

RECEIVED
MAY 15 2007

MAY 15 11 5:01

OFFICE OF THE SECRETARIAL

SR-OCC-2006-19; Amendment No. 1
Date Submitted: May 15, 2007
Page 2 of 5

PARTIAL AMENDMENT

The Options Clearing Corporation ("OCC") hereby submits this partial amendment, constituting Amendment No. 1, to its rule filing SR-OCC-2006-19, in which OCC proposed to amend its by-laws and rules to provide for close-out netting procedures to be followed in the event that the OCC becomes insolvent or otherwise defaults on clearing obligations. This partial amendment is being filed to accommodate comments recently received from staff of the Securities and Exchange Commission (the "Staff") regarding the initial rule filing.

A. Amendments to Item 1.

1. *In order to provide a more precise description of the Clearing Member capital requirements that would be affected by the close-out netting procedures, OCC proposes to replace the first sentence of Item 1 with the following two sentences:*

In order to clarify the impact of transactions between OCC and its Clearing Members on the capital requirements applicable to Clearing Members and other affiliated entities on a consolidated basis, OCC is proposing a close-out netting rule. The close-out netting rule would be applicable in the highly unlikely event that OCC becomes insolvent or otherwise defaults on its clearing obligations.

2. *OCC proposes to amend the second sentence of the second paragraph of Item 1 as follows:*

The procedures are designed to allow Clearing Members to comply with [guidelines] international standards under the Basel Capital Accord adopted by the Basel Committee on Banking Supervision relating to bilateral netting (the "Basel Netting Standards"), which may be relevant as the result of capital rules applicable to their parent companies, or for Clearing Members that participate in the Commission's voluntary, alternative method of computing net capital, which requires as a condition of participation that a broker-dealer's ultimate holding

company and affiliates (referred to as a consolidated supervised entity or "CSE") must consent to group-wide SEC supervision [subject to] and, among other things, compute a capital measure consistent with the Basel [Netting Standards] Capital Accord.

3. OCC also proposes to modify Section 27(a)(i) of the proposed netting rule so as to provide that the 30 day grace period applicable to the failure of the OCC to pay undisputed obligations would begin to run only when OCC receives notice of the past due obligation from the Clearing Member. This amendment should eliminate any potential risk that an inadvertent failure would pass without notice. Accordingly, the relevant portion of the rule filing would be amended as marked below:

THE OPTIONS CLEARING CORPORATION

BY-LAWS

* * *

ARTICLE VI

Clearance of Exchange Transactions

* * *

Close-Out Netting¹

SECTION 27. (a) *Default or Insolvency of the Corporation.* If at any time the Corporation: (i) fails to comply with an undisputed obligation to pay money or deliver property to a Clearing Member under the By-Laws or Rules for a period of thirty days from the date [the obligation became due] that OCC receives notice from the Clearing Member of the past due obligation, (ii) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition presented against it, such proceeding or petition results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for the Corporation's winding-up or liquidation, or (iii) takes corporate action to authorize any proceeding or petition described in clause (ii) above, the Corporation or its representative shall promptly notify the Securities and Exchange Commission, the Commodity Futures Trading Commission, all Clearing Members, any clearing organizations with which the

¹ Material proposed to be added to the close-out netting by-law is marked by underlining, and material proposed to be deleted from such by-law is enclosed in proposed brackets.

Corporation has cross-margining or cross-guarantee arrangements, and all Exchanges, futures markets and security futures markets for which the Corporation clears Exchange transactions.

(b) – (m) [no change to rule text as originally filed]

B. Amendments to Item 3

1. *This partial amendment also amends Item 3 of the rule filing by amending the second paragraph on page 12 as follows:*

The Basel Netting Standards are not directly applicable to the determination of net capital requirements for broker-dealers under SEC Rule 15c3-1. However, some Clearing Members are subsidiaries of banks or bank holding companies that are subject to the Basel Netting Standards when computing capital requirements on a consolidated basis. In addition, several of OCC's largest Clearing Members have volunteered to participate in the SEC's [voluntary, alternative method of computing net capital using mathematical models to calculate market and derivatives-related credit risk]CSE program. [A broker-dealer using the alternative method of computing net capital is subject to enhanced risk management, reporting and other requirements, and is treated as part of a CSE that must consent to group-wide SEC supervision subject to, among other things, the Basel Netting Standards.]Finally, as noted below, OCC believes that a close-out netting rule would also clarify the accounting treatment of obligations among OCC and its Clearing Members under FIN 39.

2. *At page 13 of the rule filing, OCC proposes to replace the first sentence under the caption "The Basel Netting Standards" with the following:*

The Basel Netting Standards are contained in Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version (June 2006) (the "Basel II Accord").

3. *On page 14, the first sentence of the first full paragraph is being amended to supply a missing close quotation mark as follows:*

The Basel Netting Standards also require that the bank have certain "written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be the net amount."

4. *OCC is also proposing to amend footnote 3 on page 14 of the rule filing by adding the following as the last sentence of the footnote:*

Basel II also allows cross-product netting.