instance, under Article VI, Section 11(d), which governs adjustment of other equity options, if there is a stock dividend, distribution, or split whereby a whole number of shares of the underlying security is issued for each outstanding share, the exercise price is proportionately reduced and the number of option contracts is increased by the number of shares issued with respect to each share of the underlying security. This adjustment would be inappropriate for FROs. For example, an XYZ call with an exercise price of \$50 would be adjusted to become two XYZ call options, each with an exercise price of \$25. Because the fixed settlement amount of an FRO is intended to remain at \$100, this adjustment would increase the total payout upon exercise to \$200. To avoid this result, Article XIV, Section 3(c)(3) provides that the number of option contracts does not proportionally increase and only the exercise price is adjusted. The other provisions of Article XIV, Section 3(c) are similar to Article VI, Section 11, with appropriate modifications for equity FROs.

Article XIV, Section 3(d) governs adjustments of index FROs and is similar to Article XVII, Section 3, which governs index options, with appropriate modifications to reflect unique features of FROs. For instance, because FROs do not have an index multiplier, OCC will generally adjust the exercise price of an index FRO to get the appropriate result.

New Article XIV, Section 4, gives OCC the authority to fix the final underlying interest value for an FRO, and to rely on that value for determining whether an FRO will be exercised, under circumstances similar to those in which OCC may currently fix the exercise settlement amount for index options.

New Article XIV, Section 5 provides, in essence, that the final underlying interest value of a series of FROs at expiration will be determined by the Exchange or Exchanges on which such series is traded, subject to any overriding provision of OCC's By-Laws and Rules. If a series of options is traded on more than one Exchange, OCC may use the final underlying interest value received from the Exchange deemed by OCC to be the principal Exchange, or OCC may employ a procedure to derive a single value based on some or all of the values received.

5. *Matched Trade Reports—Rule 401.*

OCC has determined to simplify Rule 401(a)(1), which describes the option terms that must be included in a matched trade report. The deleted information will be captured by reference to the "series" of options subject to the transaction. In the case of FROs, that would include specification of the fixed settlement amount.

6. *Exercise and Settlement—Chapter XV and Rules 801 and 807*

FROs are not subject to the exercise-by-exception procedures applicable to most other options under OCC's Rules, but instead will be automatically exercised at expiration if in the money. Like other cash-settled options, settlement amounts due to OCC from a Clearing Member in respect of FROs will be netted against settlements due to the Clearing Member from OCC in respect of FROs, and a single payment will be made by OCC to the Clearing Member, or by the Clearing Member to OCC, as appropriate. The procedures for the automatic exercise of FROs, as well as their assignment and settlement (including during periods when a Clearing Member is suspended), are set forth in new Chapter XV and revised Rule 801(c). Rule 807 is

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 does not seek summary effectiveness or accelerated effectiveness. Additionally, 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 this change.

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

Not applicable.

Item 9. Exhibits

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

Federal Register.

SIGNATURE

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

THE OPTIONS CLEARING CORPORATION

By: _____

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

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.

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security. This adjustment would be inappropriate for FROs. For example, an XYZ call with an exercise price of \$50 would be adjusted to become two XYZ call options, each with an exercise price of \$25. Because the fixed settlement amount of an FRO is intended to remain at \$100, this adjustment would increase the total payout upon exercise to \$200. To avoid this result, Article XIV, Section 3(c)(3) provides that the number of option contracts does not proportionally increase and only the exercise price is adjusted. The other provisions of Article XIV, Section 3(c) are similar to Article VI, Section 11, with appropriate modifications for equity FROs.

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7. *Deposits in Lieu of Margin—Rule 1506*

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

* * *

The proposed changes to OCC's By-Laws 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 securities transactions, to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest. Additionally, the proposed changes are not inconsistent with the existing rules of OCC, including any other 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-2004-21 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-OCC-2004-21. 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, 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 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-2004-21 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: _____