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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 as set forth below. Material proposed to be added to the by-laws as currently in effect is underlined.

Material proposed to be deleted therefrom is enclosed in brackets.

THE OPTIONS CLEARING CORPORATION

* * *

BY-LAWS

* * *

ARTICLE I

Definitions

SECTION 1. Unless the context requires otherwise (or except as otherwise specified in the By-Laws), the terms defined herein shall, for all purposes of these By-Laws and Rules of the Corporation, have the meanings herein specified.

A. - M.

N.

Non-Customer

(1) The term "non-customer" in respect of any person carrying an account with a broker or dealer (other than an account that is required to be segregated under Section 4d of the Commodity Exchange Act) means a person that is not a customer of such broker or dealer as defined in Rules 8c-1 and 15c2-1 under the Securities Exchange Act of 1934. In addition, the term "non-customer" shall include a Member Affiliate that (a) has consented to having its securities account at a Clearing Member treated as a non-customer account; [and] (b) has executed a non-conforming subordination agreement which has been filed with the Clearing Member's designated examining authority (in a form approved by such designated examining authority), pursuant to which the Member Affiliate (i) has agreed to subordinate its claims against the Clearing Member in respect of such account to the claims of "customers" as defined in Rule 15c3-3 of the Securities Exchange Act of 1934; (ii) provides written acknowledgment

that its securities account is not covered by the Securities Investor Protection Act of 1970 and that any credit balances in the account are not subject to foreign investor protection (including appropriate disclosure of these two points if the Member Affiliate's assets are not proprietary); (iii) contains a written representation that the subordinated assets (funds and securities) are not those of U.S. customers; and (c) has attached[s] [therewith] to such non-conforming subordination agreement an opinion of counsel to the effect that the Member Affiliate is legally authorized to subordinate its claims against such Clearing Member to the claims of other Rule 15c3-3 customers; provided, however, that the requirements set forth in clauses (a), (b) and (c) shall not apply to a Member Affiliate that is registered as a broker-dealer under the Securities Exchange Act of 1934.

(2) – (5) [unchanged]

O. – Z. [unchanged]

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 September 28, 1999. No further Board authorization is needed.

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 proposed rule change would clarify that a broker-dealer Member Affiliate of a clearing member neither needs to consent to being treated as a non-customer nor execute a non-conforming subordination agreement in order to be treated as a non-customer for purposes of OCC's by-laws and rules.

In File No. SR-OCC-99-5, which was approved in Release No. 34-43668 (December 4, 2000), OCC proposed to allow an affiliate of a clearing member to designate itself

as a non-customer under the Commission's hypothecation rules (and OCC's by-laws and rules) in order for the affiliate's transactions and positions to be commingled in its clearing member's firm and/or proprietary cross-margin account, making more favorable margin treatment of such positions possible. Filing No. SR-OCC-99-5¹ was intended to conform OCC's rules to the terms of a no-action letter by the Division of Market Regulation, which set forth requirements for a Member Affiliate to designate itself as a non-customer.² Specifically, that letter required each *non-broker-dealer* (emphasis added) Member Affiliate whose securities positions would be hypothecated to consent to being treated as a non-customer and to execute a non-conforming subordination agreement meeting certain criteria accompanied by an opinion of counsel regarding the legal authority of the Member Affiliate to so subordinate its claims. The requirement that a non-broker-dealer Member Affiliate provide its clearing member with an executed a non-conforming subordination agreement was intended to ensure that such Member Affiliate would not be a customer for purposes of SEC Rule 15c3-3. Because broker-dealers are already excluded from the Rule 15c3-3 definition of customer, there was no need to require broker-dealer affiliates to execute such a subordination agreement. OCC is filing this rule change to clarify the definition of non-customer (as it relates to Member Affiliates) so that it more closely conforms to the terms of the no-action letter.

* * *

The proposed change is consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), because it clarifies an existing OCC rule to

¹ See Amendment No. 1 to File No. SR-OCC-99-05.

allow the positions of broker-dealer Member Affiliates to be included in a clearing member's firm account and/or proprietary cross-margining account, which will result in more favorable margin treatment and encourage participation in cross-margining. The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

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

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

Item 6. Extension of Time Period for Commission Action

OCC does not consent to an extension of the time period for Commission action on the proposed rule change.

² See letter from Michael A. Macchiaroli, Associate Director, Division of Market Regulation to William H. Navin, EVP and General Counsel, OCC (June 15, 2000).

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Pursuant to Section 19(b)(3)(A) and Rule 19b-4(f)(1) thereunder, the proposed rule change is filed for immediate effectiveness inasmuch as it clarifies the meaning of an existing by-law provision.

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

Not applicable.

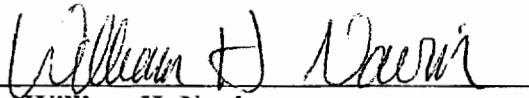
Item 9. Exhibits

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