



January 11, 2018

VIA ELECTRONIC MAIL

Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Rule Filing SR-OCC-2018-003 Rule Certification

Dear Secretary Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Commodity Futures Trading Commission (“CFTC”) Regulation 40.6, enclosed is a copy of the above-referenced rule filing submitted by The Options Clearing Corporation (“OCC”). The rule filing modifies OCC’s Rules regarding the exercise procedures for certain options on futures in order to conform to changes proposed by Nasdaq Futures, Inc. (“NFX”), a futures market for which OCC clears such contracts. OCC intends to implement this rule change no sooner than 10 business days following receipt of the rule filing by the CFTC or the date the proposed rule is approved by the Securities and Exchange Commission (“SEC”) or otherwise becomes effective under the Securities Exchange Act of 1934 (“Exchange Act”). This rule filing has been, or is concurrently being, submitted to the SEC under the Exchange Act.

In conformity with the requirements of Regulation 40.6(a)(7), OCC states the following:

Explanation and Analysis

The purpose of this proposed rule change is to amend OCC’s Rules to permit a futures market that lists certain options on futures to instruct OCC to: (1) eliminate a Clearing Member’s ability to provide contrary instructions with respect to such futures options, and (2) permit automatic exercise of futures options that are call options and that settle at exactly the strike price for the option (i.e., an “at-the-money” futures option). These amendments to OCC’s Rules would accommodate certain corresponding amendments to the rules of NFX, for which OCC clears relevant futures option contracts, and would not apply to any options on security futures to the extent OCC clears such products in the future.¹

¹ Options on security futures currently do not trade on the exchange for which OCC clears security futures. The propose rule change would not apply to any securities, but rather futures products (i.e., options on futures that are not security futures) that are subject to the exclusive jurisdiction of CFTC.

Contrary Instructions

NFX has proposed to eliminate the ability of the holders of certain futures options contracts to provide “contrary instructions” or “contrary exercises” to the futures markets with respect to such contracts.² NFX has advised OCC that the New York Mercantile Exchange, Inc. (“NYMEX”) has already made comparable changes to its rules for certain comparable options traded on NYMEX based on market feedback.³ NFX would like to replicate these changes for the comparable options contracts traded on NFX, none of which are options on security futures.

A contrary instruction allows an option holder to exercise an “out-of-the-money” option to receive the underlying futures contract or to abandon an “in-the-money” option. Existing OCC Rule 1305 governs the exercise procedures for American and European-styled options on futures cleared by OCC that settle into the underlying futures contract. Subparagraph (c) of Rule 1305 provides for the automatic exercise of such options that are in-the-money at expiration by “such threshold amount as [OCC] may from time to time establish with respect to particular classes of options,” unless the Clearing Member instructs OCC not to exercise such in-the-money options. The provision also incorporates by reference certain operational aspects of the exercise-at-expiration procedures for listed options found in OCC Rule 805. Neither Rule 1305 nor Rule 805 provide a futures market with the ability to limit contrary instructions. Consequently, OCC proposes to add a new paragraph (d) to Rule 1305 that would provide futures markets with this ability in order to accommodate NFX’s proposal to prohibit the use of contrary instructions. The proposed ability would not apply, however, to options on security futures cleared by OCC to the extent OCC clears such products in the future.

At-the-Money Options

Existing Rules 1305 and 805 are silent on what happens to options that expire at-the-money. By specifying what happens to options that expire in-the-money (i.e., automatic exercise), OCC’s Rules indicate that options expiring at-the-money would be treated as if they were out-of-the-money and not automatically exercised, and therefore the holders would not automatically buy (or sell) futures contracts or equity securities at the strike price. NFX has proposed to amend its own rules regarding the treatment of certain at-the-money options. In order to accommodate these proposed changes at NFX, OCC proposes to add a new paragraph (e) to Rule 1305, which would permit a futures market to instruct OCC that futures options that are call options and settle at-the-money should be treated as if they settled in-the-money and futures options that are put options and settle at-the-money should be treated as if they settled out-of-the-money. However, the proposed ability would not apply to options on security futures that are cleared by OCC to the extent OCC clears such products in the future. Therefore, in the

² See SR-NFX-2017-56, filed December 15, 2017 with the CFTC.

³ See NYMEX Submission No. 17-272 filed July 21, 2017 with the CFTC. The filing also amended the rules of the Commodity Exchange, Inc. (“COMEX”) to make comparable changes for certain options traded on COMEX.

case of the call option the holder of the option would automatically buy the underlying futures contract at the option strike price, and in the case of a put option the holder would not automatically sell the underlying futures contract at the option strike price.

Timing of Implementation

OCC proposes that the proposed amendments to Rule 1305 would apply to any futures option for which a futures market has instructed OCC to apply the exercise procedures specified in Rules 1305(d) and/or (e). To ensure fairness to beneficial owners of any affected futures options that are already outstanding, NFX has conducted outreach with all such beneficial owners and has represented to OCC that it has not received any opposition regarding this treatment from them.

OCC reviewed the derivatives clearing organization (“DCO”) core principles (“Core Principles”) as set forth in the Act. During this review, OCC identified the following Core Principle as potentially being impacted:

Participant and product eligibility. OCC believes that implementing the proposed rule change will be consistent with the Core Principle C concerning participant and product eligibility. CFTC Regulation 39.12(b)(5) provides in part that a DCO shall select product unit sizes and other terms and conditions that maximize liquidity, facilitate transparency in pricing, promote open access, and allow for effective risk management. As discussed above, OCC notes that the proposed changes would grant a futures markets for which OCC clears futures options contracts the ability to coordinate OCC’s exercise procedures with the futures market’s treatment of at-the-money options and determination to prohibit the use of contrary instructions for certain options. Granting futures markets, like NFX, this flexibility would encourage coordination across the market as a whole and reduce potential sources of operational risk for market participants. A lack of conformity in futures option contract terms across different futures markets could pose operational risks to market participants and would require them to undertake additional monitoring. Moreover, the proposed changes could serve to enhance liquidity in such products by allowing them to continue to be subject to the same contract terms across the markets on which they are traded. In this regard, the proposed changes would further OCC’s compliance with Core Principle C.

Opposing Views

No opposing views were expressed related to the rule amendments.

Notice of Pending Rule Certification

OCC hereby certifies that notice of this rule filing has been be given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the submission on OCC’s website concurrently with the filing of this submission.

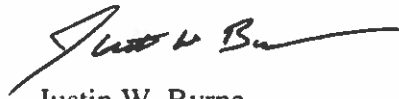
Christopher J. Kirkpatrick
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Certification

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

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin W. Byrne". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Justin W. Byrne
Vice President, Regulatory Filings

Enclosure

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 23	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2018 - * 003 Amendment No. (req. for Amendments *)
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Filing by Options Clearing Corporation
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input checked="" type="checkbox"/> 19b-4(f)(4)	<input type="checkbox"/> 19b-4(f)(6)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Last Name *
 Title *
 E-mail *
 Telephone * Fax

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.
(Title *)

Date Vice President, Regulatory Filings
 By
 (Name *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

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

This proposed rule change by The Options Clearing Corporation (“OCC”) concerns modifications to OCC’s Rules regarding the exercise procedures for certain options on futures in order to conform to changes proposed by Nasdaq Futures, Inc., a futures market for which OCC clears such contracts.

The proposed changes to OCC Rules are attached hereto as Exhibit 5. Material proposed to be added to OCC’s Rules as currently in effect is marked by underlining. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.¹

* * *

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved for filing with the Commission by the Board of Directors of OCC at a meeting held on December 13, 2017.

Questions should be addressed to Justin Byrne, Vice President, Regulatory Filings, at (202) 971-7238.

Item 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**A. Purpose**

The purpose of this proposed rule change is to amend OCC’s Rules to permit a futures market that lists certain options on futures to instruct OCC to: (1) eliminate a Clearing Member’s ability to provide contrary instructions with respect to such futures options, and (2) permit automatic exercise of futures options that are call options and that settle at exactly the strike price

¹ OCC’s By-Laws and Rules can be found on OCC’s public website:
<http://optionsclearing.com/about/publications/bylaws.jsp>.

for the option (i.e., an “at-the-money” futures option). These amendments to OCC’s Rules would accommodate certain corresponding amendments to the rules of Nasdaq Futures, Inc., (“NFX”), for which OCC clears relevant futures option contracts, and would not apply to any options on security futures to the extent OCC clears such products in the future.²

Contrary Instructions

NFX has proposed to eliminate the ability of the holders of certain futures options contracts to provide “contrary instructions” or “contrary exercises” to the futures markets with respect to such contracts.³ NFX has advised OCC that the New York Mercantile Exchange, Inc. (“NYMEX”) has already made comparable changes to its rules for certain comparable options traded on NYMEX based on market feedback.⁴ NFX would like to replicate these changes for the comparable options contracts traded on NFX, none of which are options on security futures.

A contrary instruction allows an option holder to exercise an “out-of-the-money” option to receive the underlying futures contract or to abandon an “in-the-money” option. Existing OCC Rule 1305 governs the exercise procedures for American and European-styled options on futures cleared by OCC that settle into the underlying futures contract. Subparagraph (c) of Rule 1305 provides for the automatic exercise of such options that are in-the-money at expiration by “such threshold amount as [OCC] may from time to time establish with respect to particular classes of options,” unless the Clearing Member instructs OCC not to exercise such in-the-

² Options on security futures currently do not trade on the exchange for which OCC clears security futures. The proposed rule change would not apply to any securities, but rather futures products (i.e., options on futures that are not security futures) that are subject to the exclusive jurisdiction of the Commodity Futures Trading Commission (“CFTC”). See infra note 12.

³ See SR-NFX-2017-56, filed December 15, 2017 with the CFTC.

⁴ See NYMEX Submission No. 17-272 filed July 21, 2017 with the CFTC. The filing also amended the rules of the Commodity Exchange, Inc. (“COMEX”) to make comparable changes for certain options traded on COMEX.

money options. The provision also incorporates by reference certain operational aspects of the exercise-at-expiration procedures for listed options found in OCC Rule 805. Neither Rule 1305 nor Rule 805 provide a futures market with the ability to limit contrary instructions.

Consequently, OCC proposes to add a new paragraph (d) to Rule 1305 that would provide futures markets with this ability in order to accommodate NFX's proposal to prohibit the use of contrary instructions. The proposed ability would not apply, however, to options on security futures cleared by OCC to the extent OCC clears such products in the future.

At-the-Money Options

Existing Rules 1305 and 805 are silent on what happens to options that expire at-the-money. By specifying what happens to options that expire in-the-money (i.e., automatic exercise), OCC's Rules indicate that options expiring at-the-money would be treated as if they were out-of-the-money and not automatically exercised, and therefore the holders would not automatically buy (or sell) futures contracts or equity securities at the strike price. NFX has proposed to amend its own rules regarding the treatment of certain at-the-money options. In order to accommodate these proposed changes at NFX, OCC proposes to add a new paragraph (e) to Rule 1305, which would permit a futures market to instruct OCC that futures options that are call options and settle at-the-money should be treated as if they settled in-the-money and futures options that are put options and settle at-the-money should be treated as if they settled out-of-the-money. However, the proposed ability would not apply to options on security futures that are cleared by OCC to the extent OCC clears such products in the future. Therefore, in the case of a call option the holder of the option would automatically buy the underlying futures contract at the option strike price, and in the case of a put option the holder would not automatically sell the underlying futures contract at the option strike price.

Timing of Implementation

OCC proposes that the proposed amendments to Rule 1305 would apply to any futures option for which a futures market has instructed OCC to apply the exercise procedures specified in Rules 1305(d) and/or (e).

B. Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (“Act”),⁵ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions, to foster cooperation and coordination with persons engaged in clearance and settlement, and, in general, to protect investors and the public interest. OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act⁶ and the rules and regulations thereunder, because it would grant the futures markets for which OCC clears futures options contracts the ability to coordinate OCC’s exercise procedures with the futures market’s treatment of at-the-money options and to prohibit the use of contrary instructions, thereby promoting the prompt and accurate clearance and settlement of securities and derivatives transactions, fostering cooperation and coordination with persons engaged in clearance and settlement, and, in general, protecting investors and the public interest.

Rule 17Ad-22(e)(21)⁷ requires that a covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to, in part, be efficient and effective in meeting the requirements of its participants and the markets it serves. OCC believes that granting futures markets, like NFX, this flexibility would encourage efficiency and

⁵ 15 U.S.C. 78q-1(b)(3)(F).

⁶ Id.

⁷ 17 CFR 240.17Ad-22(e)(21).

coordination across the market as a whole and reduce potential sources of operational risk for market participants. A lack of conformity in futures option contract terms across different futures markets could reduce efficiency and pose operational risks to market participants and would require them to undertake additional monitoring. OCC therefore believes that the proposed rule change is reasonably designed to comply with the requirements of Rule 17Ad-22(e)(21).⁸

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

Section 17A(b)(3)(I) of the Act⁹ requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the Act. OCC does not believe that the proposed rule change would impact or impose any burden on competition. This proposed rule change would not inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another, and it will be applied uniformly to all Clearing Members. The proposed rule change is intended to accommodate NFX's proposed rule change, which is designed to bring the terms of the futures options contracts listed by NFX into conformity with those listed by other futures markets. Accommodating such a change would help promote a level playing field among market participants trading futures options by ensuring that such contracts could have identical terms. For the foregoing reasons, OCC believes the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies, and would not impact or impose a burden on competition.

⁸ Id.

⁹ 15 U.S.C. 78q-1(b)(3)(I).

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.

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

Pursuant to Section 19(b)(3)(A) of the Act¹⁰ and Rule 19b-4(f)(4)(ii)¹¹ thereunder, the proposed rule change is filed for immediate effectiveness because it effects a change in an existing service of OCC that (i) primarily affects the clearing operations of OCC with respect to products that are not securities, i.e., options on futures that are not security futures,¹² and (ii) does not significantly affect any securities clearing operations of OCC or any rights or

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(4)(ii).

¹² Section 3(a)(10) of the Act defines a “security” as “any note, stock, treasury stock, security future, security-based swap, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a ‘security’; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker’s acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.” 15 U.S.C. 77b(a)(1). Section 3(a)(55) of the Exchange Act defines “security future” as “a contract of sale for future delivery of a single security or of a narrow-based security index, including any interest therein or based on the value thereof, except an exempted security.” 15 U.S.C. 78c(a)(55). An option on a futures contract that is not a security future does not meet the definition of “security” and therefore is a product that is subject to the exclusive jurisdiction of the CFTC.

obligations of OCC with respect to securities clearing or persons using such securities clearing services. As described above, this proposed rule change is designed to accommodate certain efforts by NFX, a futures market to which OCC provides certain clearance and settlement services, to amend NFX's rules regarding contrary instructions and at-the-money options and the proposal is specifically tailored to only apply to options on futures that are not security futures. Therefore, the proposal relates only to OCC's clearing of futures options products that are subject to the exclusive jurisdiction of the CFTC and, accordingly, it would not significantly affect any securities clearing operations of OCC or OCC's rights or obligations with respect to securities clearing or persons using such services. Moreover, OCC also does not expect that the proposed changes with respect to options on futures that are not security futures would significantly affect the operation of OCC's Clearing Fund, which is designed to support all of OCC's clearing activities in Cleared Contracts and Stock Loans.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹³

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

Not applicable.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

¹³ Notwithstanding the foregoing, implementation of this rule change will be delayed until this rule change is deemed certified under CFTC Regulation 40.6.

Not applicable.

Item 11. Exhibits

Exhibit 1A. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. OCC Rules

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: _____
Justin W. Byrne
Vice President, Regulatory Filings

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-[_____]; File No. SR-OCC-2018-003)

January __, 2018

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify OCC's Rules Regarding the Exercise Procedures for Certain Options on Futures

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 11, 2018, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by OCC. OCC filed the proposed rule change pursuant to Section 19(b)(3)(A)³ of the Act and Rule 19b-4(f)(4)(ii)⁴ thereunder so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

This proposed rule change by OCC concerns modifications to OCC's Rules regarding the exercise procedures for certain options on futures in order to conform to changes proposed by Nasdaq Futures, Inc. ("NFX"), a futures market for which OCC clears such contracts. The proposed changes to OCC's Rules can be found in Exhibit 5 to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(4)(ii).

the filing. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.⁵

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(1) Purpose

The purpose of this proposed rule change is to amend OCC's Rules to permit a futures market that lists certain options on futures to instruct OCC to: (1) eliminate a Clearing Member's ability to provide contrary instructions with respect to such futures options, and (2) permit automatic exercise of futures options that are call options and that settle at exactly the strike price for the option (i.e., an "at-the-money" futures option). These amendments to OCC's Rules would accommodate certain corresponding amendments to the rules of NFX, for which OCC clears relevant futures option contracts, and would not apply to any options on security futures to the extent OCC clears such products in the future.⁶

⁵ OCC's By-Laws and Rules can be found on OCC's public website: <http://optionsclearing.com/about/publications/bylaws.jsp>.

⁶ Options on security futures currently do not trade on the exchange for which OCC clears security futures. The proposed rule change would not apply to any securities, but rather futures products (i.e., options on futures that are not security

Contrary Instructions

NFX has proposed to eliminate the ability of the holders of certain futures options contracts to provide “contrary instructions” or “contrary exercises” to the futures markets with respect to such contracts.⁷ NFX has advised OCC that the New York Mercantile Exchange, Inc. (“NYMEX”) has already made comparable changes to its rules for certain comparable options traded on NYMEX based on market feedback.⁸ NFX would like to replicate these changes for the comparable options contracts traded on NFX, none of which are options on security futures.

A contrary instruction allows an option holder to exercise an “out-of-the-money” option to receive the underlying futures contract or to abandon an “in-the-money” option. Existing OCC Rule 1305 governs the exercise procedures for American and European-styled options on futures cleared by OCC that settle into the underlying futures contract. Subparagraph (c) of Rule 1305 provides for the automatic exercise of such options that are in-the-money at expiration by “such threshold amount as [OCC] may from time to time establish with respect to particular classes of options,” unless the Clearing Member instructs OCC not to exercise such in-the-money options. The provision also incorporates by reference certain operational aspects of the exercise-at-expiration procedures for listed options found in OCC Rule 805. Neither Rule 1305 nor Rule 805 provide a futures market with the ability to limit contrary instructions. Consequently,

futures) that are subject to the exclusive jurisdiction of the Commodity Futures Trading Commission (“CFTC”). See infra note 16.

⁷ See SR-NFX-2017-56, filed December 15, 2017 with the CFTC.

⁸ See NYMEX Submission No. 17-272 filed July 21, 2017 with the CFTC. The filing also amended the rules of the Commodity Exchange, Inc. (“COMEX”) to make comparable changes for certain options traded on COMEX.

OCC proposes to add a new paragraph (d) to Rule 1305 that would provide futures markets with this ability in order to accommodate NFX's proposal to prohibit the use of contrary instructions. The proposed ability would not apply, however, to options on security futures cleared by OCC to the extent OCC clears such products in the future.

At-the-Money Options

Existing Rules 1305 and 805 are silent on what happens to options that expire at-the-money. By specifying what happens to options that expire in-the-money (i.e., automatic exercise), OCC's Rules indicate that options expiring at-the-money would be treated as if they were out-of-the-money and not automatically exercised, and therefore the holders would not automatically buy (or sell) futures contracts or equity securities at the strike price. NFX has proposed to amend its own rules regarding the treatment of certain at-the-money options. In order to accommodate these proposed changes at NFX, OCC proposes to add a new paragraph (e) to Rule 1305, which would permit a futures market to instruct OCC that futures options that are call options and settle at-the-money should be treated as if they settled in-the-money and futures options that are put options and settle at-the-money should be treated as if they settled out-of-the-money. However, the proposed ability would not apply to options on security futures that are cleared by OCC to the extent OCC clears such products in the future. Therefore, in the case of a call option the holder of the option would automatically buy the underlying futures contract at the option strike price, and in the case of a put option the holder would not automatically sell the underlying futures contract at the option strike price.

Timing of Implementation

OCC proposes that the proposed amendments to Rule 1305 would apply to any futures option for which a futures market has instructed OCC to apply the exercise procedures specified in Rules 1305(d) and/or (e).

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act,⁹ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities and derivatives transactions, to foster cooperation and coordination with persons engaged in clearance and settlement, and, in general, to protect investors and the public interest. OCC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act¹⁰ and the rules and regulations thereunder, because it would grant the futures markets for which OCC clears futures options contracts the ability to coordinate OCC's exercise procedures with the futures market's treatment of at-the-money options and to prohibit the use of contrary instructions, thereby promoting the prompt and accurate clearance and settlement of securities and derivatives transactions, fostering cooperation and coordination with persons engaged in clearance and settlement, and, in general, protecting investors and the public interest.

Rule 17Ad-22(e)(21)¹¹ requires that a covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to, in part, be efficient and effective in meeting the requirements of its participants and the markets it serves. OCC believes that granting futures markets, like NFX, this flexibility would encourage efficiency and coordination across the market as a whole and reduce

⁹ 15 U.S.C. 78q-1(b)(3)(F).

¹⁰ Id.

¹¹ 17 CFR 240.17Ad-22(e)(21).

potential sources of operational risk for market participants. A lack of conformity in futures option contract terms across different futures markets could reduce efficiency and pose operational risks to market participants and would require them to undertake additional monitoring. OCC therefore believes that the proposed rule change is reasonably designed to comply with the requirements of Rule 17Ad-22(e)(21).¹²

The proposed rule change is not inconsistent with the existing rules of OCC, including any other rules proposed to be amended.

(B) Clearing Agency's Statement on Burden on Competition

Section 17A(b)(3)(I) of the Act¹³ requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the Act. OCC does not believe that the proposed rule change would impact or impose any burden on competition. This proposed rule change would not inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another, and it will be applied uniformly to all Clearing Members. The proposed rule change is intended to accommodate NFX's proposed rule change, which is designed to bring the terms of the futures options contracts listed by NFX into conformity with those listed by other futures markets. Accommodating such a change would help promote a level playing field among market participants trading futures options by ensuring that such contracts could have identical terms. For the foregoing reasons, OCC believes the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies, and would not impact or impose a burden on competition.

¹² Id.

¹³ 15 U.S.C. 78q-1(b)(3)(I).

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

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

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Pursuant to Section 19(b)(3)(A) of the Act,¹⁴ and Rule 19b-4(f)(4)(ii) thereunder,¹⁵ the proposed rule change is filed for immediate effectiveness because it effects a change in an existing service of OCC that (i) primarily affects the clearing operations of OCC with respect to products that are not securities, i.e., options on futures that are not security futures,¹⁶ and (ii) does not significantly affect any securities clearing

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(4)(ii).

¹⁶ Section 3(a)(10) of the Act defines a "security" as "any note, stock, treasury stock, security future, security-based swap, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a 'security'; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited." 15 U.S.C. 77b(a)(1). Section 3(a)(55) of the Exchange Act defines "security future" as "a contract of sale for future delivery of a single security or of a narrow-based security index, including any interest therein or based on the value thereof, except an exempted security." 15 U.S.C. 78c(a)(55). An option on a futures contract that is not a security future does not meet the definition of "security" and therefore is a product that is subject to the exclusive jurisdiction of the CFTC.

operations of OCC or any rights or obligations of OCC with respect to securities clearing or persons using such securities clearing services.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹⁷

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2018-003 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2018-003. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website

¹⁷ Notwithstanding its immediate effectiveness, implementation of this rule change will be delayed until this change is deemed certified under CFTC Rule 40.6.

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <https://www.theocc.com/about/publications/bylaws.jsp>.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2018-003 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Secretary

¹⁸ 17 CFR 200.30-3(a)(12).

EXHIBIT 5



OCC Rules

Underlined text indicates new text

~~Strikethrough~~ text indicates deleted text

Chapter XIII - Futures, Futures Options and Commodity Options

* * *

RULE 1305 - Exercise Procedures for Options on Futures

(a) – (c) [No change]

(d) Notwithstanding paragraphs (a) - (c) of this rule, a futures market on which a futures option is traded may instruct the Corporation to restrict or prevent a Clearing Member holding a futures option from (1) exercising a futures option in the relevant class if such futures option is out of the money, and (2) instructing the Corporation not to exercise a futures option in the relevant class if such futures option is in the money. For the avoidance of doubt, however, the provisions of this subparagraph shall not apply to any futures option on a security future.

(e) Notwithstanding paragraphs (a) - (c) of this rule, a futures market on which a futures option is traded may instruct the Corporation to automatically exercise the call option in the relevant class if it settles at exactly the option strike price. As provided in paragraphs (a) - (c) of this rule, a put option in the relevant class would not be automatically exercised if it settles at exactly the option strike price. For the avoidance of doubt, however, the provisions of this subparagraph shall not apply to any futures option on a security future.