

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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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” or “the Corporation”) proposes to amend Articles I and XVII of its By-Laws and Chapters VIII and XVIII of its Rules as set forth below. Material to be added is underlined. Material to be deleted is enclosed in bold 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 the Rules of the Corporation, have the meanings herein specified.

**A. – D.** [unchanged]

**E.**

(1)-(16) [unchanged]

**Expiration Date**

(17) The term “expiration date” in respect of a stock option contract, other than a flexibly structured option, a short term option, a quarterly option, or a BOUND, means the Saturday immediately following the third Friday of the expiration month of such option contract, unless expiration is accelerated pursuant to Rule 807.

(18)-(20) [unchanged]

**F. – P.** [unchanged]

Q.

**Quarterly Option**

(1) The term “quarterly option” means an option of a series of stock options or index options that expires on the last business day of a calendar quarter. The term “quarterly index option” means a quarterly option on an index.

R. – Z. [unchanged]

\* \* \*

**ARTICLE XVII**

**Index Options**

\* \* \*

**Definitions**

**SECTION 1.**

A. – P. [unchanged]

Q.

**[Quarterly Index Expiration Options**

(1) The term “quarterly index expiration option,” or “QIX,” used in respect of an index option, means an index option contract identified by an Exchange as having an expiration date on (i) the first business day of the month, or (ii) the second business day of the month, as designated by the Option Market on which such QIX is traded, following the end of a calendar quarter.]

R. – Z. [unchanged]

\* \* \*

**RULES**

**CHAPTER VIII**

**Exercise and assignment**

**Exercise of Options**

**Rule 801.** (a) [unchanged]

(b) Any expiring American option contract may be exercised on its expiration date in accordance with Rule 805. Any capped or European option contract may be exercised (other than automatically exercised in the case of a capped option) only on its expiration date in accordance with Rule 805. Notwithstanding the foregoing, any expiring flexibly structured index option contract, quarterly index option contract, or short term index option contract that meets the exercise parameters set forth in Rule 1804(c) will be automatically exercised on its expiration date in accordance with that rule. No expiring option contract other than an American style flexibly structured option contract, a foreign currency option contract, a short term option contract, a quarterly option contract, or a cross-rate foreign currency option contract may be exercised on the business day immediately preceding its expiration date.

(c) - end [unchanged]

\* \* \*

**Expiration Date Exercise Procedure**

**Rule 805.** (a)-(j) [unchanged]

**... Interpretations and Policies:**

**.01-.02** [unchanged]

**.03** The exercise procedures set forth in Rule 805 shall apply to the exercise of flexibly structured equity options, quarterly options and short term options, except that the time when the Corporation makes an Expiration Exercise Report available pursuant to paragraph (a) of Rule 805, and the time specified by the Corporation as the deadline for the submission of exercise instructions pursuant to paragraph (b) of Rule 805, may be different from the corresponding times that apply to flexibly structured options, quarterly options or short term options.

\* \* \*

**CHAPTER XVIII**

**Index Options**

\* \* \*

**Expiration Date Exercise Procedure for Index Options.**

**Rule 1804.** (a) - (b) [unchanged]

(c) An Index Clearing Member shall be automatically deemed to have exercised, immediately prior to the Expiration Time on each expiration date, every expiring flexibly structured index option contract, quarterly index option contract, and short term index option contract listed in the Index Clearing Member's Expiration Exercise Report that has an exercise settlement amount of \$1.00 or more per contract, or such other amount as the Corporation may from time to time establish on not less than 30 days prior notice to all Index Clearing Members.

(d) – end [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 May 23, 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**

**A. Background**

The purpose of this proposed rule change is to amend OCC's By-Laws and Rules to accommodate options ("quarterly options") proposed for trading by the International

Securities Exchange (“ISE”). Quarterly options have generally the same terms as other options in the same class (“conventional options”) except that (a) quarterly options expire on the last business day of a calendar quarter and (b) all quarterly index options would be settled based on the level of the underlying index at the close on the day of exercise (“P.M. Settled”), rather than the level of the index at the opening on that day (“A.M. Settled”). *See* SR-ISE-2006-24, ISE’s rule filing relating to quarterly options, published for comment in Release No. 34-53857. In addition, certain modifications in exercise procedures are necessary to accommodate the business day expiration of quarterly options.

Because of concerns with quoting capacity, ISE is proposing to list quarterly options under a pilot program that is limited both in duration and in the number of classes of quarterly options that may trade. Specifically, for an initial one-year period following the first trade date (the “Pilot Period”) ISE would list series of quarterly options in (a) up to five options classes already listed on ISE that are either (i) index options or (ii) options on exchange traded funds and (b) options classes that are selected by any other exchanges that list quarterly options under a similar pilot program. If ISE were to determine to continue to list quarterly options at the end of the Pilot Period, ISE would be required to file an additional rule filing with the Commission as well as a pilot program report analyzing a variety of data, including the impact of the pilot program on the capacity of ISE, the Options Price Reporting Authority, and market data vendors. If ISE were to determine to cease listing quarterly options at the end of the Pilot Period (or the Commission were to refuse to approve a rule change permitting quarterly options to continue to trade), ISE would not list any additional series and would permit only closing

transactions in open series.

ISE notes in its rule filing that there is a risk of confusion with respect to quarterly options series and other options in the same class. The risk of confusion is lessened with respect to conventional options because those options cannot expire in the same week as quarterly options. However, short term options, which are one-week options that normally are listed on a Friday and expire on the next following Friday, could expire on the same day as quarterly options. In order to lessen the likelihood of confusion with respect to short term options and quarterly options in the same class, ISE will not list a series of short term options if that series would expire on the same date as a series of quarterly options in the same class. See proposed Supplementary Material .02(b) to ISE Rule 2009. Because of their differing expiration dates, quarterly options would not be fungible with conventional options or short term options.

**B. Description of Proposed Rule Changes**

Because quarterly options differ from conventional options and short term options only in their expiration date, the P.M. settlement feature in respect of quarterly index options, and other modifications relating to business day expiration, quarterly options can be cleared and settled by OCC with relatively minor revisions to OCC's by-laws and rules. A new defined term for quarterly options is proposed for Article I of the by-laws, and the definition of "expiration date" in that Article is amended to clarify that quarterly options do not expire on the same date as conventional options. Rules 801 and 805 are amended to include quarterly options among the exceptions to the general rule that options may not be exercised on the business day before their expiration date, and Rules 801 and 1804 are amended to provide for the automatic exercise of

quarterly index options when those options are in-the-money by a specified amount. Finally, a reference in Article XVII to “Quarterly Index Expiration Options” or “QIX,” which are no longer traded, has been removed to avoid confusion, and a conforming reference to short term options has been added to Rule 801(b) to provide clarity that such options on indexes are subject to automatic exercise, as presently provided in Rule 1804(c).

\* \* \*

The proposed changes to OCC’s by-laws and rules are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because they are designed to promote the prompt and accurate clearance and settlement of 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. The proposed changes promote these objectives by applying to quarterly options the same basic by-laws and rules that are applicable to other classes of options. The proposed changes are not inconsistent with the existing by-laws and rules of OCC, including those 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**

Not applicable.

**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), this proposed rule change has become effective upon filing with the Commission in that it constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. OCC's rules already contemplate the issuance, clearance and settlement of Quaterly Index Expiration Options (which are no longer traded), and the proposed rule change accommodates the issuance, clearance and settlement of quarterly options, as proposed for trading, by applying the same basic by-law and rule provisions that are applicable to other classes of options with only minor modifications.

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

Not applicable.

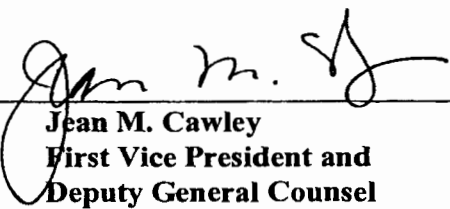
**Item 9.      Exhibits**

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:   
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**Jean M. Cawley**  
**First Vice President and**  
**Deputy General Counsel**