



THE OPTIONS CLEARING
CORPORATION

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COMMERCIAL & EXCHANGE

March 13, 2007

VIA E-MAIL

Ms. Eileen A. Donovan
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Rule Filing SR-OCC-2007-04 Rule Certification

Dear Ms. Donovan:

Attached is a copy of the above-referenced rule filing, which The Options Clearing Corporation ("OCC") is submitting pursuant to the self-certification procedures of Commission Regulation 40.6. This rule filing has been, or is concurrently being, submitted to the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act").

In conformity with the requirements of Regulation 40.6(a)(3), OCC states the following: The text of the rule is set forth at Item 1 of the enclosed filing. The date of implementation of the rule is when the proposed rule has been approved by the SEC. No substantive opposing views were expressed to OCC by governing board or committee members, clearing members of OCC, or market participants, that were not incorporated into the rule.

OCC hereby certifies that the rule set forth at Item 1 of the enclosed filing complies with the Commodity Exchange Act and the Commission's regulations thereunder.

JEAN M. CAWLEY

FIRST VICE PRESIDENT AND DEPUTY GENERAL COUNSEL

ONE N. WACKER DRIVE, SUITE 500 CHICAGO, ILLINOIS 60606 TEL 312.322.6269 FAX 312.322.6280

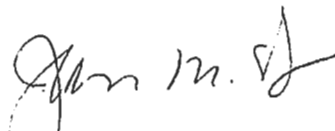
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Should you have any questions regarding this matter, please do not hesitate to contact the undersigned at (312) 322-6269.

Sincerely,



Jean M. Cawley

Attachments

cc: CFTC Central Region (w/ enclosure)
525 West Monroe Street, Suite 1100
Chicago, IL 60661
Attn: Frank Zimmerle

2007-04 cftc.ltr

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 Rule 611 as set forth below (the “proposed rule change”). The proposed rule change allows the use of a regular customers’ account rather than customers’ lien account for portfolio margining.

Material proposed to be added to Rule 611 is underlined.

* * *

RULES

* * *

CHAPTER VI

Margins

* * *

Segregation of Long Option Positions

RULE 611. (a) - (b) [no change]

(c) No Clearing Member shall instruct the Corporation to release from segregation, or permit to remain unsegregated, any long position in option contracts carried in a customers’ account or firm non-lien account for any customer or non-customer unless: (i) the Clearing Member is simultaneously carrying in such account for such customer or non-customer a short position in option contracts or an offsetting long or short position in security futures contracts and the margin required to be deposited by such customer or non-customer in respect of such short option position or long or short security futures position has been reduced as a result of the carrying of such long option position or (ii) the Clearing Member is carrying such long position on its books in a customer’s portfolio margining account. The filing by a Clearing Member of any instruction to release a long position in options contracts from segregation shall constitute a representation by the Clearing Member to the Corporation that such instruction is authorized, is in accordance with the preceding sentence and is in compliance with all applicable laws and regulations. If an account includes segregated and unsegregated long positions in the same series of options and the aggregate long position in such series is reduced by the filing of an exercise notice or the execution of a closing writing transaction in such account, such reduction shall be

applied by the Corporation first against the unsegregated long position in such account, and only the excess, if any, of the number of option contracts exercised or closed out over the number of option contracts included in such unsegregated long position shall be applied against the segregated long position in such account. If the Clearing Member desires that such reduction be applied in a different manner, the Clearing Member shall so instruct the Corporation by filing an appropriate release instruction with the Corporation during such hours as the Corporation may from time to time establish on the business day on which such application is first reflected in a Daily Position Report.

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 9, 2007.

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

In a rule filing submitted in 2003 and subsequently approved by the Commission, OCC created a "customers' lien account" in which Clearing Members are permitted to carry positions and collateral that are carried for customers at the firm level in portfolio margin accounts. In a regular customers' account at OCC, all long positions must be "segregated" (held free of OCC's lien and therefore given no value in determining margin requirements) except when a long is part of a customer spread.¹ This practice was adopted to comply with Commission Rule 15c3-3, which requires that customers' "fully paid" and "excess margin"

¹ See SR-OCC-2003-04; approved July 14, 2005 in Release No. 34-52030.

securities be held free of lien. Because it is anticipated that brokers will ordinarily be extending credit in portfolio margin accounts, the Commission approved a rule effectively providing that longs in such accounts need never be treated as fully paid or excess margin securities. The Division of Market Regulation also issued a “no action” letter to the effect that no enforcement action would be taken against broker-dealers under Rule 15c3-3 for failing to segregate customer longs carried in portfolio margin accounts.²

OCC has been informed that at least one Clearing Member is presently unable for systems reasons to carry a customers’ lien account and is therefore unable to take advantage of the regulatory relief that has been granted. OCC is therefore proposing an alternative procedure (the “Proposed Procedure”) for Clearing Members that are unable, or that elect not, to use a customers’ lien account. Under the Proposed Procedure, a Clearing Member would be permitted to carry portfolio margin positions in its regular securities customers’ account at OCC. When the Clearing Member submits instructions to unsegregate customer longs that are part of a spread position, it will also submit instructions to unsegregate all longs that are carried at the firm level in customers’ portfolio margin accounts. The result of this Proposed Procedure would be that long options required to be segregated in the customers’ account will continue to be segregated and longs that would be unsegregated in a customers’ lien account will be unsegregated in the regular customers’ account.

² See letter from Commission staff attorney Bonnie L. Gauch to William H. Navin dated July 14, 2005.

The lien language in both the regular customers' account and in the customers' lien account provides, in effect, that, to the extent that OCC has a lien on property in the account, the lien secures only other assets in that particular account. (This limitation ensures that customer longs are not pledged to secure proprietary obligations of the firm in violation of the hypothecation rules, but it is conservative in not allowing the longs to secure positions in other customer accounts.) Thus, to the extent that regular Clearing Member customers have unsegregated longs in the account, those positions would be subject to a lien securing the obligations of such Clearing Member with respect to its portfolio-margining customers whose short positions may be included in the account as well. Conversely, the longs belonging to portfolio margining customers would collateralize the shorts of regular customers.

OCC believes that the Proposed Procedure is appropriate under Rule 15c3-3 of the Securities Exchange Act of 1934, as amended ("Rule 15c3-3"), the hypothecation rules (Rules 8c-1 and 15c2-1) and as a matter of policy and fairness. There is no requirement to separate positions of portfolio margining customers from positions of other customers, and the separate customers' lien account was intended merely as a convenience to avoid the need for daily submission of instructions to unsegregate long positions in portfolio margining accounts. Clearing Members who are willing to accept that burden in order to carry the positions in a regular customers' account should be permitted to do so. OCC expects to seek supplemental no-action relief from the Commission staff in order to confirm the applicability of the previous no-action relief to long positions in customer's portfolio margining accounts that are carried on an

unsegregated basis in the regular customers' account at OCC rather than in a customers' lien account.

In SR-OCC-2003-04, Rule 611 was amended to provide that "[a]ll positions in cleared securities that are carried in a customers' lien account shall be deemed to be unsegregated for purposes of this Rule 611." Although OCC's rules do not specifically require that positions in a portfolio margin account at the firm level be carried in a customers' lien account at OCC, the rule filing indicated that they would be. Under the Proposed Procedure, a Clearing Member may elect to carry portfolio margin positions in either the regular customers' account or the customers' lien account.

In approving OCC's rule change creating the customers' lien account and amending Rule 611, the Commission stated:

Under the customer portfolio margining methodology program, all long positions in the customers' lien account will be available as an offset to all short positions, regardless of the identity of the customer. This should provide for a greater diversification benefit to OCC's clearing members in the calculation of their margin. However, because all positions in the customers' lien account will be unsegregated and therefore will be subject to OCC's lien, the long positions in the account will be available to OCC in the event a clearing member fails to settle its obligations relating to a short position. Accordingly, because the proposed rule change is designed to ensure that transactions in securities which are eligible for the new portfolio margining program approved by the Commission will be cleared and settled by OCC in a manner that will not reduce the adequacy of collateral available to OCC, the proposed rule change should not adversely affect OCC's ability to assure the safeguarding of securities and

funds which are in OCC's custody and control or for which OCC is responsible.³

The rationale for this approval should apply to the Proposed Procedure as well.

Rule 611 would simply be amended to provide an additional basis by which a Clearing Member may give instructions to release long options from segregation; namely, when they are carried for a customer in a portfolio margin account.

* * *

The proposed rule change is consistent with the purposes and requirements of Section 17A of the Act because it fosters cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, removes impediments to and perfects the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and, in general, protects investors and the public interest by facilitating the implementation of portfolio margining programs previously approved by the Commission. 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.

³ See Release No. 34-52030 cited above.

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 Act.

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)(2), OCC is requesting accelerated approval of the proposed rule change as necessary to permit the rule proposed rule change to become effective not later than April 2, 2007, which is the beginning date for the implementation of the expanded portfolio pilot approved by the Commission in December of 2006.⁴

⁴ See Release No. 34-54918 (December 12, 2006).

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

Not applicable.


Item 9. Exhibits

Exhibit 1 Completed notice of the 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 duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

THE OPTIONS CLEARING CORPORATION

By: 

William H. Navin
Executive Vice President and
General Counsel