

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

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U.S. DEPARTMENT OF JUSTICE

Item 1. Text of the Proposed Rule Change

The Options Clearing Corporation (“OCC”) proposes to amend Rule 805, which describes expiration date exercise procedures, including exercise by exception processing. Specifically, OCC proposes to reduce the threshold amounts used to determine equity options that are in the money for purposes of exercise by exception processing.

Underlining indicates material proposed to be added and brackets indicate material proposed to be deleted.

THE OPTIONS CLEARING CORPORATION

RULES

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CHAPTER VIII

Exercise and Assignment

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Expiration Date Exercise Procedure

RULE 805. (a)–(c) [unchanged]

(d) Each Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the expiration time for such option contracts on each expiration date, an exercise notice with respect to:

(1) [unchanged]

(2) every option contract of each series listed in the Clearing Member's Expiration Exercise Report that has an exercise price below (in the case of a call) or above (in the

case of a put) the closing price of the underlying security by [(i)] \$0.[2]05 or more, [if the option contract is carried in a customers' account, or (ii) \$0.15 or more, if the option contract is carried in any other account,] unless the Clearing Member shall have duly instructed the Corporation, in accordance with subparagraph (b), to exercise none, or fewer than all, of the option contracts of such series carried in such account. If a Clearing Member desires that any such option contract not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with subparagraph (b).

(e) – end [unchanged]

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CHAPTER XI

Suspension of a Clearing Member

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Open Positions

RULE 1106. (a) [unchanged]

(1) - (2) [unchanged]

(3) if an option carried in a segregated long position of a suspended Clearing Member has not been closed out prior to its expiration date, and the exercise price thereof is below (in the case of a call) or above (in the case of a put) the closing price of the underlying security, as defined for the purposes of Rule 805, by (i) \$.[2]05 or more in the case of a stock option contract [carried in a customers' account, (ii) \$.15 or more in the case of a stock option contract carried in a firm non-lien account], or (ii[i]) the interval or intervals established in accordance with the applicable Chapter of the Rules (or, if no such intervals shall have been established, such interval or intervals as the Corporation shall in its discretion select) in the case of an option other than a stock option, the option shall be exercised for the account of the suspended Clearing Member on its expiration date.

If an option is exercised pursuant to this Rule 1106(a), or if a BOUND has expired but not been settled, the exercised option, or expired BOUND shall, unless the Corporation stipulates otherwise, be closed in accordance with Rule 1107 (or in accordance with a Rule applicable to such option or BOUND that replaces Rule 1107),

provided that any gain or loss sustained by the assigned Clearing Member shall be credited or charged, as the case may be, to the account that would have been credited with the net proceeds from the closing of such option or BOUND had it been closed rather than exercised or allowed to expire. The suspended Clearing Member or its representative shall be notified as promptly as possible of any closing or exercise of long positions pursuant to this Rule.

(b) – end [unchanged]

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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 March 2, 2006.

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 Options Clearing Corporation (“OCC”) is proposing to amend Rule 805, which describes expiration date exercise procedures, including exercise by exception processing.¹ Specifically, OCC proposes to reduce the threshold amounts used to determine the equity options that are in the money for purposes of exercise by exception processing.

¹ A conforming change is also being made to Rule 1106, which concerns the treatment of open positions following the suspension of a clearing member.

Background

OCC has for years maintained an “exercise by exception” procedure. Under that procedure, options that are in the money at expiration by more than a specified threshold amount are exercised automatically unless the clearing member carrying the position instructs otherwise. Equity options are determined to be in the money or not based on the difference between the exercise price and the closing price of the underlying equity interest on the last trading day before expiration. In September, 2004, in order to streamline expiration processing, OCC reduced the threshold amounts for equity options from \$.75 to \$.25 in a clearing member’s customers’ account and from \$.25 to \$.15 in any other account (i.e., firm and market makers’ accounts). See Release No. 34-50178, dated August 10, 2004. This change was implemented at the request of the OCC Roundtable², and it immediately yielded significant benefits to both OCC and clearing members as the time for submitting exercise instructions was reduced by one to three hours on an average expiration weekend.

Discussion

Increasing options volumes experienced in 2004 and 2005 prompted the OCC Roundtable to again review the thresholds applied to equity options in an effort to further reduce operational risks and improve expiration processing. Initially, the Roundtable proposed that the threshold for all account types be set at \$.01, but an OCC survey of clearing members found that 65% of responding clearing members supported this change while 35% were against it. A

²OCC’s Roundtable is an OCC sponsored advisory group comprised of representatives from OCC’s participant exchanges, OCC, a cross-section of OCC clearing members, and industry service bureaus. The Roundtable considers operational improvements that may be made to increase efficiencies and lower costs in the options

second OCC survey determined that 75% of responding clearing members were in favor of a threshold change to \$.05 for all account types while 25% were opposed. The Roundtable then requested that OCC establish \$.05 as the threshold applicable to equity options exercises for all account types.

In response to this request, OCC analyzed equity options exercise information from the June, 2004 through December, 2005 expirations. OCC's analysis determined that 70% of equity option contracts carried in clearing members' customers' accounts that were in the money by \$.05 to \$.24 (i.e., the change in the "in-the-money" amount represented by the proposed threshold) were exercised. OCC's analysis also determined that exercise activity in other account ranges supported the proposed threshold change.

OCC also surveyed all clearing members to obtain their views and comments on the proposed change. Survey results demonstrated strong support across the membership for the change. Eighty-seven clearing members³ responded to the survey, with 65 clearing members in favor of the threshold change and 22 clearing members opposed. Clearing members supporting the change confirmed the Roundtable's view that it would significantly reduce the number of instructions they are required to input on expiration, thereby shortening the timeframe for completing instructions to OCC.

OCC contacted each firm that opposed the threshold change. (These firms are generally mid-size to small retail clearing members.) Their opposition to the change reflected

industry.

³ OCC also contacted clearing members that did not respond to its survey. These firms expressed no opinion on the

their principal concern about having to input more “do not exercise” instructions, although some indicated concerns about the need to educate customers and the possibility that commission costs could make an exercise unprofitable.⁴ However, all of these firms agreed that they could adapt to the change if supported by the majority of clearing members. OCC further reviewed the positions carried by these firms and determined that, on average, they carry positions in fewer than 10 expiring series per expiration that are below the current threshold of \$.25. This review led OCC to conclude that the threshold change would result in only a slight increase in processing time for these firms and that they would not be unduly burdened by its implementation.

The clearing member survey also asked firms to provide an estimate of the time needed to accommodate the threshold change based upon supplied timeframes (i.e., 0-3 months or 4-6 months). The majority of firms indicated that they could complete the necessary systems development and customer notifications within 6 months. OCC contacted every firm that commented on the proposed timeframes, and all expressed the view that their efforts would be completed in the 6 month time period.

The Roundtable has asked that this change be implemented for the October, 2006 expiration. OCC therefore requests the Commission to approve this rule filing effective October 1, 2006, and authorize OCC to implement the threshold change thereafter based upon its assessment of clearing member readiness. If OCC determines clearing members need additional time to complete preparations for the threshold change, it will be implemented for the

matter.

November, 2006 expiration. OCC will provide at least 10 days advance notice to clearing members of the effective date for the new threshold amounts. Such notice will be provided via information memoranda and other forms of electronic notice such as email.

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The proposed rule change is consistent with Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act") because it facilitates the prompt and accurate processing of exercise information on expiration.

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

As referenced in Item 3, written comments were received on the proposed rule change in connection with the clearing member surveys conducted by OCC. No other written comments are intended to be solicited with respect to the proposed rule change and none have been received.

⁴ As noted, clearing members are able to instruct OCC not to exercise an expiring equity option.

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)**

Not applicable.

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

The proposed rule change is not based on a rule of another self-regulatory organization or of the Commission.

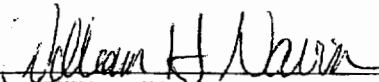
Item 9. Exhibits

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