



April 17, 2020

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-2020-004 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 would amend Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805 to describe a proposed change to the sequence in which options transactions are processed. 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 rule filing is to amend Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805 to describe a proposed change to the sequence in which options transactions are processed.

Background

OCC currently processes all securities and commodity futures options transactions in the following order:¹

¹ A “commodity future” is defined in Article I(c)(24) of By-Laws as “a futures contract within the exclusive jurisdiction of the Commodity Futures Trading Commission that is traded on, through the

Options Processing Sequence for All Accounts

Opening Buys
Opening Sells
Closing Buys
Exercises
Closing Sells
Assignments

Based on discussions with Clearing Members, OCC is proposing to modify the sequence in which options transactions are processed at OCC for all account types to provide that all sell transactions are processed before exercises (i.e., closing sells would be processed before exercises under the proposed change).² For instance, for securities options transactions, this proposal would change the order in which such transactions are processed in “customers’ accounts,” “firm accounts,” and “Market-Maker accounts” such that all sell transactions are processed prior to exercises.³ OCC is proposing to amend Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805 to reflect this change in the processing sequence for options transactions.

This proposed change is made possible by increased proficiency in Clearing Member position processing and is intended to help Clearing Members comply with certain exchange requirements that are described below.⁴ OCC’s current processing sequence was adopted at a time when trade processing was a far different process than it is today. OCC used to receive a batch file from each exchange at the end of the trading day showing the trades that had been executed on the exchange that day. OCC would then process those trades on a batch basis prior to the open of trading the following business day. Now, OCC receives, and Clearing Members can see, trades

facilities of, or subject to the rules of a futures market.” Options on securities futures currently do not exist.

² Opening buys increase long positions and closing sells decrease long positions. Opening sells increase short positions and closing buys decrease short positions.

³ OCC Clearing Members hold omnibus accounts at OCC for customer positions (i.e., a “customers’ account” as defined in Article I, Section 1.C.(37) of the By-Laws) to the extent they conduct a customer business. They also hold omnibus accounts at OCC for non-customer positions (i.e., a “firm account” as defined in Article I, Section 1.F.(6) of the By-Laws) to the extent they conduct a proprietary business. To the extent they clear for Market-Makers, they also hold “Market-Maker accounts” as defined in Article I, Section 1.M.(1) of the By-Laws.

⁴ The proposed rule change also is designed to help facilitate the ability to run OCC’s current clearing system, known as ENCORE, in parallel with a new clearing system on which OCC is working, as the proposed processing sequence is the one expected to be used in the new clearing system. As OCC’s core clearing system, ENCORE processes trades received from OCC’s participant exchanges and settlements among OCC’s Clearing Members.

executed on an exchange on a near real-time basis.⁵ Clearing Members utilize this information as well as certain tools provided by OCC (described below) to balance exercise notices against existing long positions during the trading day.

Customers' and Firm Account Processing for Securities Options Transactions

As noted, OCC's current processing sequence has been in place for many years and was designed when options transactions were processed on a batch basis. It originally was designed to protect a Clearing Member against the risk that an erroneously coded transaction could result in the Clearing Member not exercising a customer's long position. In particular, because the vast majority of customer securities options positions are maintained on a gross basis at OCC, a miscoded sell transaction of one customer could close out a long position in the same series of another customer, thereby preventing that customer from exercising that option.⁶ For example, Customer A and Customer B use the same Clearing Member. Customer A wants to exercise a long position, and on the same day Customer B directs the Clearing Member to execute an opening sell. If the Customer B trade is erroneously marked as a closing sell, the long position that Customer A seeks to exercise could be closed out by that closing sell and thus be unavailable for exercise.

Processing exercises before closing sells ensured that all intended exercises would be processed irrespective of a mismarked customer transaction. OCC believes this is no longer necessary due to increased proficiency in Clearing Member position processing. In particular, Clearing Members now have the ability to use certain functions provided by OCC to confirm that submitted exercises have sufficient long positions. These functions include a screen in OCC's ENCORE clearing system called the Exercise screen that shows Clearing Members during a trading day whether they have "Insufficient Longs" (i.e., insufficient long positions) for the exercise notices they have received during that trading day.⁷ These functions also include OCC's On Demand Position file ("ODP") that allows Clearing Members during a trading day to balance long positions versus exercises that are received during that trading day to ensure that the Clearing Members have sufficient long positions for those exercises. In addition, they can correct open/close errors by entering a position adjustment in ENCORE prior to exercises being processed. In the example above, where Customer B's trade is erroneously marked as a closing sell, Customer A's long position could be closed out by that closing sell and thus be unavailable for exercise. Position Adjustments allow a firm to correct open/close errors associated with a trade. This correction functionality can only be used for non-critical aspects of a trade and cannot be used, for instance, to change the price, symbol or other critical aspects of a trade.

⁵ This functionality has been available in ENCORE since 2002.

⁶ There are a small subset of customer and firm sub-accounts that have elected to be held on a net basis. These accounts are discussed below.

⁷ See supra note 4.

Clearing Members have indicated that they believe this change will help them comply with certain exchange rules that require customers to only exercise “outstanding” net long positions. As an example, BATS Rule 23.1(a) provides that, “an outstanding options contract may be exercised during the time period specified in the Rules of [OCC] by the tender to [OCC] of an exercise notice in accordance with the Rules of [OCC].”⁸ BATS Rule 16.1(a)(43) defines “outstanding” as “an options contract which has been issued by [OCC] and has neither been the subject of a closing writing transaction nor has reached its expiration date.” Clearing Members have indicated that issues could arise under the rule in situations where a customer position is subject to conflicting closing sale and exercise instructions, which could lead to a position being exercised that was intended to be closed out under OCC’s current processing sequence.

Market Maker and Other Net Account Processing for Securities Options Transactions

The processing sequence set forth above for customer and firm accounts also applies to Market-Maker accounts held by Clearing Members. Market-Maker accounts, however, are held on a net basis. This means that at the end of each trading day, OCC nets offsetting positions in the same options series in each Market-Maker account.⁹ Prior to 2014, this netting occurred at the end of the processing sequence immediately before assignments.

In response to operational risk concerns related to the processing of dividend play transactions by Market-Makers, a modification to OCC’s systems was approved by OCC’s Board of Directors to insert a step in the processing sequence that would limit Market-Maker exercises to net long positions.¹⁰ From a systems perspective, this change was implemented by moving up the netting in the processing sequence such that it occurred before exercises, as set forth below.

Options Processing Sequence for Market Maker and Other Net Accounts

Opening Buys
Opening Sells
Closing Buys

⁸ See also FINRA Rule 2360 (b)(23), NYSE American Options Rule 980(a), and NYSE Arca Rule 6.24-O(a).

⁹ A few Clearing Members have established the functionality to designate sub-accounts within their omnibus customer and firm accounts held at OCC. These sub-accounts are established for a specific customer or joint back office account and the account holders can elect to hold these accounts on a net basis to assist with the position reconciliation process. When the account holders elect to hold the accounts in this manner, they are subject to the same netting process to which Market-Maker accounts are subject. See Interpretation and Policy .04 to Article VI, Section 3 of OCC’s By-Laws.

¹⁰ A dividend play is a trading strategy that historically was primarily engaged in by Market-Makers and involved buying and selling an equal number of call options right before a dividend date on the underlying equity and exercising the long call options with the goal of capturing the dividend on the underlying equity.

Net Positions in Net Accounts (location after 2014 change)
Exercises
Closing Sells
Net Positions in Net Accounts (location prior to 2014 change)
Assignments

From a Rules perspective, this change was implemented by adopting Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805.¹¹ In relevant part, these provisions provide that, “[w]ith respect to any Market-Maker account, the Corporation shall process sell transactions in respect of option contracts prior to exercises in respect of such contracts.” Despite this rule text, as indicated in the net processing sequence list immediately above, closing sells continued to be processed after exercises for Market-Maker and other net accounts after the 2014 change. As described below, the proposed change to the options processing sequence that is the subject of this rule filing would modify the sequence for all accounts, including Market-Maker and other net accounts, such that closing sells would be processed before exercises.

Customer and House Account Processing for Options on Commodity Futures

While OCC currently uses the same processing sequence for options on commodity futures, OCC understands that futures customers and Clearing Members are indifferent to the processing sequence for futures transactions. Futures firms submit very few trades marked as closing transactions, and as a result, are accustomed to submitting nightly adjustments to correct their open interest. This process reduces the potential of an exercise error since the firms verify their long positions on a daily basis.

Proposed Change to Processing Sequence

OCC proposes to modify the processing sequence for all securities and futures options transactions for all account types to process all **closing sell** transactions prior to all **exercise** transactions. The proposed processing sequence is set forth below.

Proposed Options Processing Sequence for All Accounts

Opening Buys
Opening Sells
Closing Buys
Closing Sells
Exercises
Assignments

¹¹ See Exchange Act Release No. 73438 (October 27, 2014), 79 FR 64843 (October 31, 2014) (SR-OCC-2014-15).

For Market-Maker and other accounts held on a net basis, OCC proposes to net offsetting positions after closing sells but before exercises. Each Market-Maker account is held individually (i.e., on a Market-Maker by Market-Maker basis) at a Clearing Member on a net basis, unlike customer accounts. Holding each Market-Maker account in this manner helps with the position reconciliation process at Market-Makers and allows them to see a single net position in each options series for risk management purposes.

OCC has discussed the proposed change with its Clearing Members at the OCC Roundtable, which is an OCC-sponsored advisory group comprised of representatives from OCC's participant exchanges, a cross-section of OCC Clearing Members, and OCC staff, and during regular monthly operations update calls with Clearing Members and exchanges.¹² OCC also issued Information Memos on its public website to inform Clearing Members of the proposed change.¹³ Based upon the feedback from these discussions, OCC believes that its current processing sequence for options transactions no longer needs to be designed to protect Clearing Members from errors in customers' accounts that would result in closing out a position that was intended to be exercised. As noted, Clearing Members have increased their position processing proficiency and can now use OCC tools to confirm that submitted exercises have sufficient long positions. They also have the ability to correct any errors prior to exercises being processed. Clearing Members also have indicated that they believe this change will help them comply with certain exchange rules that require customers to exercise only "outstanding" net long positions. By processing all buys and sells prior to exercises, they believe that the proposed change would help address situations in which a customer position is subject to conflicting closing sale and exercise instructions, which could lead to a position being exercised that was intended to be closed out under the current processing sequence.

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:

Public information. OCC believes that implementing the proposed rule change will be consistent with Core Principle L that a DCO make information concerning the rules and operating and default procedures governing the clearing and settlement systems of the DCO available to market participants and disclose publicly information relevant to participation in the settlement and clearing activities of the DCO.¹⁴ CFTC Regulation 39.21(b) further requires that each DCO make information concerning the rules and the operating and default procedures governing the clearing

¹² OCC provided supplemental materials to its Clearing Members after the August 2019 Monthly Operations Update meeting to help illustrate the proposed change in the processing sequence. These materials have been included in Exhibit 3A of the filing.

¹³ See OCC Information Memo #45781, dated October 9, 2019, and Information Memo #46129, dated December 10, 2019. These Information Memos have been included in Exhibits 3B and 3C of the filing.

¹⁴ 7 U.S.C. 7a-1(c)(2)(L)(ii) and (iii)(V).

and settlement systems of the derivatives clearing organization available to market participants.¹⁵ The proposed rule change would modify the sequence in which options transactions are processed at OCC. Upon implementation, OCC will post the amended Rules to its public website thereby providing market participants with relevant information regarding OCC's operating procedures governing its clearing and settlement systems. In this regard, the proposed changes would further OCC's compliance with Core Principle L.

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 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.

¹⁵ 17 CFR 39.21(b).

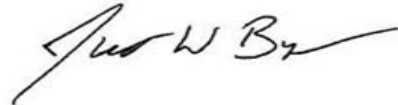
Christopher J. Kirkpatrick
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Certification

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 * 38	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2020 - * 004	Amendment No. (req. for Amendments *)
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 checked="" type="checkbox"/>
		Section 19(b)(3)(A) * <input type="checkbox"/>	
		Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule
		<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
		<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"/>		
Description			
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).			
Proposed Rule Change to Modify the Sequence for Processing Options Transactions			
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 *	Justin	Last Name *	Byrne
Title *	Vice President, Regulatory Filings		
E-mail *	jbyrne@theocc.com		
Telephone *	(202) 971-7238	Fax	(312) 322-6280
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	04/06/2020	Vice President, Regulatory Filings	
By	Justin W. Byrne		
(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.			
		Justin Byrne, jbyrne@theocc.com	

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS 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

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),¹ and Rule 19b-4 thereunder,² The Options Clearing Corporation (“OCC” or the “Corporation”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805 to describe a proposed change to the sequence in which options transactions are processed, as described below. The proposed changes to OCC’s Rules are attached hereto as Exhibit 5. Material proposed to be added to OCC’s Rules as currently in effect is marked by underlining and material proposed to be deleted is marked with strikethrough text. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.³

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved for filing with the Commission by OCC’s Board of Directors (“Board”) at a meeting held on July 17, 2019.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ OCC’s By-Laws and Rules can be found on OCC’s public website: <http://optionsclearing.com/about/publications/bylaws.jsp>.

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

A. Purpose

Background

OCC currently processes all securities and commodity futures options transactions in the following order:⁴

Options Processing Sequence for All Accounts

Opening Buys
Opening Sells
Closing Buys
Exercises
Closing Sells
Assignments

Based on discussions with Clearing Members, OCC is proposing to modify the sequence in which options transactions are processed at OCC for all account types to provide that all sell transactions are processed before exercises (i.e., closing sells would be processed before exercises under the proposed change).⁵ For instance, for securities options transactions, this proposal would change the order in which such transactions are processed in “customers’ accounts,” “firm accounts,” and “Market-Maker accounts” such that all sell transactions are

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This proposed change is made possible by increased proficiency in Clearing Member position processing and is intended to help Clearing Members comply with certain exchange requirements that are described below.⁷ OCC's current processing sequence was adopted at a time when trade processing was a far different process than it is today. OCC used to receive a batch file from each exchange at the end of the trading day showing the trades that had been executed on the exchange that day. OCC would then process those trades on a batch basis prior to the open of trading the following business day. Now, OCC receives, and Clearing Members can see, trades executed on an exchange on a near real-time basis.⁸ Clearing Members utilize this information as well as certain tools provided by OCC (described below) to balance exercise

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⁷ The proposed rule change also is designed to help facilitate the ability to run OCC's current clearing system, known as ENCORE, in parallel with a new clearing system on which OCC is working, as the proposed processing sequence is the one expected to be used in the new clearing system. As OCC's core clearing system, ENCORE processes trades received from OCC's participant exchanges and settlements among OCC's Clearing Members.

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¹⁰ See supra note 7.

of an exercise notice in accordance with the Rules of [OCC].”¹¹ BATS Rule 16.1(a)(43) defines “outstanding” as “an options contract which has been issued by [OCC] and has neither been the subject of a closing writing transaction nor has reached its expiration date.” Clearing Members have indicated that issues could arise under the rule in situations where a customer position is subject to conflicting closing sale and exercise instructions, which could lead to a position being exercised that was intended to be closed out under OCC’s current processing sequence.

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In response to operational risk concerns related to the processing of dividend play transactions by Market-Makers, a modification to OCC’s systems was approved by OCC’s Board of Directors to insert a step in the processing sequence that would limit Market-Maker

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exercises to net long positions.¹³ From a systems perspective, this change was implemented by moving up the netting in the processing sequence such that it occurred before exercises, as set forth below.

Options Processing Sequence for Market Maker and Other Net Accounts

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Opening Sells
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Net Positions in Net Accounts (location after 2014 change)
Exercises
Closing Sells
~~Net Positions in Net Accounts~~ (location prior to 2014 change)
Assignments

From a Rules perspective, this change was implemented by adopting Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805.¹⁴ In relevant part, these provisions provide that, “[w]ith respect to any Market-Maker account, the Corporation shall process sell transactions in respect of option contracts prior to exercises in respect of such contracts.” Despite this rule text, as indicated in the net processing sequence list immediately above, closing sells continued to be processed after exercises for Market-Maker and other net accounts after the 2014 change. As described below, the proposed change to the options processing sequence that is the subject of this rule filing would modify the sequence for all

¹³ A dividend play is a trading strategy that historically was primarily engaged in by Market-Makers and involved buying and selling an equal number of call options right before a dividend date on the underlying equity and exercising the long call options with the goal of capturing the dividend on the underlying equity.

¹⁴ See Exchange Act Release No. 73438 (October 27, 2014), 79 FR 64843 (October 31, 2014) (SR-OCC-2014-15).

accounts, including Market-Maker and other net accounts, such that closing sells would be processed before exercises.

Customer and House Account Processing for Options on Commodity Futures

While OCC currently uses the same processing sequence for options on commodity futures, OCC understands that futures customers and Clearing Members are indifferent to the processing sequence for futures transactions. Futures firms submit very few trades marked as closing transactions, and as a result, are accustomed to submitting nightly adjustments to correct their open interest. This process reduces the potential of an exercise error since the firms verify their long positions on a daily basis.

Proposed Change to Processing Sequence

OCC proposes to modify the processing sequence for all securities and futures options transactions for all account types to process all **closing sell** transactions prior to all **exercise** transactions. The proposed processing sequence is set forth below.

Proposed Options Processing Sequence for All Accounts

Opening Buys
Opening Sells
Closing Buys
Closing Sells
Exercises
Assignments

For Market-Maker and other accounts held on a net basis, OCC proposes to net offsetting positions after closing sells but before exercises. Each Market-Maker account is held individually (i.e., on a Market-Maker by Market-Maker basis) at a Clearing Member on a net

basis, unlike customer accounts. Holding each Market-Maker account in this manner helps with the position reconciliation process at Market-Makers and allows them to see a single net position in each options series for risk management purposes.

OCC has discussed the proposed change with its Clearing Members at the OCC Roundtable, which is an OCC-sponsored advisory group comprised of representatives from OCC's participant exchanges, a cross-section of OCC Clearing Members, and OCC staff, and during regular monthly operations update calls with Clearing Members and exchanges.¹⁵ OCC also issued Information Memos on its public website to inform Clearing Members of the proposed change.¹⁶ Based upon the feedback from these discussions, OCC believes that its current processing sequence for options transactions no longer needs to be designed to protect Clearing Members from errors in customers' accounts that would result in closing out a position that was intended to be exercised. As noted, Clearing Members have increased their position processing proficiency and can now use OCC tools to confirm that submitted exercises have sufficient long positions. They also have the ability to correct any errors prior to exercises being processed. Clearing Members also have indicated that they believe this change will help them comply with certain exchange rules that require customers to exercise only "outstanding" net

¹⁵ OCC provided supplemental materials to its Clearing Members after the August 2019 Monthly Operations Update meeting to help illustrate the proposed change in the processing sequence. These materials have been included in Exhibit 3A of the filing.

¹⁶ See OCC Information Memo #45781, dated October 9, 2019, and Information Memo #46129, dated December 10, 2019. These Information Memos have been included in Exhibits 3B and 3C of the filing.

long positions. By processing all buys and sells prior to exercises, they believe that the proposed change would help address situations in which a customer position is subject to conflicting closing sale and exercise instructions, which could lead to a position being exercised that was intended to be closed out under the current processing sequence.

B. Statutory Basis

Section 17A(b)(3)(F) of the Act¹⁷ 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. OCC believes that the proposed rule change will promote the prompt and accurate clearance and settlement of securities transactions. In this regard, the proposed rule change would provide for the processing of closing sell transactions prior to exercises, which OCC's Clearing Members have indicated would help promote compliance with exchange rules noted above that require that only outstanding options positions be exercised. As indicated above, OCC's system no longer needs to be designed to protect Clearing Members from customer transaction marking errors in which a sell transaction is miscoded as a closing sell transaction. The near real-time processing of options transactions by OCC and OCC tools have helped Clearing Members increase their position processing proficiency. The proposed change to the position processing sequence would result in OCC's system allowing only net long positions to be exercised in all accounts, including individual customer accounts. This result is designed to promote compliance with exchange rules and further the goal of promoting the

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

prompt and accurate clearance and settlement of securities transactions.

In addition, the proposed rule change is not inconsistent with the existing By-Laws and Rules of OCC, including any rules proposed to be amended.

Item 4. Self-Regulatory Organization’s Statement on Burden on Competition

Section 17A(b)(3)(I) of the Act¹⁸ 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. The proposed rule change would not affect the competitive dynamics between Clearing Members in that it would apply to all Clearing Members equally. The proposed rule change also would not inhibit access to OCC’s services or disadvantage or favor any particular user in relationship to another. In this regard, as described above, the proposed rule change is designed to further facilitate the prompt and accurate clearance and settlement of securities transactions. It would change the processing sequence so that closing sells are processed before exercises, which would ensure from a systematic perspective that only net long positions can be exercised.

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.

¹⁸ 15 U.S.C. 78q-1(b)(3)(I).

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) or Section 19(b)(7)(D)

Not applicable.

Item 8. Proposed Rule Change Based on Rule 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

Not applicable.

Item 11. Exhibits

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

Exhibit 3A. Proposed Options Processing Sequence Change.

Exhibit 3B. OCC Information Memo #45781.

Exhibit 3C. OCC Information Memo #46129.

Exhibit 5. OCC Rules.

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: _____
Justin W. Byrne
Vice President, Regulatory Filings

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-[_____]; File No. SR-OCC-2020-004)

April __, 2020

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Modify the Sequence for Processing Options Transactions

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 April 6, 2020, 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. 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 would amend Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805 to describe a proposed change to the sequence in which options transactions are processed, as described below. The proposed changes to OCC’s Rules are included in Exhibit 5 of the filing. Material proposed to be added to OCC’s Rules as currently in effect is marked by underlining and material proposed to be deleted is marked with strikethrough text. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

the By-Laws and Rules.³

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

Background

OCC currently processes all securities and commodity futures options transactions in the following order:⁴

Options Processing Sequence for All Accounts

Opening Buys
 Opening Sells
 Closing Buys
 Exercises
 Closing Sells
 Assignments

Based on discussions with Clearing Members, OCC is proposing to modify the sequence in which options transactions are processed at OCC for all account types to provide that

³ OCC's By-Laws and Rules can be found on OCC's public website: <http://optionsclearing.com/about/publications/bylaws.jsp>.

⁴ A "commodity future" is defined in Article I(c)(24) of By-Laws as "a futures contract within the exclusive jurisdiction of the Commodity Futures Trading Commission that is traded on, through the facilities of, or subject to the rules of a futures market." Options on securities futures currently do not exist.

all sell transactions are processed before exercises (i.e., closing sells would be processed before exercises under the proposed change).⁵ For instance, for securities options transactions, this proposal would change the order in which such transactions are processed in “customers’ accounts,” “firm accounts,” and “Market-Maker accounts” such that all sell transactions are processed prior to exercises.⁶ OCC is proposing to amend Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805 to reflect this change in the processing sequence for options transactions.

This proposed change is made possible by increased proficiency in Clearing Member position processing and is intended to help Clearing Members comply with certain exchange requirements that are described below.⁷ OCC’s current processing sequence was adopted at a time when trade processing was a far different process than it is today. OCC used to receive a batch file from each exchange at the end of the trading day showing the trades that had been executed on the exchange that day. OCC would then process those trades on a batch basis prior to the open of trading the following business day. Now, OCC receives, and Clearing Members can see, trades executed on an

⁵ Opening buys increase long positions and closing sells decrease long positions. Opening sells increase short positions and closing buys decrease short positions.

⁶ OCC Clearing Members hold omnibus accounts at OCC for customer positions (i.e., a “customers’ account” as defined in Article I, Section 1.C.(37) of the By-Laws) to the extent they conduct a customer business. They also hold omnibus accounts at OCC for non-customer positions (i.e., a “firm account” as defined in Article I, Section 1.F.(6) of the By-Laws) to the extent they conduct a proprietary business. To the extent they clear for Market-Makers, they also hold “Market-Maker accounts” as defined in Article I, Section 1.M.(1) of the By-Laws.

⁷ The proposed rule change also is designed to help facilitate the ability to run OCC’s current clearing system, known as ENCORE, in parallel with a new clearing system on which OCC is working, as the proposed processing sequence is the one expected to be used in the new clearing system. As OCC’s core clearing system, ENCORE processes trades received from OCC’s participant exchanges and settlements among OCC’s Clearing Members.

exchange on a near real-time basis.⁸ Clearing Members utilize this information as well as certain tools provided by OCC (described below) to balance exercise notices against existing long positions during the trading day.

Customers' and Firm Account Processing for Securities Options Transactions

As noted, OCC's current processing sequence has been in place for many years and was designed when options transactions were processed on a batch basis. It originally was designed to protect a Clearing Member against the risk that an erroneously coded transaction could result in the Clearing Member not exercising a customer's long position. In particular, because the vast majority of customer securities options positions are maintained on a gross basis at OCC, a miscoded sell transaction of one customer could close out a long position in the same series of another customer, thereby preventing that customer from exercising that option.⁹ For example, Customer A and Customer B use the same Clearing Member. Customer A wants to exercise a long position, and on the same day Customer B directs the Clearing Member to execute an opening sell. If the Customer B trade is erroneously marked as a closing sell, the long position that Customer A seeks to exercise could be closed out by that closing sell and thus be unavailable for exercise.

Processing exercises before closing sells ensured that all intended exercises would be processed irrespective of a mismarked customer transaction. OCC believes this is no longer necessary due to increased proficiency in Clearing Member position processing. In particular, Clearing Members now have the ability to use certain functions provided by

⁸ This functionality has been available in ENCORE since 2002.

⁹ There are a small subset of customer and firm sub-accounts that have elected to be held on a net basis. These accounts are discussed below.

OCC to confirm that submitted exercises have sufficient long positions. These functions include a screen in OCC's ENCORE clearing system called the Exercise screen that shows Clearing Members during a trading day whether they have "Insufficient Longs" (i.e., insufficient long positions) for the exercise notices they have received during that trading day.¹⁰ These functions also include OCC's On Demand Position file ("ODP") that allows Clearing Members during a trading day to balance long positions versus exercises that are received during that trading day to ensure that the Clearing Members have sufficient long positions for those exercises. In addition, they have the ability to correct open/close errors by entering a position adjustment in ENCORE prior to exercises being processed. In the example above, where Customer B's trade is erroneously marked as a closing sell, Customer A's long position could be closed out by that closing sell and thus be unavailable for exercise. Position Adjustments allow a firm to correct open/close errors associated with a trade. This correction functionality can only be used for non-critical aspects of a trade and cannot be used, for instance, to change the price, symbol or other critical aspects of a trade.

Clearing Members have indicated that they believe this change will help them comply with certain exchange rules that require customers to only exercise "outstanding" net long positions. As an example, BATS Rule 23.1(a) provides that, "an outstanding options contract may be exercised during the time period specified in the Rules of [OCC] by the tender to [OCC] of an exercise notice in accordance with the Rules of [OCC]."¹¹ BATS Rule 16.1(a)(43) defines "outstanding" as "an options contract which has been

¹⁰ See supra note 7.

¹¹ See also FINRA Rule 2360 (b)(23), NYSE American Options Rule 980(a), and NYSE Arca Rule 6.24-O(a).

issued by [OCC] and has neither been the subject of a closing writing transaction nor has reached its expiration date.” Clearing Members have indicated that issues could arise under the rule in situations where a customer position is subject to conflicting closing sale and exercise instructions, which could lead to a position being exercised that was intended to be closed out under OCC’s current processing sequence.

Market Maker and Other Net Account Processing for Securities Options Transactions

The processing sequence set forth above for customer and firm accounts also applies to Market-Maker accounts held by Clearing Members. Market-Maker accounts, however, are held on a net basis. This means that at the end of each trading day, OCC nets offsetting positions in the same options series in each Market-Maker account.¹² Prior to 2014, this netting occurred at the end of the processing sequence immediately before assignments.

In response to operational risk concerns related to the processing of dividend play transactions by Market-Makers, a modification to OCC’s systems was approved by OCC’s Board of Directors to insert a step in the processing sequence that would limit Market-Maker exercises to net long positions.¹³ From a systems perspective, this change

¹² A few Clearing Members have established the functionality to designate sub-accounts within their omnibus customer and firm accounts held at OCC. These sub-accounts are established for a specific customer or joint back office account and the account holders can elect to hold these accounts on a net basis to assist with the position reconciliation process. When the account holders elect to hold the accounts in this manner, they are subject to the same netting process to which Market-Maker accounts are subject. See Interpretation and Policy .04 to Article VI, Section 3 of OCC’s By-Laws.

¹³ A dividend play is a trading strategy that historically was primarily engaged in by Market-Makers and involved buying and selling an equal number of call options right before a dividend date on the underlying equity and exercising the long call options with the goal of capturing the dividend on the underlying equity.

was implemented by moving up the netting in the processing sequence such that it occurred before exercises, as set forth below.

Options Processing Sequence for Market Maker and Other Net Accounts

Opening Buys

Opening Sells

Closing Buys

Net Positions in Net Accounts (location after 2014 change)

Exercises

Closing Sells

~~Net Positions in Net Accounts~~ (location prior to 2014 change)

Assignments

From a Rules perspective, this change was implemented by adopting Interpretations and Policies .04 to Rule 801 and Interpretations and Policies .04 to Rule 805.¹⁴ In relevant part, these provisions provide that, “[w]ith respect to any Market-Maker account, the Corporation shall process sell transactions in respect of option contracts prior to exercises in respect of such contracts.” Despite this rule text, as indicated in the net processing sequence list immediately above, closing sells continued to be processed after exercises for Market-Maker and other net accounts after the 2014 change. As described below, the proposed change to the options processing sequence that is the subject of this rule filing would modify the sequence for all accounts, including Market-Maker and other net accounts, such that closing sells would be processed before exercises.

Customer and House Account Processing for Options on Commodity Futures

While OCC currently uses the same processing sequence for options on commodity futures, OCC understands that futures customers and Clearing Members are indifferent to the processing sequence for futures transactions. Futures firms submit very

¹⁴ See Exchange Act Release No. 73438 (October 27, 2014), 79 FR 64843 (October 31, 2014) (SR-OCC-2014-15).

few trades marked as closing transactions, and as a result, are accustomed to submitting nightly adjustments to correct their open interest. This process reduces the potential of an exercise error since the firms verify their long positions on a daily basis.

Proposed Change to Processing Sequence

OCC proposes to modify the processing sequence for all securities and futures options transactions for all account types to process all **closing sell** transactions prior to all **exercise** transactions. The proposed processing sequence is set forth below.

Proposed Options Processing Sequence for All Accounts

Opening Buys
Opening Sells
Closing Buys
Closing Sells
Exercises
Assignments

For Market-Maker and other accounts held on a net basis, OCC proposes to net offsetting positions after closing sells but before exercises. Each Market-Maker account is held individually (i.e., on a Market-Maker by Market-Maker basis) at a Clearing Member on a net basis, unlike customer accounts. Holding each Market-Maker account in this manner helps with the position reconciliation process at Market-Makers and allows them to see a single net position in each options series for risk management purposes.

OCC has discussed the proposed change with its Clearing Members at the OCC Roundtable, which is an OCC-sponsored advisory group comprised of representatives from OCC's participant exchanges, a cross-section of OCC Clearing Members, and OCC staff, and during regular monthly operations update calls with Clearing Members and

exchanges.¹⁵ OCC also issued Information Memos on its public website to inform Clearing Members of the proposed change.¹⁶ Based upon the feedback from these discussions, OCC believes that its current processing sequence for options transactions no longer needs to be designed to protect Clearing Members from errors in customers' accounts that would result in closing out a position that was intended to be exercised. As noted, Clearing Members have increased their position processing proficiency and can now use OCC tools to confirm that submitted exercises have sufficient long positions. They also have the ability to correct any errors prior to exercises being processed. Clearing Members also have indicated that they believe this change will help them comply with certain exchange rules that require customers to exercise only "outstanding" net long positions. By processing all buys and sells prior to exercises, they believe that the proposed change would help address situations in which a customer position is subject to conflicting closing sale and exercise instructions, which could lead to a position being exercised that was intended to be closed out under the current processing sequence.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act¹⁷ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement

¹⁵ OCC provided supplemental materials to its Clearing Members after the August 2019 Monthly Operations Update meeting to help illustrate the proposed change in the processing sequence. OCC provided these materials as Exhibit 3A to File No. SR-OCC-2020-004.

¹⁶ See OCC Information Memo #45781, dated October 9, 2019, and Information Memo #46129, dated December 10, 2019. OCC provided these Information Memos as Exhibits 3B and 3C to File No. SR-OCC-2020-004.

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

of securities and derivatives transactions. OCC believes that the proposed rule change will promote the prompt and accurate clearance and settlement of securities transactions. In this regard, the proposed rule change would provide for the processing of closing sell transactions prior to exercises, which OCC's Clearing Members have indicated would help promote compliance with exchange rules noted above that require that only outstanding options positions be exercised. As indicated above, OCC's system no longer needs to be designed to protect Clearing Members from customer transaction marking errors in which a sell transaction is miscoded as a closing sell transaction. The near real-time processing of options transactions by OCC and OCC tools have helped Clearing Members increase their position processing proficiency. The proposed change to the position processing sequence would result in OCC's system allowing only net long positions to be exercised in all accounts, including individual customer accounts. This result is designed to promote compliance with exchange rules and further the goal of promoting the prompt and accurate clearance and settlement of securities transactions.

In addition, the proposed rule change is not inconsistent with the existing By-Laws and Rules of OCC, including any rules proposed to be amended.

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

Section 17A(b)(3)(I) of the Act¹⁸ 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. The proposed rule change would not affect the competitive dynamics between Clearing Members in that it would apply to all Clearing Members equally. The

¹⁸ 15 U.S.C. 78q-1(b)(3)(I).

proposed rule change also would not inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another. In this regard, as described above, the proposed rule change is designed to further facilitate the prompt and accurate clearance and settlement of securities transactions. It would change the processing sequence so that closing sells are processed before exercises, which would ensure from a systematic perspective that only net long positions can be exercised.

(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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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-2020-004 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2020-004. 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 (<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-2020-004 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.¹⁹

Secretary

¹⁹ 17 CFR 200.30-3(a)(12).

EXHIBIT 3A

Proposed Options Processing Sequence Change

OCC

**THE FOUNDATION
FOR SECURE
MARKETS**

Position Processing

In response to Clearing Member requests, OCC proposes to modify the processing sequence to process ***closing sell*** transactions prior to ***exercise*** transactions. ***Pending SEC approval*** this change will help prevent members from being alleged to violate exchange rules which require customers to only exercise “outstanding” long positions.

Current vs proposed sequencing is highlighted below along with an example:

Today's Processing Sequence

Opening Buys
Opening Sells
Closing Buys
Exercises
Closing Sells
Assignments

Proposed Processing Sequence

Opening Buys
Opening Sells
Closing Buys
Closing Sells
Exercises
Assignments

Example

Current Sequencing

Activity	Long	Short	
Start of Day	30	20	
Open Buy 10	40	20	
Open Sell 10	40	30	
Closing Buy 20	40	10	
Exercise 30	10	10	All 30 exercises accepted
Closing Sell 30	0	30	Close remaining 10 long; create 20 excess shorts
End of Day	0	30	

Proposed Sequencing

Activity	Long	Short	
Start of Day	30	20	
Open Buy 10	40	20	
Open Sell 10	40	30	
Closing Buy 20	40	10	
Closing Sell 30	10	10	
Exercise 30	0	10	Only 10 exercises are processed; 20 reject
End of Day	0	10	

Clearing Members should review their processes and take advantage of OCC tools making sure they have sufficient long positions to cover exercises.

- Utilize the OCC On Demand Position file (ODP) to balance long positions vs Exercises
- Daily verification of the ENCORE Exercise screen for “Insufficient Longs”

EXHIBIT 3B



**THE FOUNDATION
FOR SECURE
MARKETS**

#45781

TO: ALL CLEARING MEMBERS
DATE: OCTOBER 09, 2019
SUBJECT: OPTIONS PROCESSING SEQUENCE

OCC intends to file a rule change with the SEC to amend OCC Rules 801 and 804 which will change the processing sequence to process closing sell transactions prior to exercises for securities options and commodity futures options in all account types. This proposed processing sequence will only become effective if and when OCC receives regulatory approval for the rule change. OCC's current processing sequence for securities options and commodity futures options has exercises being processed prior to closing sell transactions. The current and proposed sequences are as follows:

Current Processing Sequence	Proposed Processing Sequence
Opening Buys Opening Sells Closing Buys Net Longs and Shorts for Net Accounts *Exercises *Closing Sells Assignments	Opening Buys Opening Sells Closing Buys *Closing Sells Net Longs and Shorts for Net Accounts *Exercises Assignments

Background

OCC's current process was originally designed to help protect Clearing Members against the risk that an erroneously coded transaction would prevent the exercise of a customer's long position. Since most customer positions are held on a gross basis, a miscoded sell transaction of one customer could potentially close out a long position in the same series of another customer, thereby preventing the Clearing Member from exercising that option on behalf of the customer. By processing closing sells after exercises, that risk was minimized.

Clearing Members' proficiency in processing transactions has improved dramatically with many Clearing Members correcting these closing sell errors as they occur. Additionally, Clearing Members now have the ability to use various tools provided by OCC to confirm that submitted exercises have sufficient long positions. These include utilizing the On Demand Position file (ODP) to balance long positions vs.

exercises and daily verification of the ENCORE Exercise screen for “Insufficient Longs” to ensure sufficient long positions exist for every exercise. With these tools and the advancement of processing efficiencies, OCC and Clearing Members have determined that the protection provided by the current process is no longer required.

The Rule change was requested to help prevent Clearing Members from being alleged to have violated certain exchange rules that require customers to only exercise “outstanding” net long positions.¹ By processing all buys and sells prior to exercises, the proposed change would address these concerns by creating a systemic way at OCC to ensure that only net long positions will be exercised.

OCC will provide Clearing Members the opportunity to test the updated Options Processing Sequence in the OCC Daily UAT environment starting on approximately December 1, 2019. Clearing members can participate in testing and viewing Monday – Friday during this time.

If Daily UAT connectivity has not been previously established, please submit a request using our online form (<http://optionsclearing.com/webapps/cert-test-services>) indicating the purpose of the request is **Options Processing Sequence Testing**. Please note new connectivity can take 7 – 10 days.

OCC will post another memo once the rule is filed with the SEC.

If you have any questions regarding this memorandum, please contact the Member Services Help Desk at the following numbers: 800-544-6091 or 800-621-6072. Within Canada, please call 800-424-7320. Clearing members may also e-mail OCC at memberservices@theocc.com.

¹ As an example, BATS Rule 23.1(a) provides that, “an outstanding options contract may be exercised during the time period specified in the Rules of [OCC] by the tender to [OCC] of an exercise notice in accordance with the Rules of [OCC].” BATS Rule 16.1(a)(43) defines “outstanding” as “an options contract which has been issued by [OCC] and has neither been the subject of a closing writing transaction nor has reached its expiration date.”

EXHIBIT 3C



**THE FOUNDATION
FOR SECURE
MARKETS**

#46129

TO: ALL CLEARING MEMBERS
DATE: DECEMBER 10, 2019
SUBJECT: OPTIONS PROCESSING SEQUENCE – EXTERNAL TESTING UPDATE

OCC intends to file a rule change with the SEC to amend OCC Rules 801 and 804 which will change the processing sequence to process closing sell transactions prior to exercises for securities options and commodity futures options in all account types. This proposed processing sequence will only become effective if and when OCC receives regulatory approval for the rule change. OCC’s current processing sequence for securities options and commodity futures options has exercises being processed prior to closing sell transactions. The current and proposed sequences are as follows:

Current Processing Sequence	Proposed Processing Sequence
Opening Buys Opening Sells Closing Buys Net Longs and Shorts for Net Accounts *Exercises *Closing Sells Assignments	Opening Buys Opening Sells Closing Buys *Closing Sells Net Longs and Shorts for Net Accounts *Exercises Assignments

Background

OCC’s current process was originally designed to help protect Clearing Members against the risk that an erroneously coded transaction would prevent the exercise of a customer’s long position. Since most customer positions are held on a gross basis, a miscoded sell transaction of one customer could potentially close out a long position in the same series of another customer, thereby preventing the Clearing Member from exercising that option on behalf of the customer. By processing closing sells after exercises, that risk was minimized.

Clearing Members’ proficiency in processing transactions has improved dramatically with many Clearing Members correcting these closing sell errors as they occur. Additionally, Clearing Members now have the ability to use various tools provided by OCC to confirm that submitted exercises have sufficient long positions. These include utilizing the On Demand Position file (ODP) to balance long positions vs.

exercises and daily verification of the ENCORE Exercise screen for “Insufficient Longs” to ensure sufficient long positions exist for every exercise. With these tools and the advancement of processing efficiencies, OCC and Clearing Members have determined that the protection provided by the current process is no longer required.

The Rule change was requested to help prevent Clearing Members from being alleged to have violated certain exchange rules that require customers to only exercise “outstanding” net long positions.¹ By processing all buys and sells prior to exercises, the proposed change would address these concerns by creating a systemic way at OCC to ensure that only net long positions will be exercised.

OCC will provide Clearing Members the opportunity to test the updated Options Processing Sequence in the OCC Daily UAT environment starting on Monday, December 16th, 2019. Clearing Members can participate in testing and viewing Monday – Friday during this time.

If Daily UAT connectivity has not been previously established, please submit a request using our online form (<http://optionsclearing.com/webapps/cert-test-services>) indicating the purpose of the request is **Options Processing Sequence Testing**. Please note new connectivity can take 7 – 10 days.

OCC will post another memo once the rule is filed with the SEC.

If you have any questions regarding this memorandum, please contact the Member Services Help Desk at the following numbers: 800-544-6091 or 800-621-6072. Within Canada, please call 800-424-7320. Clearing members may also e-mail OCC at memberservices@theocc.com.

¹ As an example, BATS Rule 23.1(a) provides that, “an outstanding options contract may be exercised during the time period specified in the Rules of [OCC] by the tender to [OCC] of an exercise notice in accordance with the Rules of [OCC].” BATS Rule 16.1(a)(43) defines “outstanding” as “an options contract which has been issued by [OCC] and has neither been the subject of a closing writing transaction nor has reached its expiration date.”

EXHIBIT 5



OCC Rules

Underlined text indicates new text

~~Strikethrough~~ text indicates deleted text

Chapter VIII - Exercise and Assignment

RULE 801 – Exercise of Options

Issued and unexpired option contracts may, subject to Exchange Rules and the By-Laws, be exercised as follows:

(a) – (d) No change.

...Interpretations and Policies:

.01 - .03 No change.

.04 With respect to any ~~Market-Maker securities or futures~~ account, the Corporation shall process sell transactions in respect of American option contracts prior to exercises in respect of such contracts; ~~provided that, for the purposes of this Interpretation and Policy, JBO Participants' accounts shall not be considered Market-Maker accounts until such time as the Corporation on not less than 30 days' notice to Clearing Members is able to identify, on a subaccount basis, the transactions of a JBO Participant within JBO Participant accounts, in which case JBO Participant accounts shall be considered Market-Maker accounts.~~

RULE 805 - Expiration Exercise Procedure

(a) – (m) No change.

...Interpretations and Policies:

.01 - .03 No change.

.04 With respect to any ~~Market-Maker securities or futures~~ account, the Corporation shall process sell transactions in respect of option contracts prior to exercises in respect of such contracts; ~~provided that, for the purposes of this Interpretation and Policy, JBO Participants' accounts shall not be considered Market-Maker accounts until such time as the Corporation on not less than 30 days' notice to Clearing Members is able to identify, on a subaccount basis, the transactions of a JBO Participant within JBO Participants' accounts, in which case JBO Participants' accounts shall be considered Market-Maker accounts.~~