May 1, 2015

VIA CFTC PORTAL

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

Re: Rule Filing SR-OCC-2015-011 Rule Certification

Dear Secretary Jurgens:

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 date of implementation of the rule is at least 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 (the "SEC") or otherwise becomes effective under the Securities Exchange Act of 1934 (the "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 primary purpose of this proposed rule change is to reflect changes to OCC's Rules governing "escrow deposits" and "third-party specific deposits," each a type of deposit in lieu of margin, in order to, among other things, clarify the rights of clearing members to access deposited securities and cash in the event of a customer default and, in the case of escrow deposits, change the manner in which deposited securities and cash are held and include the majority of the terms of the escrow deposit program in the Rules rather than in an agreement signed by custodian banks. The proposed rule change is also intended to reorganize, restate and consolidate certain of OCC's Rules relating to deposits in lieu of margin in order to distinguish more clearly among the various types of deposits in lieu of margin and identify more clearly the provisions applicable to each. Further, the proposed rule change also establishes the process under which clearing members and custodian banks would transition from making deposits governed by OCC's existing Rules to making deposits governed by the amended Rules. In the interest of clarity, OCC is also proposing to make certain changes in the terminology used in connection with deposits in lieu of margin.

Background – Deposits in Lieu of Margin

Generally speaking, "deposits in lieu of margin" are used to "cover" a short position in an eligible option contract by deposit of the underlying securities—or acceptable collateral equal to the exercise price in the case of an equity put or the exercise settlement amount in the case of an index option—rather than collateralizing the short position through the deposit of margin. Deposits in lieu of margin are currently divided into "specific deposits," which are made by a clearing member that holds the underlying security in its account at the Depository Trust Company ("DTC") on behalf of a particular customer, and "escrow deposits," which are made by custodian banks on behalf of a clearing member's customer. The Rules currently provide for two types of escrow deposits – escrow program deposits and third-party escrow deposits. A third-party escrow deposit is a pledge of the underlying securities in respect of a short call option through the systems of DTC. An escrow program deposit is a pledge of eligible collateral, made through a custodian bank pursuant to the escrow deposit program, in respect of short positions in equity and index put or call options via OCC's own on-line escrow deposit system.

Current Rules Governing Escrow Deposits

Under current Rules 610(d) and 610(g) governing third-party escrow deposits, a clearing member's customer may instruct a custodian bank to make such a deposit through the pledge of a security underlying a short equity call option position written by the customer to OCC through DTC's systems. This instruction also identifies the relevant clearing member. The pledged security remains in the custodian bank's DTC account with a "tag" indicating that it is pledged to OCC; if OCC releases the pledge, the tag is removed. OCC treats the pledge of the underlying security as a deposit in lieu of margin for the short equity call position. The short position is deemed to be "covered" for margin purposes, *i.e.*, the security that would be delivered on exercise has been pledged, thereby ensuring that physical delivery settlement obligations would be met, and is not included in calculating the clearing member's margin requirements.

Third-party escrow deposits also serve to cover the customer's short position at the clearing member. Under self-regulatory organization margin rules, the clearing member may treat the customer's short position as being "covered" and need not collect customer level margin to secure the obligations of the customer to the clearing member.[1]

Under current Rules 610(d), 613 and 1801 governing escrow program deposits, a custodian bank may make deposits of eligible collateral in respect of stock and index options,

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1 *See, e.g.*, Financial Industry Regulatory Authority ("FINRA") Rule 4210 and Chicago Board Options Exchange ("CBOE") Rule 12.3. These rules specifically refer to OCC's Rules governing specific and escrow deposits, in addition to providing more generally that margin need not be deposited with respect to short positions covered by an escrow agreement satisfying certain conditions.

whether puts, or calls, carried in a short position in clearing member accounts at OCC, and thereby "cover" the obligation to deliver case upon exercise settlement, through systemic means provided by OCC. Collateral supporting escrow program deposits is held at custodian banks, and therefore OCC relies upon reports of deposited collateral supplied by the custodian banks. Furthermore, pursuant to Rules 610(g)(2) and 613, the substantive terms of the escrow deposit program are included in a detailed agreement with each custodian bank (each, an "Escrow Deposit Agreement"),[2] and therefore OCC must maintain these individual agreements with each custodian bank that participates in the escrow deposit program.

In the case of both third-party escrow deposits and escrow program deposits, as set forth in Rules 610(j) and 613(b), respectively, if the custodian bank, on behalf of its customer, requests a release of the deposit through DTC's systems, the release must first be approved by the clearing member for whose benefit the deposit was made. OCC does not release its rights in the deposit until it first determines that the clearing member would be in compliance with OCC margin requirements in the account in which the position is carried upon the release's being effected.

Reorganization and Transition

Reorganization

Although escrow program deposits and third-party escrow deposits are both classified as "escrow deposits" under Rule 610(g), in practice third-party escrow deposits are more like specific deposits, as described in Rule 610(e). Third-party escrow deposits and specific deposits each require deposit of the *specific* securities underlying a short position, while this is not the case for escrow program deposits. Furthermore, for purposes of OCC's internal operations, a distinction is not made between specific underlying securities pledged through DTC's systems by a clearing member and those pledged through DTC's systems by a third party. Accordingly, the proposed Rules refer to (i) deposits by third parties of specific underlying securities, formerly classified as third-party escrow deposits, as "third-party specific deposits," and (ii) deposits by clearing members of specific underlying securities, formerly classified simply as specific deposits, as "member specific deposits." Deposits via the escrow deposit program would remain as the sole category of "escrow deposits" and, accordingly, would be referred to as such.

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[2] See the Amended and Restated On-Line Escrow Deposit Agreement, enclosed as Exhibit B to the letter from Jean M. Cawley, OCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Securities and Exchange Commission (July 18, 1996), cited in Securities Exchange Act Release No. 34-37602 (August 26, 1996) (SR-OCC-95-17), and Amendment No. 1 to the Amended and Restated On-Line Escrow Deposit Agreement, attached as Exhibit 5 to Securities Exchange Act Release No. 34-51584 (April 20, 2005) (SR-OCC-2005-04).

Corresponding to this revised terminology, the proposed Rules would be reorganized to distinguish more clearly the three forms of deposits in lieu of margin. While Rule 610 currently contains provisions governing each type of deposit in lieu of margin, and Rules 613 and 1801 provide additional detail with respect to escrow deposits, under the proposed Rules each type of deposit in lieu of margin would be governed by a distinct Rule. Proposed Rule 610 would govern deposits in lieu of margin generally, while proposed Rules 610A, 610B and 610C would govern member specific deposits, third-party specific deposits and escrow deposits, respectively. As part of this reorganization, certain provisions currently in Rules 613 and 1801 would be included in the proposed Rules corresponding to the applicable type of deposit in lieu of margin, and Rules 613 and 1801 would no longer be necessary and deleted in their entirety at the end of the transition period.

Communications with Custodian Banks

In light of the substantial changes proposed to the escrow deposit program in particular, OCC has sought to keep custodian banks informed regarding the proposed changes. These communications began in January and February 2012, when OCC notified each custodian bank of the proposal to restructure the escrow program. As part of this notification, OCC informed each custodian bank OCC's intention to require the security pledges to be made through DTC, the percentage of cash used in the escrow deposit program and the potential elimination of cash deposits.[3]

In June through August 2012, OCC provided a PowerPoint presentation to each custodian bank summarizing proposed changes to the escrow deposit program. This presentation included an explanation of the reasons for the proposed changes, including the desire to enhance and strengthen the escrow deposit program, and increase collateral transparency. The presentation also included a discussion of changes to the validation and valuation of collateral, and the calculation of contract quantities based on the collateral that has been pledged.

In April and May 2013, OCC provided each custodian bank with an operational overview of the restructured escrow deposit program in the form of a PowerPoint presentation. This

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[3] While it was ultimately determined in April 2014 that cash collateral would remain in the escrow deposit program, prior discussions with participating escrow banks reflected the evolution of OCC's decision on this point. For example, the PowerPoint presentation given to banks during June – August 2012 indicated that cash collateral would not be permitted in the escrow deposit program, while the PowerPoint presentation given during April – May 2013, as well as the draft rules distributed to participating escrow banks for comment in July – August 2013, indicated that it *would* be included. A number of current participants in the escrow deposit program use cash, some to a substantial degree, and OCC determined that the use of cash collateral should remain an essential aspect of the escrow deposit program.

presentation covered: eligible option types; types of eligible supporting collateral; required collateral value calculations for option contact coverage; valuation of supporting collateral; asset management locations/processing of supporting collateral; and validation and valuation of supporting collateral and calculation of option contract coverage.

In July and August 2013, OCC distributed a draft Participating Escrow Bank Agreement (as described below) and the related proposed OCC Rules to custodian banks along with a request for feedback. Following the receipt of questions and comments, OCC distributed "FAQ" responses to custodian banks.

During September 2013, OCC provided a walkthrough of the functions of its ENCORE system applicable to the restructured escrow deposit program for certain custodian banks in order to provide an orientation of such function to custodian banks as well as to solicit initial feedback on those functions. ENCORE is OCC's real-time clearing and settlement system that allows clearing members to, among other things, post and view margin collateral as well as deposits in lieu of margin. In connection with the restructured escrow deposit program, clearing members will continue to use ENCORE to view member specific deposits, and custodian banks will also use ENCORE to view third-party specific deposits and make escrow deposits consisting of cash. Moreover, OCC sent requests to custodian banks for validation of the DTC pledgor accounts to be used for the restructured escrow deposit program. In October 2013, OCC distributed escrow deposit program eligible securities file details to custodian banks.

In February and March 2014, OCC arranged a series of calls with certain custodian banks to solicit feedback on a term sheet detailing cash account structures. Following the receipt of questions and comments, OCC distributed "FAQ" responses to custodian banks.

The questions and comments received from custodian banks are more fully described in Item 5 below.

Transition Period

For the administrative convenience of clearing members, custodian banks and customers, the existing Rules governing deposits in lieu of margin would remain in effect, in parallel with the proposed Rules, for a transition ending April 30, 2016. This would also reduce the risk of clearing members' needing to provide new collateral on a single date in the absence of a transition period. During this transition period, deposits in lieu of margin could be made under either the existing Rules or the proposed Rules. After the transition period, proposed Rules 610, 610A, 610B and 610C would provide the sole means of making deposits in lieu of margin; existing Rules 613 and 1801 would become ineffective and would be deleted from the Rules without the need for an additional rule filing. Existing Rule 610 would be redesignated as 610T to indicate that it is a temporary rule, and also would become ineffective after the transition period. Furthermore, following the transition period, existing Rule 503, which addresses

instructions that call for the payment of a premium by or to the clearing member for whose account the deposit is made, would become ineffective and would be deleted from the Rules without the need for an additional rule filing, because these instructions would no longer be permitted under the revised escrow deposit program, as described below.

Notwithstanding the reorganization and change in terminology, proposed Rules 610B and 610C governing third-party specific deposits and escrow deposits, respectively, have certain parallel provisions because the collateral constituting each would continue to be pledged by a custodian bank. Consequently, much of the following explanation relates to both escrow deposits and third-party specific deposits, despite the differences in their underlying collateral.

Revised Rules Governing Escrow Deposits and Third-Party Specific Deposits Generally

The proposed Rules governing third-party specific deposits and escrow deposits, as introduced in proposed Rule 610B(a) and the initial paragraph of proposed Rule 610C, generally contain parallel provisions with respect to both OCC's and clearing members' respective rights in collateral included within a deposit.

OCC's Rights in Collateral Relating to Escrow Deposits and Third-Party Specific Deposits

The proposed Rules governing the escrow deposit program include a number of representations and agreements in paragraphs (i), (j) and (k) of proposed Rule 610C, previously included in the Escrow Deposit Agreement, which each custodian bank would be deemed to make each time that it makes an instruction with respect to an escrow deposit. For example, each custodian bank would agree, under Rule 610C(i)(1), not to release an escrow deposit without OCC's consent and, under Rule 610C(i)(2), not to subject deposits to any lien or right of set-off in favor of the custodian bank. Proposed Rules 610B(b) and 610C(e) also provide that the custodian bank may "roll over" a deposit to cover a different short position of the same customer and option type, subject to OCC's right to approve or reject such a rollover instruction.

With respect to both third-party specific deposits, under proposed Rule 610B(f), and escrow deposits, under proposed Rule 610C(q) and (r), in the event of a clearing member or custodian bank default, OCC would have the right, in the case of securities included within such a deposit, to direct DTC to deliver the securities to its DTC participant account for the purpose of satisfying the obligations of the clearing member or custodian bank or reimbursing itself for losses incurred as a result of the failure, as applicable. Similarly, pursuant to Rule 610C(q) and (r) OCC would have the right in the event of such a default to take possession of cash included within an escrow deposit for the same purposes. In the event of a custodian bank default, including if the custodian bank failed to satisfy the minimum standards for participation in the revised escrow deposit program to be established by OCC and included in its operational procedures, under Rule 610C(r) OCC would further have the right to, among other things, remove the custodian bank from the escrow deposit program, prohibit the custodian bank from

making new escrow deposits, disallow withdrawals with respect to existing deposits, close out short positions covered by escrow deposits and use the deposit to reimburse itself for the costs of the close-out or disregard or require the withdrawal of existing escrow deposits. Proposed Rules 610B(g) and 610C(t) provide that the release of a third-party specific deposit or an escrow deposit, respectively, would release OCC's rights against the custodian bank with respect to the deposit.

Proposed Rule 610C(h) also includes changes which would clarify OCC's ability to close out a position covered by any deposit in lieu of margin if the collateral supporting the position falls below the maintenance levels set forth in a schedule or other form as OCC shall make available to clearing members and participating escrow banks and described in the proposed Rules, and the relevant clearing member fails to satisfy a demand by OCC for margin and is suspended, and to use the cash and securities included within the escrow deposit to reimburse itself for costs incurred in connection with the close-out.

In addition to the proposed changes to the Rules governing escrow and third-party specific deposits relating to OCC's rights in the collateral included within these deposits, OCC is proposing to amend Rule 1106 to clarify the treatment of these deposits in the event of a suspension of a clearing member. Rule 1106(b)(2) would be amended to clarify that OCC may close out a short position covered by an escrow or specific deposit, subject to the ability of the suspended clearing member or its representative to transfer the short position to another clearing member under certain circumstances. In addition, current Rule 1106(b)(3) would be combined with Rule 1106(b)(2) and amended to clarify OCC's right to take possession of the cash and/or securities included within an escrow or specific deposit for the purpose of reimbursing itself for costs incurred in connection with the close-out of a short position covered by the deposit.

Clearing Members' Rights in Collateral Relating to Escrow Deposits and Third-Party Specific Deposits

Proposed Rules 610C(d), (o), (p) and (s), relating to escrow deposits, and proposed Rules 610B(d) and (e), relating to third-party specific deposits, would provide that the clearing member maintaining the account with respect to which such a deposit was made would have the ability, in addition to a clearing member's right under DTC's rules with respect to third-party specific deposits to block the release of deposited securities requested by a custodian bank, to request a "hold" with respect to a deposit that would operate to prevent the withdrawal of deposited securities or cash by an approved custodian or the release of a deposit that would otherwise be effected by OCC as a matter of course on the business day following the exercise settlement date for the options covered by the deposit.

Proposed Rules 610C(d), (o), (r) and (s) and 610B(d) and (e) further provide that, in the event an exercise notice is allocated to a covered short position and the customer fails to satisfy its delivery obligation to the clearing member, the clearing member would have the right to

request that OCC direct delivery of the underlying securities through DTC's systems or cash through an instruction to the custodian bank, as applicable, as specified by the clearing member. In addition, if a covered short position is closed out, at the direction of the customer or the clearing member, through a closing purchase transaction and the customer fails to pay the premium and any related transaction costs, the clearing member would have the right to direct OCC to direct delivery of a sufficient amount of the deposited securities or cash to satisfy the customer's obligation to the clearing member with respect to the close-out.

With respect to both third-party specific deposits and escrow deposits, proposed Rules 610B(e) and 610C(s) also provide that by making a request for delivery, the clearing member would be deemed to make appropriate representations to OCC that the clearing member has a right to possession of the securities or cash and would grant to OCC the rights and remedies with respect to such securities or cash set forth in the Rules, and the clearing member would agree to indemnify OCC against losses resulting from a breach of these representations or the delivery of the securities or cash. A Clearing Member would also be required to provide such documentation regarding its right to possession of the securities or cash as OCC may reasonably request.

Proposed Rules 610B(c) and 610C(f) provide for the grant of a security interest by the customer to the clearing member in the securities and cash with respect to a specific short position. The Rules would provide that any such security interest of a clearing member in an escrow deposit would be subordinated to OCC's interest. For purposes of perfecting a clearing member's security interest under the Uniform Commercial Code, OCC would obtain control over the security both on its own behalf and on behalf of the relevant clearing member, with clear subordination of the clearing member's interest to OCC's interest; in the event OCC had to direct delivery of the security to the clearing member, OCC would do so on the clearing member's behalf.

Revised Rules Governing Escrow Deposits

While many of the proposed Rules govern both escrow deposits and third-party specific deposits, certain proposed Rules relate only to escrow deposits and the escrow deposit program, which governs such deposits. Additionally, and in the interest of clarity, OCC is proposing to change the term "approved depository" to "approved custodian" throughout the Rules concerning deposits in lieu of margin since the term "Depository" is defined as the Depository Trust Company.[4]

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[4] *See* OCC By-Laws, Article XXI, Section 1.D(1). An approved custodian must be either a bank or trust company.

Overview of the Revised Escrow Deposit Program and Participating Escrow Bank Agreement

While custodian banks would still need to execute an agreement to participate in the revised escrow deposit program, the Escrow Deposit Agreement would be greatly simplified and retitled as the "Participating Escrow Bank Agreement." Among other things, the Participating Escrow Bank Agreement would provide that custodian banks are subject to all terms of the Rules governing the revised escrow deposit program, as they may be amended from time to time.[5] The Participating Escrow Bank Agreement would still retain certain custodian bank eligibility requirements, including representations regarding the custodian bank's equity and authority to enter into the Participating Escrow Bank Agreement, though it would no longer include a limitation on a custodian bank's overall exposure to securities included within escrow deposits.

Further, under Rule 610C(b) governing the revised escrow deposit program, all non-cash collateral included within an escrow deposit would be held at, and pledged through, DTC. Cash collateral would continue to be held in accounts at custodian banks, but with certain enhanced controls, and pursuant to proposed Rule 610C(b) each customer participating in the revised escrow deposit program with respect to cash collateral would be required to enter into an agreement with OCC and the applicable custodian bank (the "Tri-Party Agreement") governing the customer's participation in the program and confirming the grant of a security interest in the customer's account, as provided for in proposed Rule 610C(f). Under the Tri-Party Agreement, each custodian bank would agree to follow disbursement directions of OCC with respect to cash included within escrow deposits and entitlement orders of OCC with respect to securities included within escrow deposits without further consent by the customer.[6] In addition, as set forth in the introductory paragraph of proposed Rule 610 and in Rule 610C(a), which describes eligible collateral, escrow deposits would no longer be permitted with respect to equity calls. Proposed Rules 610C(c) and (d) provide detail regarding available methods of making escrow deposits and withdrawals, respectively. Moreover, in an effort to reduce the escrow deposit

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5 Under the Participating Escrow Bank Agreement, however, OCC will agree to provide custodian banks with advance notice of material amendments to the Rules relating to deposits in lieu of margin and custodian banks will have the opportunity to withdraw from the program if they object to the amendments. As a general matter, the Participating Escrow Bank Agreement will not be negotiable, although OCC may determine to vary certain non-essential terms in limited circumstances. The Participating Escrow Bank Agreement is attached to this filing as Exhibit 5A.

6 OCC has determined to use this cash account structure as a result of a series of discussions with certain custodian banks involved in the cash portion of the escrow deposit program, as described above. The intended structure would permit a greater number of customers to participate in the escrow deposit program than, for example, a commingled "omnibus" account structure at each custodian bank, which would preclude the participation of customers subject to restrictions under the Investment Company Act of 1940 requiring segregation of a registered investment company's funds.

program's complexity, instructions pursuant to Rules 613 and 503 that call for the payment of a premium by or to the clearing member for whose account the deposit is made, which have not been utilized, would no longer be permitted under the revised escrow deposit program. Rules 503 and 613 would both become ineffective after the transition period.[7] As this aspect of the escrow deposit program has not been used for a number of years, its elimination should not be harmful to any current participants in the escrow deposit program. Proposed Rule 610C(l) would also require that custodian banks notify OCC of certain material organizational changes, as clearing members must do under current Rule 215, while proposed Rules 610C(m) and (n) would govern the on-line reports provided to clearing members and custodian banks regarding escrow deposits.

Transparency and Control over Collateral Included in Escrow Deposits

In order to take advantage of the substantial degree of integration between OCC's systems and DTC's pledge system, proposed Rule 610C(b) governing the escrow deposit program requires that all non-cash collateral pledged to support an escrow be held by the custodian bank at, and pledged through, DTC. This manner of holding collateral would provide OCC with the ability to validate and value collateral supporting escrow deposits in real time, allowing OCC to perform the controls for which it currently relies on the custodian banks. It would also provide OCC with the ability to obtain possession of deposited securities upon a clearing member default by issuing a transfer instruction through DTC's systems, without the need for custodian bank involvement. Furthermore, a clearing member would have the ability to obtain possession of deposited securities upon a customer default in a similar manner by notifying OCC of such customer default and submitting a request for delivery of such deposited securities. Cash collateral pledged to support an escrow deposit would continue to be held through the existing program interfaces; however, for increased security, any pledges of cash would be required to be made in a customer account at the custodian bank to be used solely for the purpose of making escrow deposits, with respect to which the customer has entered into a Tri-Party Agreement. Each custodian bank would agree to disburse funds from the pledged account only at OCC's direction. While requiring a Tri-Party Agreement may affect certain custodian banks' ability to participate in the escrow deposit program, OCC would gain additional transparency and control over cash collateral as a result of the agreement. Each custodian bank would provide OCC with online view access to each customer's cash account designated for the escrow deposit program, allowing visibility into transactional activity and account balances.

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[7] Rule 613 has many provisions other than those relating to these instructions, but, as noted above, these provisions are incorporated into Rule 610C and Rule 613 will no longer be necessary.

Initial and Maintenance Collateral Requirements Relating to Escrow Deposits

In addition to the structural changes to the revised escrow deposit program, the proposed Rules include certain technical changes designed to ensure that the escrow deposit program remains consistent with self-regulatory organization margin rules, as well as to improve the overall risk management of the escrow deposit program. In particular, proposed Rule 610C(g) and (h) provide for minimum collateral requirements, both as of the deposit of collateral and in connection with OCC's daily margin calculations. These valuations would take into account certain "haircuts" with respect to pledged collateral, with the specific valuation percentages applicable to each type of short position and each type of collateral determined by OCC and set forth in a schedule or other form that OCC would make available to clearing members and participating escrow banks. The "initial" minimum requirement would be the product of the applicable initial percentage for the category of option covered by the short position, *e.g.*, stock put options, index call options or index put options, the number of option contracts specified in the instruction and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract. The "maintenance" minimum requirement would be the product of the applicable maintenance percentage for the category of option covered by the short position the number of option contracts covered by the escrow deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract.

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

Risk Management. OCC believes that by implementing the proposed rule change it will be better able to manage the risks associated with discharging its responsibilities as a DCO as set forth in the DCO Core Principles because it will, through adoption of the above described changes to deposits in lieu of margin, limit its exposure to potential losses from the default of a clearing member because it will be less likely that such clearing member's margin assets, or deposits in lieu of margin, would be unavailable to OCC should OCC need to use such assets or deposits to manage the default.

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.

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,

Scott M. Kalish
Assistant Secretary

Enclosure

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 19b-4

Proposed Rule Change

by

THE OPTIONS CLEARING CORPORATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

Item 1. **Text of the Proposed Rule Change**

The Options Clearing Corporation ("OCC") proposes to amend its By-Laws and Rules as set forth below. The principal purpose of the proposed rule change is to revise OCC's By-Laws and Rules relating to deposits in lieu of margin. Material proposed to be added to OCC's By-Laws and Rules as currently in effect is marked by underlining and material proposed to be deleted is enclosed in bold brackets.

THE OPTIONS CLEARING CORPORATION

BY-LAWS

* * *

ARTICLE I

Definitions

SECTION 1. Unless the context requires otherwise (or except as otherwise specified in the By-Laws or Rules), the terms defined herein shall, for all purposes of these By-Laws and the Rules of the Corporation, have the meanings herein specified.

A.

(1) – (12) [no change]

Approved [Depository] Custodian

(13) The term "approved [depository] custodian" means a bank or trust company approved by the Chairman, the Management Vice Chairman or the President.

(14) – (16) [no change]

B – D. [no change]

E.

(1) [no change]

EDP Pledge System

(2) The term "EDP Pledge System" shall mean an electronic data processing system through which Clearing Members and approved custodians may pledge securities and/or cash to

the Corporation in accordance with the By-Laws and Rules and that is: (i) operated by the Corporation, or (ii) operated by an approved [depository] custodian and approved by the Corporation.

(3) – (22) [no change]

F. – Z. [no change]

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ARTICLE VIII

Clearing Fund

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Form of Contributions

SECTION 3. (a) Contributions to the Clearing Fund shall be in cash or in Government securities. Government securities shall be valued at (1) 99.5% of the current market value for maturities less than one year; (2) 98% of the current market value for maturities between one and five years; (3) 96.5% of the current market value for maturities between five and ten years; and (4) 95% of the current market value for maturities in excess of ten years. For the purposes of this Section, the current market value of Government securities shall be determined by the Corporation at such intervals as the Risk Committee shall from time to time prescribe, but not less often than monthly, on the basis of the quoted bid price therefor supplied by a source designated by the Corporation. Contributions of Government securities shall be deposited by the Clearing Member in an account of the Corporation in an approved [depository] custodian in the name of the Corporation or by such other method as the Corporation may from time to time approve. Any interest or gain received or accrued on such securities shall belong to the contributing Clearing Member, and any interest on, or proceeds from the maturity of, such securities received by the Corporation shall be credited by the Corporation to an account of the Clearing Member on the records of the Corporation.

(b) [no change]

...Interpretations and Policies:

.01 The Corporation will not accept the delivery of a depository receipt from an approved [depository] custodian if the [depository] custodian, a parent[,] or an affiliate has an equity interest in the amount of 20% or more of the contributing Clearing Member's total capital.

.02 Securities deposited in an account of the Corporation in an approved [depository] custodian in the name of the Corporation shall be credited to the Clearing Member's "clearing fund account," which shall be a securities account maintained on the records of the Corporation in the name of such Clearing Member, and the Corporation shall be the Clearing Member's securities intermediary with respect to such securities for purposes of Articles 8 and 9 of the Uniform Commercial Code. So long as any such securities and any proceeds thereof are so

credited to the Clearing Member's clearing fund account, the Corporation shall have a general lien on and perfected security interest in and "control" over such securities and proceeds for purposes of Articles 8 and 9 of the Uniform Commercial Code.

.03 For a transition period specified by the Corporation, contributions of Government securities may be made in an account at an approved [depository] custodian in the name of the Clearing Member and pledged to the Corporation provided that such a contribution shall not be effective until the Corporation receives confirmation satisfactory to it that the securities have been so pledged through an EDP Pledge System.

Investment of Cash Clearing Fund Contributions

SECTION 4. (a) Subject to the provisions of subsection (b) of this Section, cash contributions to the Clearing Fund may from time to time be partially or wholly invested by the Corporation for its account in Government securities, and to the extent that such contributions are not so invested they shall be deposited by the Corporation in a separate account or accounts in approved [depositories] custodians. Any interest or gain received or accrued on the investment or deposit of cash contributions to the Clearing Fund in accordance with this subsection (a) shall belong to the Corporation.

(b) [no change]

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RULES

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CHAPTER I

Definitions

RULE 101. Unless the context otherwise requires, for all purposes of these rules, the terms herein shall have the meanings given them in Article I of the By-Laws of the Corporation or as set forth below:

A. – D. [no change]

E.

(1) – (2) [no change]

[Escrow Deposit Agreement

(3) The term "escrow deposit agreement" shall mean an agreement between the Corporation and a bank or other depository approved to act as a custodian of escrow deposits for the purposes of Chapter VI of the Rules, providing for the confirmation, rollover, and withdrawal of escrow deposits without the issuance of escrow receipts and establishing procedures whereby premium settlements between such depository and Clearing Members may be made through the

facilities of the Corporation. When used with respect to an escrow deposit consisting of securities other than common stocks, such term shall mean an Escrow Deposit Agreement, as defined above, supplemented by such supplementary agreements as the Corporation shall from time to time prescribe.]

(4) – (6) [renumbered as (3) – (5); otherwise no change]

F – Z. [no change]

* * *

CHAPTER V

Daily Cash Settlement

* * *

Daily Escrow Settlement

RULE 503 IS EFFECTIVE ONLY THROUGH APRIL 3, 2016[1]

RULE 503. (a) On or before settlement time on each business day, each Clearing Member shall be obligated to pay to the Corporation, as agent, and the Corporation shall be authorized to withdraw from such Clearing Member's bank account, the amount of any net daily premium in an account shown to be due from such Clearing Member to banks or other depositories on any escrow settlement report made available on that day for such account pursuant to Rule 613 (notwithstanding any credit balance which may be due to the Clearing Member in any other account). The Corporation may, if it so elects, net premiums payable by a Clearing Member under this Rule 503 against premiums payable to such Clearing Member on the same business day pursuant to Rule 502, and against any cash margin excess reported on such Clearing Member's daily margin report for such business day and not theretofore applied pursuant to Rule 607. Notwithstanding the foregoing, at any settlement time the Corporation may, in its discretion, require any Clearing Member to pay the gross amount of premiums due to banks or other depositories on such business day pursuant to Rule 613 (i.e., without credit for premiums payable to the Member under Rule 502 or this Rule 503), and the Corporation shall be authorized to withdraw funds from the applicable bank account of such Clearing Member up to such gross amount.

(b) Subject to Rule 505, at or before the settlement time on each business day, the Corporation, as agent, shall pay to each Clearing Member (provided the Clearing Member has deposited all margin required to be deposited pursuant to Chapter VI of the Rules) the amount of any net daily premium in an account shown to be due from banks or other depositories to such Clearing Member on any escrow settlement report made available on that day for such account. The Corporation may, if it so elects, net premiums payable to a Clearing Member under this Rule 503(b) against premiums payable by such Clearing Member to the Corporation on the same

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1 Rule 503 will be deleted from the Corporation's Rules after April 30, 2016.

business day in the same account pursuant to Rule 502, and against any margin deficit in such account on such business day.

(c) Anything else herein to the contrary notwithstanding, in facilitating premium settlements between Clearing Members and banks or other depositories pursuant to Rule 613 and this Rule 503, the Corporation shall act solely as agent for the parties to such settlements, and shall have no obligation to pay or credit to any Clearing Member premiums not theretofore collected from banks or other depositories for such Clearing Member's account. If any bank or other depository shall fail, on any business day, to pay to the Corporation, as agent, premiums taken into account by the Corporation in determining the net amount payable or receivable by a Clearing Member pursuant to this Rule on that business day, such premiums shall be charged back by the Corporation to such Clearing Member.

(d) The term "premiums," as used in this Rule 503, shall include amounts due to or from banks or other depositories as a result of cash-only entries initiated by or directed to such banks or other depositories pursuant to Rule 613.

(e) Anything else herein to the contrary notwithstanding, no premiums shall be payable to or receivable from any bank or other depository under this Rule 503 on any day on which such bank or other depository is not open for business.

* * *

CHAPTER VI

Margins

* * *

Form of Margin Assets

RULE 604.

(a) [no change]

(b) *Securities.* The types of securities specified in subparagraphs (1) - (4) of this paragraph (b) may be deposited with the Corporation in the manner specified for each.

(1) *Government Securities.* Clearing Members may deposit, as hereinafter provided, Government securities which are free from any limitation as to negotiability. Government securities shall be valued for margin purposes at 99.5% of the current market value for maturities of up to one year; 98% of the current market value for maturities in excess of one year through five years; 96.5% of the current market value for maturities in excess of five years through ten years; and 95% of the current market value for maturities in excess of ten years. Government securities deposited pursuant hereto shall be deposited by the Clearing Member in an account of the Corporation in an approved [depository] custodian in the name of the Corporation or by such other method as the Corporation may from time to time approve. All interest or gain received or accrued on such Government securities prior to any sale or negotiation thereof shall belong to the

depositing Clearing Member, and any interest on, or proceeds from the maturity of, such Government securities received by the Corporation shall be credited by the Corporation to the account of the Clearing Member in respect of which the deposit was made. Current market value shall be determined by the Corporation at such intervals as the Risk Committee shall from time to time prescribe, but not less often than daily on the basis of the quoted bid prices therefor supplied by a source designated by the Corporation.

(2) *GSE Debt Securities.* Clearing Members may deposit, as hereinafter provided, GSE debt securities which are free from any limitation as to negotiability. GSE debt securities shall be valued for margin purposes at (1) 99% of the current market value for maturities of up to one year; (2) 97% of the current market value for maturities in excess of one year through five years; (3) 95% of the current market value for maturities in excess of five years through ten years; and (4) 93% of the current market value for maturities in excess of ten years. Such GSE debt securities deposited pursuant hereto shall be deposited by the Clearing Member in an account of the Corporation in an approved [depository] custodian in the name of the Corporation or by such other method as the Corporation may from time to time approve. All interest or gain received or accrued on such GSE debt securities prior to any sale or negotiation thereof shall belong to the depositing Clearing Member, and any interest on, or proceeds from the maturity of, such Government securities received by the Corporation shall be credited by the Corporation to the account of such Clearing Member in respect of which the deposit was made. Current market value shall be determined by the Corporation at such intervals as the Risk Committee shall from time to time prescribe, but not less often than daily on the basis of the quoted bid prices therefor supplied by a source designated by the Corporation.

(3) [no change]

(4) *Equity Issues.* (i) Clearing Members may deposit, as hereinafter provided, common stocks which meet the standards prescribed below. Common stocks (including fund shares) must be "covered securities" within the meaning of Section 18(b)(1) of the Securities Act of 1933. Common stocks which are neither underlying securities nor fund shares that have as their reference index an index that underlies any cleared contract must have a market value of at least $3 per share, as determined by the Corporation; provided, however, that the Corporation may waive this requirement at its discretion upon a determination that other factors, including trading volume, the number of shareholders, the number of outstanding shares, and current bid/ask spreads warrant such result. An issue that is suspended from trading by the market that listed or qualified the issue for trading because of volatility, lack of liquidity or similar characteristics, may not be deposited as margin with the Corporation. If the issue is listed or traded on more than one market and the markets do not take the same action, the Corporation will use its discretion to determine which market's actions will be definitive for purposes of this Rule. Each deposit pursuant to this Rule 604 (b)(4) shall be made with respect to a designated account of the Clearing Member. Deposited stocks shall be valued in accordance with Rule 601. Common stocks deposited pursuant to Rule 610T and Rule 610 shall have no value as margin for the purposes of this Rule 604(b)(4).

(5) [no change]

(c) – (f) [no change]

...Interpretations and Policies:

.01 - .14 [no change]

.15 For a transition period specified by the Corporation, deposits of Government securities pursuant to Rule 604(b)(1) or deposits of GSE debt securities pursuant to Rule 604(b)(2) may be made in an account at an approved [depository] custodian in the name of the Clearing Member and pledged to the Corporation provided that such a deposit shall not be effective until the Corporation receives confirmation satisfactory to it that the securities have been so pledged through an EDP Pledge System.

* * *

Deposits in Lieu of Margin

RULE 610T IS EFFECTIVE ONLY THROUGH APRIL 30, 2016[2]

RULE 610T. (a) A Clearing Member may deposit the underlying security in respect of any call option contract included in a short position of such Clearing Member, or may deposit cash and/or short-term Government securities in respect of any put option contract included in a short position of such Clearing Member, in accordance with the provisions hereof.

(b) No security held for the account of a customer (other than a Market-Maker) may be deposited hereunder in respect of a position in any account other than the customers' account. No security held for the account of any Market-Maker may be deposited hereunder in respect of a position in any account other than such Market-Maker's account or a combined Market-Makers' account in which such Market-Maker is a participant.

(c) The deposit hereunder of cash or securities held for the account of any customer may be made only to the extent permitted by applicable law and the rules and regulations thereunder, and shall be deemed to constitute the Clearing Member's certificate and representation to the Corporation that such deposit has been duly authorized by the customer and does not contravene any provision of law or any rule thereunder.

(d) A Clearing Member may make a deposit hereunder of cash or securities held in the custody of a [bank or trust company or other depositee approved by the Corporation (such bank or trust company or depositee being herein called the "depository")] an approved custodian by causing the [depository] approved custodian to make an escrow deposit for the Clearing Member's account pursuant to Rule 613 or, in the case of a deposit of underlying securities, by filing with the Corporation a depository receipt meeting the requirements of paragraph (f) hereof or by pledging such securities to the Corporation through an EDP Pledge System in accordance with paragraph (f) or (g) hereof.

(e) Specific deposits may be made only of underlying securities held by a Clearing Member for the account of particular customers in respect of specified call option contracts held

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2 Rule 610T will be deleted from the Corporation's Rules after April 30, 2016.

by the Clearing Member in a short position or exercise position for such customers. The Clearing Member shall maintain a record for each specific deposit identifying the customers, the accounts of the customers in which the underlying securities are held and the specified option contracts for which the specific deposits have been made.

(f) A Clearing Member may make a specific deposit (i) by filing with the Corporation a depository receipt, in a form approved by the Corporation, executed by the [depository] approved custodian and the Clearing Member and specifying the option contract or contracts in respect of which the deposit is being made, or (ii) by causing confirmation to be issued through an EDP Pledge System that the underlying securities have been transferred or pledged to the Corporation by book entry in respect of a short position of a specified customer in a specified series of calls.

(g) Escrow deposits may be made of cash or securities which have been deposited for that purpose by a Clearing Member's customer, or the customer's agent, with an [depository] approved custodian. Escrow deposits may be made only in respect of specified option contracts held by the Clearing Member in a short position or an exercise position for such customer. Only the underlying securities may be deposited in respect of calls, and only cash and/or short-term Government securities with a total value of not less than 105% of the aggregate exercise price may be deposited in respect of puts. A Clearing Member may make an escrow deposit:

(1) in the case of deposits made in respect of calls, by causing confirmation to be issued through an EDP Pledge System that the underlying securities have been transferred or pledged by book entry to the Corporation in respect of a short position of a specified customer in a specified series of calls; or

(2) by causing an [bank or other depository] approved custodian that has entered into an escrow deposit agreement with the Corporation to make an escrow deposit for the Clearing Member's account pursuant to Rule 613.

Unless the context requires otherwise, references to "escrow receipts" elsewhere in these Rules shall be deemed to refer to escrow deposits made in accordance with this Rule 610T.

(h) Short-term Government securities deposited in respect of puts shall be valued at the lesser of par value or 100% of their current market value. An [depository] approved custodian may from time to time substitute cash or short-term Government securities for any cash or securities theretofore deposited, provided that the value of the substituted cash or securities is at least equal to that of the cash or securities for which it is substitute. If the total value of the deposit shall at the close of any business day be less than 97.5% of the aggregate exercise price of the puts in respect of which the deposit was made, the Corporation may, upon written or telephonic notice to the Clearing Member that made the deposit, disregard the escrow deposit and require that margin be deposited in respect of the short position theretofore covered by the escrow deposit. If such margin is not timely deposited and the Clearing Member is suspended by the Corporation, the Corporation may close out such position and certify to the [depository] approved custodian that it has closed out such position.

(i) A depository receipt must be delivered to the Corporation between such times as the Corporation may specify, and pledges effected through an EDP Pledge System must be

completed between such times as the Corporation may specify, in order to be taken into account in the Daily Margin Report for the following business day.

(j) A depository receipt may be withdrawn by a Clearing Member between such times each business day as the Corporation may specify, and securities pledged through an EDP Pledge System may be released through such system on each business day between such times as the Corporation may specify, with authorization by the Corporation so long as the conditions of this Chapter VI are met after giving effect to such withdrawal or release. A Clearing Member requesting such withdrawal or release shall comply with such procedures as the Corporation shall prescribe.

(k) If an exercise of options of a series covered by a specific deposit or an escrow deposit is assigned to the customers' account of the Clearing Member that made the deposit, and the Clearing Member fails to make timely settlement in respect of the assignment, the Corporation shall be entitled to receive from the [depository] approved custodian on demand (i) in the case of call options, the underlying securities, or (ii) in the case of put options, an amount in cash (out of the deposited property or its proceeds) equal to the aggregate exercise price of the exercised puts, plus all applicable commissions and other charges. If an escrow deposit is made in respect of a short position in puts, and the Corporation certifies to the [depository] approved custodian that it has closed out the short position pursuant to paragraph (h) hereof, the Corporation shall be entitled to receive from the [depository] approved custodian an amount in cash (out of the deposited property or its proceeds) equal to the cost of the closing transaction or transactions, including any commissions, financing costs, and other charges incurred by the Corporation in connection therewith.

(l) In the event any short position for which a specific deposit or an escrow deposit has been made is closed out by a closing purchase transaction or transferred to an account of another Clearing Member, or in the event that settlement is made in respect of an exercise notice assigned to such position, the Clearing Member that carried such position shall promptly request the withdrawal of such deposit, but unless and until such deposit is withdrawn, the Corporation shall be entitled to demand performance by the [depository] approved custodian upon the assignment of an exercise notice in respect of any option contract of the same series and included in a short position in the same account as the one for which the deposit was made, or upon the closing out of any such option contract by the Corporation pursuant to paragraph (h) hereof.

...Interpretations and Policies:

.01 The Corporation will not accept the deposit or pledge of underlying securities pursuant to this Rule 610T from an approved [bank or trust company or other depositee ("depository")] custodian other than through the Depository if such [depository] custodian, a parent[,] or an affiliate has an equity interest in the amount of 20% or more of the depositing Clearing Member's total capital.

.02 For the purposes of this Rule, the term "short-term Government securities" means securities with a fixed principal amount issued or guaranteed by the United States and having one year or less to maturity.

.03 For the purposes of this Rule, the Corporation will accept a depository receipt, in a form approved by the Corporation, issued pursuant to the rules of a registered clearing agency.

.04 For the duration of a transition period ending April 30, 2016, existing Rules 610T, 613 and 1801 shall remain effective with respect to deposits in lieu of margin, in addition to Rules 610, 610A, 610B and 610C. During this transition period, Clearing Members may comply with Rules 610T, 613 and 1801 in lieu of complying with Rules 610, 610A, 610B and 610C. After this transition period, Rules 610T, 613 and 1801 shall no longer be effective and compliance with Rules 610, 610A, 610B and 610C is mandatory.

Deposits in Lieu of Margin[3]

RULE 610. (a) In lieu of depositing margin in respect of certain options carried in a short position for the account of a customer (including any Market Maker that is not a proprietary Market Maker), a Clearing Member or an approved custodian may deposit eligible collateral in respect of certain option contracts included in a short position, in each case as specified herein, and further described in Rules 610A, 610B and 610C, as applicable. Each such deposit shall be referred to as a "deposit in lieu of margin." The types of deposits in lieu of margin permitted by the Corporation are "specific deposits" and "escrow deposits." Specific deposits may be either "member specific deposits," which are provided for in Rule 610A, or "third-party specific deposits," which are provided for in Rule 610B. Escrow deposits are provided for in Rule 610C. All deposits in lieu of margin are also subject to this Rule 610. Specific deposits are limited to stock call option contracts, and only the underlying securities may be deposited in respect of such options. Escrow deposits may be made in respect of stock and index put options and index call options. Escrow deposits in respect of stock and index puts shall consist of cash or U.S. Government securities, or any combination thereof, and escrow deposits in respect of index calls shall consist of cash, U.S. Government securities or any securities that would be eligible for deposit as margin under Rule 604(b)(4).

(b) Deposits in lieu of margin may be made only in respect of certain specified option contracts held by the Clearing Member in a short position. A deposit in lieu of margin may be made only when the deposited collateral is either carried by the Clearing Member for the account of the same customer for whom the short option position is carried or in the custody of an approved custodian making the deposit is acting on behalf of such customer. A deposit in lieu of margin may be made only in respect of the Clearing Member account at the Corporation in which the related short option position of the customer is maintained, which must be a customers' account, a Market-Maker's account or combined Market-Makers' account, provided that no proprietary Market-Maker is a participant in such account.

(c) In the event that a stock call option contract with respect to which a specific deposit has been made is adjusted to require delivery of property different from, or in addition to, the security underlying such contract, such specific deposit shall be disregarded except to the extent that the deposited security is deliverable upon exercise, provided that if the adjustment requires the delivery of securities other than the securities included in the deposit, the deposit shall be

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[3] Rule 610 is entirely new. To improve readability, it has not been underlined.

disregarded in its entirety, and provided further that the deposit shall not cover any obligation to deliver cash.

(d) The deposit hereunder of cash or securities held for the account of any customer may be made only to the extent permitted by applicable law and the rules and regulations thereunder, and shall be deemed to constitute the Clearing Member's certificate and representation to the Corporation that such deposit has been duly authorized by the customer and does not contravene any provision of law or any rule thereunder.

(e) Deposits in lieu of margin must be made on any business day between such times as the Corporation may specify to be taken into account in connection with the calculations described in Rule 601 for the following business day.

(f) In the event any short position for which a deposit in lieu of margin has been made is closed out by a closing purchase transaction or transferred to an account of another Clearing Member, or in the event that settlement is made in respect of an exercise notice assigned to such position, the Clearing Member that carried such position shall promptly request the withdrawal of such deposit, but unless and until such deposit is withdrawn from the account, the Corporation shall be entitled, upon the assignment of an exercise notice in respect of any option contract of the same series and included in a short position in the same account as the one for which the deposit was made, or upon the closing out of any such option contract by the Corporation pursuant to Rule 610C(h): (i) in the case of a specific deposit, to take possession of the deposited securities for the purpose of satisfying the obligations of the Clearing Member in connection with such assignment, or (ii) in the case of an escrow deposit, to demand performance by the participating escrow bank (as defined in Rule 610C) in respect of such assignment or closeout, as applicable.

(g) The making of a deposit in lieu of margin shall constitute the grant to the Corporation of a security interest in and right of setoff against the deposit in lieu of margin to secure the Clearing Member's obligations in respect of such short position. The Corporation shall have a first priority perfected security interest in all deposits in lieu of margin.

...Interpretations and Policies:

.01 The Corporation will not accept, or if initially accepted, will thereafter reject, the deposit or pledge of collateral pursuant to this Rule 610 from an approved custodian other than through the Depository if such custodian, a parent or an affiliate has an equity interest in the amount of 20% or more of the depositing Clearing Member's total capital.

.02 For the purposes of this Rule, the term "Government securities" means securities with a fixed principal amount issued or guaranteed by the United States, excluding Separate Trading of Registered Interest and Principal Securities issued on Treasury Inflation Protected Securities (commonly called TIP-STRIPS).

Member Specific Deposits[4]

RULE 610A. (a) Member specific deposits may be made only of underlying securities held by a Clearing Member at the Depository for the account of a particular customer in respect of specified call stock option contracts held by the Clearing Member in a short position for such customer. To make a member specific deposit, a Clearing Member shall cause confirmation to be issued through the Depository's EDP Pledge System that such securities have been pledged to the Corporation in respect of such short position, subject to the provisions of this Rule.[5] The Clearing Member shall maintain a record for each member specific deposit identifying the customer, the account of the customer in which the underlying securities are held and the specified option contracts for which the member specific deposit was made, and the Clearing Member shall supply such record to the Corporation upon the Corporation's request.

(b) If an exercise of options of a series covered by a member specific deposit is assigned to the account of the Clearing Member in respect of which the deposit is made, and the Clearing Member fails to make timely settlement in respect of the assignment, the Corporation shall be entitled to take possession of the underlying securities for the purpose of making such settlement and/or reimbursing the Corporation for losses incurred in connection with such failure. If a short position in an option series covered by a member specific deposit has been closed out through a closing purchase transaction and the Clearing Member has failed to make payment to the Corporation of the premium, the Corporation shall be entitled to take possession of a sufficient number of the securities constituting such member specific deposit to satisfy the Clearing Member's obligation to the Corporation.

(c) Member specific deposits made through the Depository's EDP Pledge System may be withdrawn or released through such system on each business day between such times as the Corporation may specify, with authorization by the Corporation, so long as the margin requirements under this Chapter VI in respect of the account of the Clearing Member in respect of which the deposit was made are met after giving effect to such withdrawal or release. A Clearing Member requesting such withdrawal or release shall comply with such procedures as the Corporation shall prescribe.

(d) If a short position covered by a member specific deposit has been closed out, the Clearing Member may "roll over" such specific deposit to cover a different short position of the same customer and option type, by submitting a rollover instruction to the Corporation through the EDP Pledge System of the Corporation. A rollover instruction shall be subject to approval or rejection by the Corporation in its sole discretion.

Third-Party Specific Deposits[6]

RULE 610B. (a) Third-party specific deposits may be made only of underlying securities held at the Depository through an approved custodian, which is a participant of the Depository, for the account of particular customers of a Clearing Member in respect of specified stock call

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4 Rule 610A is entirely new. To improve readability, it has not been underlined.

5 This sentence only is based on existing Rules 610(f) and (g).

option contracts held by the Clearing Member in a short position for such customers. To make a third-party specific deposit of securities that have been deposited by a customer of a Clearing Member, an approved custodian shall cause the issuance of a confirmation through the Depository's EDP Pledge System that such securities have been pledged to the Corporation in respect of such short position, subject to the provisions of this Rule.

(b) If a short position covered by a third-party specific deposit has been closed out, an approved custodian may "roll over" such specific deposit to cover a different short position of the same customer, Clearing Member and option type, by submitting a rollover instruction to the Corporation through the EDP Pledge System of the Corporation. A rollover instruction shall be subject to approval or rejection by the Corporation in its sole discretion.

(c) The making of a third-party specific deposit or the rollover of a deposit shall constitute the grant to the Clearing Member in respect of whose account the deposit is made of a security interest in and right of setoff against the deposited securities to secure the customer's obligations to such Clearing Member in respect of such short position. With respect to such security interest in such securities:

(1) such security interest shall at all times be subordinated to the Corporation's security interest;

(2) the Clearing Member may not exercise remedies with respect to such security interest unless the Corporation has consented to such exercise or unless the Corporation's interest has been withdrawn or released pursuant to the terms of the Rules; and

(3) the Corporation acknowledges that to the extent it has "control" for purposes of the Uniform Commercial Code over such security entitlements created by the approved custodian in the securities, it has such control both for itself and on behalf of the Clearing Member.

(d) An approved custodian may request the release of a third-party specific deposit by submitting a request through the Depository's EDP Pledge System. A Clearing Member may request a "hold" with respect to a third-party specific deposit by submitting an instruction requesting that the Corporation not release such deposit, either upon request of the relevant approved custodian or on its own initiative, for so long as such instruction is in effect. No requested release shall be given effect by the Corporation unless (i) the margin requirements under this Chapter VI in respect of the customers' account of the Clearing Member in respect of which the deposit was made are met after giving effect to such release; (ii) the Clearing Member has approved the release through the Depository's EDP Pledge System, and (iii) the deposit is not subject to a "hold" instruction. Any third-party specific deposit made in accordance with this Rule shall be released by the Corporation on its own initiative at a time specified by the Corporation on the business day following the exercise settlement date unless (i) the Corporation has received notice from the correspondent clearing corporation by such time indicating that the settlement obligations in respect of such short position have not been met or that the correspondent clearing corporation has determined to suspend, decline or cease to act for the Clearing Member in respect of whose account such deposit was made or prohibit or limit such

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[6] Rule 610B is entirely new. To improve readability, it has not been underlined.

Clearing Member's access to services offered by the correspondent clearing corporation, in which case the deposit shall not be released until such time as the Corporation determines it has no further obligations in respect of the short position, (ii) the Corporation has directed that the exercise be settled otherwise than through the correspondent clearing corporation, in which case the deposit shall not be released until the Corporation determines it has no further obligations in respect of the short position and approves the release of such deposit, or (iii) the deposit is subject to a "hold" instruction, in which case, notwithstanding clauses (i) or (ii), the deposit shall be treated in accordance with paragraph (e) of this Rule.[7]

(e) A Clearing Member that has disapproved of the release of a third-party specific deposit pursuant to paragraph (d) of this Rule or requested a "hold" with regard to such deposit which remains in effect may, in accordance with procedures prescribed by the Corporation, request that the Corporation, through the Depository's systems, obtain possession of the securities constituting such third-party specific deposit, or a portion thereof, and direct the Depository to deliver such securities to an account at the Depository specified by such Clearing Member. By submitting a request for delivery or declining to approve a release of a third-party specific deposit pursuant to this Rule, a Clearing Member shall be deemed: (i) to represent that it has the legal right to submit the request or to decline to approve the release, as applicable, and it has the legal right to take possession and/or direct disposition of the securities requested to be delivered, as a result of a valid and perfected lien on and security interest in such securities or otherwise, and (ii) to indemnify and hold harmless the Corporation, its directors, officers, employees and agents, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person for any reason as a result of a breach of such representation or the delivery of such securities. A Clearing Member shall further provide such documentation as the Corporation may reasonably request relating to its legal right to take possession and/or direct disposition of the securities requested to be delivered. Upon receipt of such request the Corporation shall, unless prohibited by applicable law or regulations or court order, through the facilities of the Depository, instruct the Depository to deliver the relevant securities, directly or indirectly, to the account at the Depository specified by such Clearing Member, provided that if a Clearing Member has not made a request in proper form pursuant to this paragraph (e) by the 5th business day following such Clearing Member's request for a "hold" with regard to such deposit, the Corporation shall, subject to paragraph (f) of this Rule, release such third-party specific deposit, and, provided further, that the Corporation shall not be responsible for any failure by the Depository to act on such instruction.

(f) If an exercise of options of a series covered by a third-party specific deposit is assigned to the customers' account of the Clearing Member in respect of which the deposit is made, and the Clearing Member fails to make timely settlement in respect of the assignment, the Corporation shall be entitled to take possession of the underlying securities for the purpose of making such settlement and/or reimbursing the Corporation for losses incurred in connection with such failure. If a short position in an option series covered by a third-party specific deposit has been closed out through a closing purchase transaction and the Clearing Member has failed to make payment to the Corporation of the premium, the Corporation shall be entitled to take

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7 Proposed Rule 610B(d) is based on existing Rule 613(f). Differences between proposed Rule 610B(d) and existing Rule 613(f) are shown in Exhibit 4 to this filing.

possession of a sufficient number of the securities constituting such third-party specific deposit to satisfy the Clearing Member's obligation to the Corporation.

(g) The release of a third-party specific deposit by the Corporation in accordance with the provisions of this Rule shall have the effect of releasing any and all rights of the Corporation and any rights of the Clearing Member established pursuant to this Rule with respect to the deposit against the relevant approved custodian. A release will not affect any other rights of the Clearing Member for whose account the deposit was made.

Escrow Deposits[8]

RULE 610C. A participating escrow bank, which must be a participant of the Depository unless it effects escrow deposits consisting only of cash, may effect escrow deposits in respect of short positions in stock put option contracts and index put or call option contracts and may effect "roll overs" and withdrawals of such deposits, and a Clearing Member may instruct the Corporation with regard to short positions to be covered by such deposits, by submitting instructions to the Corporation through an EDP Pledge System, subject to the following provisions of this Rule:

(a) *Eligible Collateral.* Escrow deposits may consist of the following instruments with respect to the following short positions:

(1) with respect to short positions in stock put option contracts or index put option contracts: cash; U.S. Government securities; or any combination thereof; and

(2) with respect to short positions in index call options: cash; U.S. Government securities; common stocks; or any combination thereof.[9]

(b) *Manner of Holding.* (i) Shares of common stock and U.S. Government securities included within an escrow deposit shall be held in the participating escrow bank's participant account at the Depository. Cash included within an escrow deposit shall be held in an account of the customer approved by the Corporation, and into which the Corporation has online view access (each, an "approved account"), at the participating escrow bank governed by an agreement in a form acceptable to the Corporation and signed by the customer, the Corporation and the participating escrow bank (the "tri-party agreement").

(ii) The Corporation shall have a perfected security interest in each approved account and in all cash and securities within an escrow deposit.

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8 Rule 610C is entirely new. To improve readability, it has not been underlined. Proposed Rule 610C is based on existing Rule 613. Differences between certain portions of proposed Rule 610C and existing Rule 613 are shown in Exhibit 4 to this filing.

9 Proposed Rule 610C(a) is based on existing Rule 1801(b). Differences between proposed Rule 610C(a) and existing Rule 1801(b) are shown in Exhibit 4 to this filing.

(iii) Approved accounts shall be used solely for the purpose of making escrow deposits.

(c) *Method of Effecting Escrow Deposits.*

(1) A participating escrow bank may effect an escrow deposit for a Clearing Member's account by submitting an instruction as follows:

(i) in the case of an escrow deposit consisting of securities, by pledging such securities to the Corporation using the Depository's EDP Pledge System; or

(ii) in the case of an escrow deposit consisting of cash, by pledging such cash to the Corporation using the Corporation's EDP Pledge System or such other method as may be specified by the Corporation.

(2) A participating escrow bank shall specify the number of option contracts to be covered by each escrow deposit through an entry in the Corporation's EDP Pledge System. The number of option contracts covered by an escrow deposit shall be the lesser of the number specified by the participating escrow bank in respect of such deposit and the number determined by the Corporation pursuant to this Rule 610C, in either case subject to the right of the relevant Clearing Member to reduce the number of contracts supported by a deposit.

(3) Notwithstanding any other provision of this Rule 610C, if the Corporation deems necessary for the protection of the Corporation, other Clearing Members or the general public, the Corporation may approve or reject a deposit, or may disregard a deposit at any time, including, without limitation, as a result of the maturity of, or a corporate action involving the issuer of, securities included within an escrow deposit.

(d) *Method of Making Withdrawals.* A participating escrow bank may request a withdrawal of an escrow deposit by submitting an instruction as follows:

(1) in the case of an escrow deposit consisting of securities, by submitting a release request through the Depository's EDP Pledge System;

(2) in the case of an escrow deposit consisting of cash, by submitting an instruction through the Corporation's EDP Pledge System.

A Clearing Member may approve or disapprove of a withdrawal of deposited securities through the Depository's EDP Pledge System. A Clearing Member may request a "hold" with respect to any escrow deposit made in respect of such Clearing Member's account by submitting an instruction through the Corporation's EDP Pledge System, or such other method as specified in the Corporation's procedures, requesting that the Corporation not grant any request for withdrawal of such deposit or release such deposit for so long as such instruction is in effect. No withdrawal instruction shall be given effect by the Corporation unless (i) the margin requirements under this Chapter VI in respect of the customers' account of the Clearing Member in respect of which the deposit was made are met after giving effect to such withdrawal, (ii) in the case of a withdrawal of deposited securities, the Clearing Member has approved the

withdrawal through the Depository's EDP Pledge System, and (iii) the deposit is not subject to a "hold" instruction.[10]

(e) *Rollover.* If a short position covered by an escrow deposit has been closed out, a participating escrow bank may effect the "roll over" of such escrow deposit to cover a different short position of the same customer, Clearing Member and option type by submitting a rollover instruction using electronic means prescribed by the Corporation for such purpose. A rollover instruction shall be subject to approval or rejection by the Corporation in its sole discretion.

(f) *Rights of Clearing Member.* The making of an escrow deposit shall constitute the grant by the customer to the Clearing Member in respect of whose account the deposit is made of a security interest in and right of setoff against the deposited securities and deposited cash to secure the customer's obligations to such Clearing Member in respect of such short position. With respect to such security interest in the securities or cash included within an escrow deposit:

(1) such security interest shall at all times be subordinated to the Corporation's security interest;

(2) the Clearing Member may not exercise remedies with respect to such security interest unless the Corporation has consented to such exercise or unless the Corporation's interest has been withdrawn or released pursuant to the terms of the Rules; and

(3) the Corporation acknowledges that to the extent it has "control" for purposes of the Uniform Commercial Code over the security entitlements created by the participating escrow bank in the securities, and over the cash, included within the escrow deposit, it has such control both for itself and on behalf of the Clearing Member.

(g) *Initial Minimum.* The total value of the escrow deposit as of the time such deposit is made shall not be less than the product of:

(1) the applicable initial percentage for the category of option covered by the short position (*e.g.*, stock put options, index call options or index put options), as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks; and

(2) the product of the number of option contracts specified in the instruction and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract.[11]

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10 This sentence is based on existing Rule 613(b).

11 Proposed Rule 610C(g) is based on existing Rule 1801(c). Differences between proposed Rule 610C(g) and existing Rule 1801(c) are shown in Exhibit 4 to this filing.

(h) *Maintenance Minimum.* In connection with its calculation of required margin pursuant to Rule 601, the Corporation shall calculate the value of each escrow deposit made pursuant to this Rule. If in making such calculation the Corporation determines that the total value of an escrow deposit shall be less than the product of:

(1) the applicable maintenance percentage for the category of option covered by the short position, as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks; and

(2) the product of the number of option contracts covered by the escrow deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract, the Corporation may, upon written notice to the Clearing Member on whose behalf the escrow deposit was made, disregard the escrow deposit and require that margin be deposited in respect of the short position theretofore covered by the escrow deposit. If such margin is not timely deposited and the Clearing Member is suspended by the Corporation, the Corporation may close out such short position and: (i) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (ii) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of reimbursing itself for costs incurred in connection with such close-out.[12]

(i) *Agreements of Participating Escrow Bank Regarding Escrow Deposits.* By effecting an escrow deposit, a participating escrow bank agrees that:

(1) Except for a delivery to the Corporation or to a third party pursuant to a written order of the Corporation, unless expressly required by a court order, the participating escrow bank will not release the escrow deposit, nor will it direct the Depository to release, or consent to the Depository's release of, the escrow deposit, either to the customer or to any other party, without the prior consent of the Corporation.

(2) The participating escrow bank will not subject the escrow deposit, any securities or cash included within the escrow deposit, any cash held in the approved account at the participating escrow bank associated with the deposit or any portion of any of the foregoing to any right (including any right of set-off), charge, security interest, lien or claim of any kind in favor of the participating escrow bank, or any person claiming through the participating escrow bank, and the participating escrow bank waives (or, to the extent such waiver is prohibited by law, subordinates) any right (including any right of set-off), charge, security interest, lien or claim of any kind in its favor with respect to any securities or cash included within the escrow deposit, an approved account or such escrow deposit and other assets credited thereto or proceeds thereof or any portion of any of the foregoing, and the participating escrow bank will promptly notify the Corporation and the Clearing Member with respect to whose account the

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12 Proposed Rule 610C(h) is based on existing Rule 1801(e). Differences between proposed Rule 610C(h) and existing Rule 1801(e) are shown in Exhibit 4 to this filing.

escrow deposit was made if any notice of lien, levy, court order or other process which purports to affect such escrow deposit or any portion thereof is served upon it.

(3) To the extent the escrow deposit is in respect of a short position in index call options, the participating escrow bank will maintain a written affirmation from the relevant customer or its duly authorized representative stating that all index call options written for such customers' account and covered by escrow deposits with the participating escrow bank are written against a diversified stock portfolio.

(4) Upon reasonable request of the Corporation, the participating escrow bank shall cooperate with the Corporation in reconciling balances in each approved account.

(j) *Representations and Warranties of Participating Escrow Bank When Giving an Instruction.* A participating escrow bank, by giving an instruction with respect to an escrow deposit or rollover, represents as follows:

(1) The participating escrow bank holds the securities specified in the instruction at the Depository for the account of the customer on whose behalf the escrow deposit was made and holds the cash specified in the instruction in an approved account.

(2) The customer on whose behalf the escrow deposit was made or its agent has specifically authorized the participating escrow bank to submit the instruction to the Corporation and to hold the cash and/or securities specified in the instruction as an escrow deposit pursuant to the Rules in respect of the customer's short position in respect of which the escrow deposit is made.

(3) The escrow deposit, or any portion thereof, is not subject to any right (including any right of set-off), charge, security interest, lien or claim of any kind in favor of the participating escrow bank or any person claiming through the participating escrow bank.

(4) The participating escrow bank has obtained from the customer or its duly authorized representative confirmation of the customer's understanding that: (A) if the short position specified in the instruction is closed out under circumstances permitting the related escrow deposit to be withdrawn by the Clearing Member, the customer shall work with the Clearing Member to ensure that the Clearing Member withdraws the escrow deposit from the Corporation, and until the escrow deposit is duly released by the Corporation, the Corporation will retain the right to demand delivery or payment of the escrow deposit or its proceeds upon the assignment of an exercise notice to any short position in a series of options specified in the instruction carried in the Clearing Member's customers' account with the Corporation; and (B) exercise notices assigned by the Corporation to short positions for which escrow deposits have been made by the Clearing Member are allocated to particular customers by the Clearing Member or by their respective brokers, and if the Clearing Member is suspended by the Corporation and the Corporation cannot promptly determine the identities of the assigned customers, the Corporation will reallocate the exercise notices, and reallocation will be binding on the customer notwithstanding any contrary notice or confirmation which the customer may have received from the Clearing Member or the customer's broker.

(5) If the customer is the participating escrow bank acting in a fiduciary or similar capacity, or a trust or similar account maintained with the participating escrow bank, the participating escrow bank nonetheless understands that in submitting the instruction to the Corporation and functioning as escrowee and bailee of the escrow deposit pursuant to the Rules, the participating escrow bank is acting in a wholly separate capacity, and not in its capacity as customer.

(6) The escrow deposit meets the requirements set forth in paragraphs (a) and (b)(i) above.

(7) The total value of the escrow deposit as of the initial deposit of collateral and upon each addition of collateral to such escrow deposit is sufficient to support the number of contracts specified by the participating escrow bank in the relevant instruction, taking into account the valuation principles set forth in paragraph (g).

(8) The total amount of cash held by the participating escrow bank pursuant to outstanding escrow deposits does not exceed a dollar amount equal to a percentage, as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks, of the equity attributable to all outstanding shares of capital stock issued by the participating escrow bank.

(9) To the extent that the escrow deposit includes securities (such securities and any proceeds thereof or distributions thereon, the "deposited securities"):

(i) The deposited securities are held in the participating escrow bank's account at the Depository.

(ii) The participating escrow bank has notified the Depository of the pledge to the Corporation of the deposited securities and the Depository has noted such pledge on its records.

(iii) The customer or its duly authorized representative has provided an authorization under which the Corporation has the right to liquidate the deposited securities in the event of the participating escrow bank's failure to meet its settlement obligations or insolvency.

(iv) The participating escrow bank is a "securities intermediary" (as defined in Section 8-102(a)(14) of the Uniform Commercial Code).

(10) To the extent that the escrow deposit includes cash:

(i) The participating escrow bank has established an approved account for the customer for the purpose of effecting escrow deposits and pledging the cash within escrow deposits to the Corporation, and the deposited cash specified in the instruction (the "deposited cash") has been properly credited to one of such approved accounts.

(ii) The customer's approved account constitutes a "deposit account" within the meaning of Article 9 of the Uniform Commercial Code.

(iii) The customer or its duly authorized representative has provided an authorization under which the Corporation has the right to deliver the deposited cash to its designee in the event of the participating escrow bank's insolvency or failure to meet its settlement obligations.

(iv) The participating escrow bank is a "bank" (as defined in Section 9-102(a)(8) of the Uniform Commercial Code) and will be acting in that capacity with respect to the approved account.

(k) *Agreements of Participating Escrow Bank When Giving an Instruction.* A participating escrow bank, by giving an instruction with respect to an escrow deposit or rollover, irrevocably agrees as follows:

(1) To the extent that the escrow deposit includes deposited securities:

(i) The participating escrow bank shall promptly and fully comply with "entitlement orders" (as that term is defined in Section 8-102(a)(8) of the Uniform Commercial Code) or directions originated by the Corporation concerning all deposited securities without the further consent of the customer, including without limitation any entitlement order or direction originated by the Corporation instructing the participating escrow bank to deliver any or all of the deposited securities to the Corporation or its designees.

(ii) The participating escrow bank shall make reasonable efforts within its powers to ensure that the Depository follows the procedures described in clause (i).

(iii) The participating escrow bank shall comply promptly and fully with an order from the Corporation to liquidate the deposited securities to the extent necessary to perform the participating escrow bank's obligations under the Rules without the further consent of the customer or the Clearing Member.

(2) To the extent that the escrow deposit includes cash:

(i) The participating escrow bank shall hold the deposited cash applicable to the customer in the approved account at the participating escrow bank.

(ii) The participating escrow bank shall promptly and fully comply with disposition instructions originated by the Corporation concerning the approved account and all deposited cash and earnings thereon without the further consent of such customer or the Clearing Member, including without limitation any disposition instruction originated by the Corporation instructing the participating escrow bank to deliver any or all of the deposited cash to the Corporation or its designees.

(l) *Notice of Material Changes to Participating Escrow Bank.* Each participating escrow bank shall give the Corporation prompt prior written notice, in the manner specified by the Corporation, of any material change in its form of organization or ownership structure, including:

(1) the merger, combination or consolidation between the participating escrow bank and another person or entity;

(2) the assumption or guarantee by the participating escrow bank of all or substantially all of the liabilities of another person or entity in connection with the direct or indirect acquisition of all or substantially all of the assets of such person or entity;

(3) the sale of a significant part of the participating escrow bank's business or assets to another person or entity;

(4) a change in the name, form of business organization, or jurisdiction of organization or incorporation of the participating escrow bank; and

(5) a change in the direct or indirect beneficial ownership of 10% or more of the equity of the participating escrow bank.

For the avoidance of doubt, to the extent prohibited by law, a participating escrow bank need not provide the foregoing notice in advance of a public announcement.

(m) *Reports.* On each business day, the Corporation shall make available to the participating escrow bank and to each Clearing Member a listing of all deposit, rollover and withdrawal instructions submitted to the Corporation on that business day with respect to escrow deposits made by the participating escrow bank for such Clearing Member.[13]

(n) *Assignment of Exercises.* If any information made available to a participating escrow bank by the Corporation indicates that an exercise notice has been allocated to a short position covered by an escrow deposit that is being withdrawn or released, the participating escrow bank may not return the escrow deposit to the customer.

(o) *Release of Escrow Deposits in Respect of Stock Put Options upon Expiration.* Any escrow deposit in respect of a short position in stock put options shall be released by the Corporation on its own initiative at a time specified by the Corporation on the fourth business day following the expiration date for the short position covered by such escrow deposit, unless:

(1) the Corporation has received notice from the correspondent clearing corporation indicating that the Clearing Member's obligations in respect of such short position have not been satisfied, in which case the escrow deposit shall not be released until such time as the Corporation determines it has no further obligations in respect of the short position; or

(2) the deposit is subject to a "hold" instruction, in which case the procedures set forth in paragraph (s) below shall apply.[14]

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13 Proposed Rule 610C(m) is based on existing Rule 613(e). Differences between proposed Rule 610C(m) and existing Rule 613(e) are shown in Exhibit 4 to this filing.

14 Proposed Rules 610C(o) and 610C(p) are based on existing Rule 613(f). Differences between proposed Rules 610C(o) and 610C(p) and existing Rule 613(f) are shown in Exhibit 4 to this filing.

(p) *Release of Escrow Deposits in Respect of Index Options upon Expiration.* Any escrow deposit made in respect of a short position in index options shall be released by the Corporation on its own initiative at a time specified by the Corporation on the first business day following the expiration date for the short position covered by such escrow deposit, unless:

(1) the Clearing Member carrying the short position is not in full compliance with its obligations to the Corporation; or

(2) the deposit is subject to a "hold" instruction, in which case the procedures set forth in paragraph (s) below shall apply.

(q) *Transfer of Escrow Deposits to the Corporation on Clearing Member Default.* If a Clearing Member fails to meet its settlement obligations with the Corporation on any business day or is suspended, the Corporation has the option of approving or disapproving any withdrawal of an escrow deposit by such Clearing Member or the relevant participating escrow bank.

(1) If a Clearing Member is in default with respect to any short position covered by an escrow deposit on any business day, the Corporation may take possession of the cash and securities making up any escrow deposit supporting such short position and: (i) in the case of securities, direct the Depository to deliver such securities to the account at the Depository specified by the Corporation and (ii) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of satisfying the Clearing Member's obligations in respect of such short position (or reimbursing itself for losses incurred as a result of the default).

(2) If a Clearing Member fails to meet its settlement obligations with the Corporation or is suspended on any business day, the Corporation may close out any short position held with respect to such Clearing Member, take possession of the securities and/or cash making up any escrow deposit supporting such short position and: (i) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (ii) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case, for the purpose of reimbursing itself for costs incurred in connection with such close-out.

(r) *Participating Escrow Bank Default.* If a participating escrow bank has become insolvent, fails to satisfy the applicable requirements set forth in Rules 610 and 610C and/or in the Corporation's operational procedures or breaches the relevant participating escrow bank agreement or tri-party agreement, the Corporation may nonetheless accept new deposits or accept any escrow rollovers or withdrawals for which settlement was to have been made by the participating escrow bank (provided that the affected Clearing Members would be in compliance with their obligations to the Corporation after giving effect thereto), but such acceptance shall not prejudice or impair such rights as such Clearing Members may have against the participating escrow bank or its customers; provided, that the Corporation may also take any of the following actions: (i) disqualify the participating escrow bank from submitting new escrow deposits; (ii) disapprove any withdrawals by such participating escrow bank, (iii) take possession of deposited securities and cause such securities to be delivered to the participant account of the Corporation at the Depository and/or take possession of deposited cash and cause such cash to be delivered to a bank account specified by the Corporation, in either case for satisfying the participating escrow

bank's settlement obligations (or reimbursing itself for losses incurred as a result of such failure or insolvency), (iv) disregard any escrow deposits, (v) require the participating escrow bank to withdraw any escrow deposit, or (vi) close out any short position supported by an escrow deposit made by the participating escrow bank, take possession of the securities and/or cash making up any escrow deposit supporting such short position and: (A) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (B) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of reimbursing itself for costs incurred in connection with such close-out. In the event of a participating escrow bank's failure to meet its settlement obligations with respect to a Clearing Member or a participating escrow bank's insolvency, the Clearing Member shall have the right to take possession of the deposited securities or cash, as described in paragraph (s) below, provided that the Corporation has released its rights in such deposited securities or cash.[15]

(s) *Transfer of Escrow Deposits to Clearing Member upon Customer Default.*

(1) A Clearing Member that has disapproved of the withdrawal of an escrow deposit (in the case of a withdrawal of deposited securities) or requested a "hold" with regard to such deposit may request, using a form prescribed by the Corporation for such purpose, that the Corporation obtain possession of the securities or cash included within the escrow deposit, or a portion thereof, and deliver such securities to the account of the Depository specified by the Clearing Member, or cash to a location specified by the Clearing Member. By submitting a request for delivery with respect to the securities or cash included within an escrow deposit, a Clearing Member shall be deemed:

(i) to represent that, because the customer has defaulted in its obligations to the Clearing Member in respect of the short position covered by the deposit, it has the legal right to take possession and/or direct disposition of the deposited securities or deposited cash requested to be delivered, as a result of a valid and perfected lien on and security interest in the deposited securities and deposited cash or otherwise, and

(ii) to indemnify and hold harmless the Corporation, its directors, officers, employees and agents, against all losses or expenses (including attorneys' fees) reasonably incurred by such person for any reason as a result of a breach of the representation in clause (1) or the delivery of such deposited securities or deposited cash.

(2) A Clearing Member shall further provide such documentation as the Corporation may reasonably request relating to its legal right to take possession and/or direct disposition of the securities requested to be delivered.

(3) Upon receipt of such a request and upon confirmation that Clearing Member has met any additional required margin, the Corporation shall, unless prohibited by applicable law or regulations or court order: (i) in the case of deposited securities, through the facilities of the Depository, instruct the Depository to deliver such deposited securities, directly or indirectly, to

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15 Proposed Rule 610C(r) is based on existing Rule 613(h). Differences between proposed Rule 610C(r) and existing Rule 613(h) are shown in Exhibit 4 to this filing.

an account at the Depository specified by such Clearing Member, or (ii) in the case of deposited cash, instruct the participating escrow bank to deliver such deposited cash as directed by the Clearing Member, provided that if a Clearing Member has not made a request in proper form or requested an extension by the 5th business day following the Clearing Member's request for a "hold" with respect to such deposit, the Corporation shall release the escrow deposit unless the Clearing Member is not in compliance with its obligations to the Corporation as of such time, in which case the Corporation may exercise the remedies set forth in paragraph (q); and, provided further, the Corporation shall not be responsible for any failure by the Depository or any participating escrow bank to act on any such instruction.

(t) *Effect of Release or Withdrawal of Escrow Deposit.* The release of an escrow deposit by the Corporation or the withdrawal of an escrow deposit with the Corporation's consent releases any and all rights of the Corporation against the participating escrow bank with respect to the escrow deposit. A release or withdrawal of an escrow deposit will not affect any other rights of the Clearing Member for whose account the escrow deposit was made. [16]

. . . Interpretations and Policies:

.01 The Corporation will not accept, or if initially accepted, will thereafter reject, an escrow deposit pursuant to this Rule 610C from a participating escrow bank other than through the Depository, if such participating escrow bank, a parent or an affiliate has an equity interest in the amount of 20% or more of the total capital of the Clearing Member for whose account the deposit is made.

.02 For purposes of this Rule, the term "participating escrow bank" means an approved custodian that has entered into and has in effect a participating escrow bank agreement with the Corporation.

.03 For purposes of this Rule, the term "participating escrow bank agreement" shall mean an agreement between the Corporation and a participating escrow bank approved to act as a custodian of escrow deposits for the purposes of Chapter VI of the Rules, providing, among other things, that such bank is subject to all provisions of the Rules governing the escrow deposit program for effecting escrow deposits, rollovers and withdrawals of escrow deposits without the issuance of escrow receipts.[17]

.04 For the purposes of this Rule, the term "Government securities" means securities with a fixed principal amount issued or guaranteed by the United States, excluding Separate Trading of Registered Interest and Principal Securities issued on Treasury Inflation Protected Securities (commonly called TIP-STRIPS).

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16 Proposed Rule 610C(t) is based on existing Rule 613(i). Differences between proposed Rule 610C(t) and existing Rule 613(i) are shown in Exhibit 4 to this filing.

17 The proposed definition of "participating escrow bank agreement" is based upon the existing definition of "escrow deposit agreement" formerly in Rule 101 and to be moved to Rule 613. Differences between these definitions are shown in Exhibit 4 to this filing.

.05 For the purposes of this Rule, the term "business day" means any day other than a day on which the Corporation, the Depository and/or commercial banks in New York City are authorized or required to be closed.

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Escrow Deposit Program

RULE 613 IS EFFECTIVE ONLY THROUGH APRIL 30, 2016[18]

RULE 613. A bank or other depository that has entered into an escrow deposit agreement with the Corporation (an "Escrow Bank") may make escrow deposits in respect of stock option contracts and index put or call option contracts carried in short positions and "roll over" and withdraw such deposits, and a Clearing Member may withdraw such deposits, by submitting instructions to the Corporation through any electronic means prescribed by the Corporation for such purposes, subject to the following provisions of this Rule:

(a) An Escrow Bank may make an escrow deposit for a Clearing Member's account, or "roll over" an escrow deposit made in accordance with this Rule to cover a different short position of the same customer, or make an escrow withdrawal for a Clearing Member's account, by submitting a deposit, rollover, or withdrawal instruction to the Corporation through electronic means prescribed by the Corporation for such purposes. Rollover instructions may not be submitted after expiration of the contract covered by the escrow deposit. Rollover instructions submitted after expiration of the contract will be disregarded and eliminated.

(b) A Clearing Member for whose account an escrow deposit has been made in accordance with this Rule may withdraw such deposit by submitting a withdrawal instruction to the Corporation through electronic means prescribed by the Corporation for that purpose, specifying the reason for withdrawal. No withdrawal instruction shall be given effect by the Corporation unless the Clearing Member for whose account the withdrawal is sought to be made would be in full compliance with this Chapter VI after giving effect to such withdrawal.

(c) Any instruction submitted to the Corporation by an Escrow Bank or a Clearing Member pursuant to paragraph (a) or the first sentence of paragraph (b) above may specify, as to each deposit, rollover, or withdrawal instruction, any net premium payable to or by the party submitting the instruction in connection therewith. The Corporation shall act as agent for Escrow Banks and Clearing Members in effecting settlement of such premium payment obligations in accordance with Rule 503 and the applicable escrow deposit agreements.

(d) On each business day, the Corporation shall make available to each Clearing Member and to each Escrow Bank on-line reports listing all escrow deposit, rollover, and withdrawal instructions affecting such Clearing Member or Bank that were submitted to the Corporation on that business day, together with the net premiums (if any) specified by the initiating party as payable to or by such Clearing Member or Bank in connection with each such instruction. At or before such time as the Corporation shall prescribe on that same business day, each Clearing

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18 Rule 613 will be deleted from the Corporation's Rules after April 30, 2016.

Member or Bank may approve or reject a deposit, rollover, or withdrawal instruction listed on such on-line reports by submitting appropriate responses to the Corporation through electronic means prescribed by the Corporation for such purposes. If any such instruction is rejected, the instruction shall be deemed null and void; provided, however, that if an Escrow Bank submits an escrow deposit instruction without specifying any premium as payable to such Bank, or a Clearing Member submits an escrow withdrawal instruction without specifying any premium as payable to such Clearing Member, such instructions may not be rejected. Instructions that are not approved by such time as the Corporation shall prescribe on that same business day shall be disregarded and eliminated from the Corporation's escrow deposit processing system; provided, however, that if an Escrow Bank submits an escrow deposit instruction without specifying any premium as payable to such Bank or a Clearing Member submits an escrow withdrawal instruction without specifying any premium as payable to such Clearing Member, such instructions will be effected without approval from the Bank or Clearing Member.

(e) At or before 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on each business day, the Corporation shall make available to each Clearing Member and to each Escrow Bank an on-line escrow settlement report listing any approved deposit, rollover, or withdrawal instructions from the previous day's on-line escrow activity reports which affect such Clearing Member or Bank, and listing the aggregate premium settlement amounts in connection therewith. All approved instructions listed on the escrow settlement report shall be deemed to have been accepted by the Corporation as of the opening of business on that business day, provided that if a Clearing Member fails to meet its settlement obligations on that day, the Corporation may, in accordance with the terms of the applicable escrow deposit agreement, reject any deposit or rollover instruction requiring the payment of premiums by such Clearing Member through the facilities of the Corporation or any withdrawal instruction whatsoever.

(f) Any escrow deposit made in accordance with this Rule in respect of stock options shall be released by the Corporation on its own initiative at 6:00 P.M. Central Time (7:00 P.M. Eastern Time) on the business day following the exercise settlement date unless (i) the Corporation has received notice from the correspondent clearing corporation indicating that the settlement obligations in respect of such short position have not been met by the Clearing Member or the member of the correspondent clearing corporation effecting settlements of exercises and assignments on the Clearing Member's behalf, in which case the deposit shall not be released until the first business day after the Corporation receives confirmation that it shall have no obligations in respect of the short position, or (ii) the Corporation has directed that the exercise be settled otherwise than through the correspondent clearing corporation, until the Corporation receives confirmation that settlement has been made and notifies the Escrow Bank holding the deposit, in accordance with the terms of the applicable escrow deposit agreement, that the deposit is released. Any escrow deposits made in accordance with this Rule in respect of index options shall be released by the Corporation on its own initiative as specified in Rule 1801.

(g) Errors made by a Clearing Member or an Escrow Bank in specifying the premium due in connection with any escrow deposit, escrow rollover, or escrow withdrawal in accordance with this Rule may be corrected by submission of a cash-only entry to the Corporation, either by the party that made the error or by the other party, through electronic means prescribed by the Corporation for such purposes. Cash-only entries shall be subject to being rejected or disregarded in the same manner as escrow deposit activity. Each daily settlement provided for in Rule 503

shall include any cash-only entries initiated by or directed to a Clearing Member which are shown on that day's escrow settlement report as having been approved. Cash-only entries shall be used solely for the purpose of correcting errors made by an Escrow Bank or a Clearing Member in connection with escrow deposits, rollovers, and withdrawals in accordance with this Rule, and for no other purpose.

(h) Errors made by a Clearing Member or an Escrow Bank in specifying the premium due in connection with any escrow deposit, escrow rollover, or escrow withdrawal in accordance with this Rule may be corrected by submission of a cash-only entry to the Corporation, either by the party that made the error or by the other party, through electronic means prescribed by the Corporation for such purposes. Cash-only entries shall be subject to being rejected or disregarded in the same manner as escrow deposit activity. Each daily settlement provided for in Rule 503 shall include any cash-only entries initiated by or directed to a Clearing Member which are shown on that day's escrow settlement report as having been approved. Cash-only entries shall be used solely for the purpose of correcting errors made by an Escrow Bank or a Clearing Member in connection with escrow deposits, rollovers, and withdrawals in accordance with this Rule, and for no other purpose.

(i) The release of an escrow deposit by the Corporation or the withdrawal of an escrow deposit from the Corporation in accordance with the provisions of this Rule shall have the effect of releasing any and all rights of the Corporation with respect to the deposit against the Escrow Bank through whose facilities the deposit was made. Subject (in the case of a withdrawal) to the provisions of paragraph (h) above, such release or withdrawal shall also release any and all rights against such Bank of the Clearing Member for whose account the escrow deposit was made; provided, however, that if any on-line report referred to in paragraph (d) above indicates that an exercise notice has been allocated to a short position covered by an escrow deposit that is being withdrawn or released, an Escrow Bank shall be prohibited, under the terms of its escrow deposit agreement, from returning the deposit to the customer and shall remain obligated under the terms of its escrow deposit agreement, (i) as to any stock option escrow deposit, to deliver to the Clearing Member (x) in the case of a deposit made in respect of one or more calls, the underlying securities deposited against payment of the aggregate exercise price of the call(s) covered by such deposit (less all applicable commissions and other charges), upon presentation by the Clearing Member of a duly executed delivery order in a form prescribed by the Corporation, or (y) in the case of a deposit made in respect of one or more puts, the aggregate exercise price of the put(s) covered by such deposit (plus all applicable commissions and other charges) against delivery of the underlying securities, upon presentation by the Clearing Member of a duly executed payment order in a form prescribed by the Corporation, or (ii) as to any index option escrow deposit, to pay to the Clearing Member the exercise settlement amount (plus any applicable commissions or other charges) upon presentation by the Clearing Member of a duly executed payment order in a form prescribed by the Corporation.

(j) Anything else herein to the contrary notwithstanding, on any day on which the Corporation is open for business, but an Escrow Bank is not, such Bank shall have no obligation to respond to any on-line escrow activity report, or to effect any cash settlement pursuant to Rule 503, until the next day on which both the Corporation and the Bank are open for business.

. . . Interpretations and Policies:

.01 The Corporation will not accept, or if initially accepted, will thereafter reject, an escrow deposit pursuant to this Rule 613 from a bank or other depository other than through the Depository, if such bank or other depository, a parent or an affiliate has an equity interest in the amount of 20% or more of the total capital of the Clearing Member for whose account the deposit is made.

.02 The term "escrow deposit agreement" shall mean an agreement between the Corporation and a bank or other depository approved to act as a custodian of escrow deposits for the purposes of Chapter VI of the Rules, providing for the confirmation, rollover, and withdrawal of escrow deposits without the issuance of escrow receipts and establishing procedures whereby premium settlements between such depository and Clearing Members may be made through the facilities of the Corporation.

* * *

CHAPTER XI

Suspension of a Clearing Member

* * *

Open Positions

RULE 1106.

(a) [no change]

(b) Short Positions in Options and BOUNDs.

(1) [no change]

(2) Notwithstanding the foregoing provisions of this Rule 1106(b), open short positions in option contracts [and BOUNDs] in respect of which one or more specific or escrow deposits have been made (collectively, "covered short positions") [shall] may be maintained by the Corporation[, subject to the instructions of the suspended Clearing Member or its representative] or may be closed out, in the Corporation's discretion, provided that if prior to a decision by the Corporation to close out such positions the suspended Clearing Member or its representative shall instruct the Corporation to transfer any such short position to another Clearing Member, and the transferee Clearing Member is willing to accept such transfer and the margin requirements of Chapter VI of the Rules in respect of the customers' account of the Clearing Member in respect of which the deposit is made are met after giving effect to such transfer, the Corporation may comply with such instruction, and any specific deposit or escrow deposit held by the Corporation in respect thereof and not assigned to the transferee Clearing Member shall be released by the Corporation to the suspended Clearing Member or its representative. The Corporation may, in its discretion, postpone acceptance of any transfer instruction tendered for the account of a suspended Clearing Member pending receipt of satisfactory evidence of the

authority of the person tendering such instruction and such additional documentation regarding the transfer as the Corporation shall require. If a covered short position is not closed out or transferred and thereafter [shall] expires without having been assigned an exercise, the Corporation shall release any specific deposit or escrow deposit held by the Corporation in respect thereof to the suspended Clearing Member or its representative. If an exercise shall be assigned to a covered short position, the exercise shall be settled in accordance with the applicable provisions of the Rules, including those of Rule 1107 or a provision of the Rules that is specified in the Rules as replacing or supplementing Rule 1107 with respect to particular classes of options. If an exercise notice assigned to a covered short position is for a number of contracts which is less than the number of contracts included in such short position, the Corporation shall allocate the assignment as among contracts covered by specific deposits and contracts covered by escrow deposits receipts by random selection or another allocation method which the Corporation deems fair and equitable in the circumstances. The Corporation shall give prompt notice of any allocation made hereunder to the suspended Clearing Member or its representative.

[(3)] If [the suspended Clearing Member or its representative shall instruct] the Corporation [to] closes out any covered short position [and shall furnish such security as the Corporation may require to secure payment of the premium for the closing purchase transaction, the Corporation shall cause such short position to be closed, and], the Corporation may take possession of all or a portion of the securities and/or cash making up the specific deposit or escrow deposit covering such short position for the purpose of reimbursing itself for costs incurred in connection with such close-out (or may in lieu thereof accept security for such costs furnished by the suspended clearing member or its representative), and any portion of any such specific deposit or escrow deposit held by the Corporation [in respect thereof] after such reimbursement shall be released by the Corporation to the suspended Clearing Member or its representative. [If the suspended Clearing Member or its representative shall instruct the Corporation to transfer any such short position to another Clearing Member, and the transferee Clearing Member is willing to accept such transfer and would be in compliance with Chapter VI of the Rules after giving effect to such transfer, the Corporation shall comply with such instruction, and any specific deposit or escrow deposit held by the Corporation in respect thereof and not assigned to the transferee Clearing Member shall be released by the Corporation to the suspended Clearing Member or its representative. The Corporation may, in its discretion, postpone acceptance of any close-out or transfer instruction tendered for the account of a suspended Clearing Member pending receipt of satisfactory evidence of the authority of the person tendering such instruction.]

(c) – (g) [no change]

. . . Interpretations and Policies [no change]

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CHAPTER XV

Binary Options; Range Options

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Deposits in Lieu of Margin Prohibited

RULE 1506. The Corporation will not accept deposits in lieu of margin with respect to range options or binary options on any underlying interest, and [neither] none of Rule 610T, Rule 610, 610A, Rule 610B, Rule 610C nor Rule 613 shall apply to binary options or range options.

[Rule 1506 replaces Rules 610T, 610 610A, 610B, 610C and 613.]

* * *

CHAPTER XVI

Foreign Currency Options

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Deposit of Foreign Currency Prohibited

RULE 1601. Rules 610, 610A, 610B and 610C shall not apply to foreign currency options.

[Rule 1601 replaces Rules 610, 610A, 610B and 610C.]

* * *

CHAPTER XVII

Yield-Based Treasury Options

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Deposit of Underlying Treasury Securities Prohibited

RULE 1701. Rules 610T, 610A and 610B shall not apply to yield-based Treasury options.

[Rule 1701 replaces Rules 610, 610T, 610A and 610B.]

* * *

CHAPTER XVIII

Index Options and Certain Other Cash-Settled Options

* * *

Index Option Escrow Deposits

RULE 1801 IS EFFECTIVE THROUGH APRIL 30, 2016[19]

RULE 1801. (a) Escrow deposits may be made in respect of index option contracts carried by a Clearing Member in a short position in its customers' account with the Corporation in accordance with the provisions of this Rule. Such escrow deposits are referred to herein as "index option escrow deposits."

(b)(1) Index option escrow deposits shall consist of:

(a) cash,

(b) short-term Government securities,

(c) in the case of deposits made in respect of index call option contracts, common stocks listed on a national securities exchange [or the NASDAQ Stock Market] ("common stocks"), or

(d) any combination thereof, held for the account of the Clearing Member's customer by an [bank or trust company approved by the Corporation (the "depository")] approved custodian.

(2) The term "common stocks", as used in this Rule 1801, includes fund shares. In order to be eligible to be deposited hereunder, fund shares must meet the requirements applicable to common stocks under subsection (b)(1)(c) and must be of a class approved by the Corporation for deposit as margin under Rule 604([d]b).

(c) The total value of the cash, short-term Government securities, and/or common stocks comprising an index option escrow deposit (the "deposited property") as of the date of the writing transaction in which the short position covered by the deposit was opened (the "trade date") shall have been not less than the product of the number of option contracts covered by the deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index group at the close of trading on the trade date, or (ii) in the case of a deposit made in respect of index put option contracts, the aggregate exercise price per contract.

(d) A Clearing Member may make an index option escrow deposit by causing an [bank or other depository] approved custodian that has entered into an on-line escrow deposit agreement with the Corporation to make an escrow deposit for the Clearing Member's account pursuant to Rule 613.

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19 Rule 1801 will be deleted from the Corporation's Rules after April 30, 2016.

(e) An [depository] approved custodian may from time to time substitute cash, short-term Government securities, or (in the case of deposits made in respect of index call option contracts) common stocks for any property theretofore deposited, provided that the value of the substituted property is at least equal to that of the property for which it is substituted. If the total value of the deposited property shall at any time be less than 50% of the product of the number of option contracts covered by the deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index group, or (ii) in the case of a deposit made in respect of index put option contracts, the aggregate exercise price per contract, the Corporation may, upon telephonic or written notice to the Clearing Member that made the deposit, disregard the escrow deposit and require that margin be deposited in respect of the short position theretofore covered by the escrow deposit. If such margin is not timely deposited and the Clearing Member is suspended by the Corporation, the Corporation may close out such short position and certify to the [depository] approved custodian that it has closed out such position.

(f) In calculating the value of deposited property for the purposes of this Rule, short-term Government securities shall be valued at the lesser of par value or 100% of their current market values and common stocks shall be valued at their closing sale prices (if subject to last sale reporting) or their closing bid prices (if not subject to last sale reporting) on the applicable date. Notwithstanding the foregoing, if any common stock included in the deposited property shall cease to meet the requirements of subsection (b)(1)(c) of this Rule, such common stock shall be assigned a value of zero for the purpose of any calculation under this Rule.

(g) An index option escrow deposit must be received by the Corporation prior to such time as the Corporation may specify in order to be reflected in a Clearing Member's margin requirement for the following business day.

(h) Any index option deposit made in accordance with this Rule shall be released by the Corporation on its own initiative at 6:00 P.M. Central Time (7:00 Eastern Time) on the exercise settlement date, provided the Clearing Member has fully complied with its settlement obligations in the account in which the escrow deposit is held.

(i) An index option escrow deposit may be withdrawn by a Clearing Member, during such hours as the Corporation may specify and with the authorization of the Corporation, so long as the conditions of Chapter VI of the Rules are met after giving effect to such withdrawal. A Clearing Member requesting such withdrawal shall comply with such procedures as the Corporation shall prescribe.

(j) If an exercise of options of a series covered by an index option escrow deposit is assigned to the customers' account of the Clearing Member that made the deposit, and the Clearing Member fails to make timely settlement in respect of the assignment, the Corporation shall be entitled to receive from the [depository] approved custodian on demand, out of the deposited property or its proceeds, an amount in cash equal to the product of (i) the number of contracts covered by the assignment (up to the aggregate number of contracts covered by the escrow deposit) and (ii) the exercise settlement amount per contract, plus all applicable commissions and other charges. If the Corporation certifies to the [depository] approved custodian that it has closed out a short position pursuant to section (e) of this Rule, the

Corporation shall be entitled to receive from the [depository] approved custodian, out of the deposited property, an amount in cash equal to the cost of the closing transaction or transactions, including any commissions, financing costs, and the charges incurred by the Corporation in connection therewith.

(k) In the event any short index option position for which an escrow deposit has been made with the Corporation is closed out by a closing transaction or transferred to an account of another Clearing Member, or in the event that settlement is made in respect of an exercise notice assigned to such position, the Clearing Member that carried such position shall promptly request the withdrawal of such escrow deposit (subject, in the case of a closing transaction effected by the Corporation described in subsection (e) of this Rule, to the payment to the Corporation of the costs of such closing transaction, including any commissions, financing costs, and other charges incurred by the Corporation in connection therewith, but unless and until such escrow deposit is withdrawn, the Corporation shall be entitled to make a demand on the deposited property in accordance with the terms of the escrow deposit upon the assignment of an exercise notice to any short index option position in the same series and same account as the one for which the escrow deposit was made.

(l) The deposit hereunder by a Clearing Member of any deposited property may be made only to the extent permitted by applicable law and the rules and regulations thereunder, and shall be deemed to constitute the Clearing Member's certificate and representation to the Corporation that such deposit has been duly authorized by the customer and does not contravene any provision of law or any rule or regulation thereunder.

[Rule 1801 replaces Rule 610T.]

...Interpretations and Policies:

.01 The Corporation will not accept, or if initially accepted, will thereafter reject, an escrow deposit pursuant to this Rule 1801 from an [from a bank or other depository] approved custodian other than through the Depository if such [depository] custodian, a parent[,] or an affiliate has an equity interest in the amount of 20% or more of the total capital of the Clearing Member for whose account the deposit is made.

.02 For the purposes of this Rule, the term "short-term Government securities" means securities with a fixed principal amount issued or guaranteed by the United States and having one year or less to maturity.

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CHAPTER XXI

Cross-Rate Foreign Currency Options

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Deposit of Foreign Currency Prohibited

RULE 2101. Rules 610T, 610, 610A and 610B shall not apply to cross-rate foreign currency options.

[Rule 2101 replaces Rules 610T, 610, 610A and 610B.]

* * *

CHAPTER XXIII

Cash-Settled Foreign Currency Options

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Deposits in Lieu of Margin Prohibited

RULE 2301. Rules 610T, 610, 610A and 610B shall not apply to cash-settled foreign currency options.

[Rule 2301 replaces Rules 610T, 610, 610A and 610B.]

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CHAPTER XXVII

Packaged Spread Options

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Deposits in Lieu of Margin Prohibited

RULE 2701. Rules 610T, 610, 610A and 610B shall not apply to packaged spread options.

[Rule 2701 replaces Rules 610T, 610, 610A and 610B.]

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Item 2. **Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by the Board of Directors of OCC at a meeting held on March 8, 2013.

Questions regarding the proposed rule change should be addressed to Stephen M. Szarmack, Vice President and Associate General Counsel, at (312) 322-4802.

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

A. Purpose

The primary purpose of this proposed rule change is to reflect changes to OCC's Rules governing "escrow deposits" and "third-party specific deposits," each a type of deposit in lieu of margin, in order to, among other things, clarify the rights of clearing members to access deposited securities and cash in the event of a customer default and, in the case of escrow deposits, change the manner in which deposited securities and cash are held and include the majority of the terms of the escrow deposit program in the Rules rather than in an agreement signed by custodian banks. The proposed rule change is also intended to reorganize, restate and consolidate certain of OCC's Rules relating to deposits in lieu of margin in order to distinguish more clearly among the various types of deposits in lieu of margin and identify more clearly the provisions applicable to each. Further, the proposed rule change also establishes the process under which clearing members and custodian banks would transition from making deposits governed by OCC's existing Rules to making deposits governed by the amended Rules. In the interest of clarity, OCC is also proposing to make certain changes in the terminology used in connection with deposits in lieu of margin.

Background – Deposits in Lieu of Margin

Generally speaking, "deposits in lieu of margin" are used to "cover" a short position in an eligible option contract by deposit of the underlying securities—or acceptable collateral equal to the exercise price in the case of an equity put or the exercise settlement amount in the case of an index option—rather than collateralizing the short position through the deposit of margin. Deposits in lieu of margin are currently divided into "specific deposits," which are made by a clearing member that holds the underlying security in its account at the Depository Trust Company ("DTC") on behalf of a particular customer, and "escrow deposits," which are made by custodian banks on behalf of a clearing member's customer. The Rules currently provide for two types of escrow deposits – escrow program deposits and third-party escrow deposits. A third-party escrow deposit is a pledge of the underlying securities in respect of a short call option through the systems of DTC. An escrow program deposit is a pledge of eligible collateral, made through a custodian bank pursuant to the escrow deposit program, in respect of short positions in equity and index put or call options via OCC's own on-line escrow deposit system.

Current Rules Governing Escrow Deposits

Under current Rules 610(d) and 610(g) governing third-party escrow deposits, a clearing member's customer may instruct a custodian bank to make such a deposit through the pledge of a security underlying a short equity call option position written by the customer to OCC through DTC's systems. This instruction also identifies the relevant clearing member. The pledged security remains in the custodian bank's DTC account with a "tag" indicating that it is pledged to OCC; if OCC releases the pledge, the tag is removed. OCC treats the pledge of the underlying security as a deposit in lieu of margin for the short equity call position. The short position is deemed to be "covered" for margin purposes, *i.e.*, the security that would be delivered on

exercise has been pledged, thereby ensuring that physical delivery settlement obligations would be met, and is not included in calculating the clearing member's margin requirements.

Third-party escrow deposits also serve to cover the customer's short position at the clearing member. Under self-regulatory organization margin rules, the clearing member may treat the customer's short position as being "covered" and need not collect customer level margin to secure the obligations of the customer to the clearing member.[20]

Under current Rules 610(d), 613 and 1801 governing escrow program deposits, a custodian bank may make deposits of eligible collateral in respect of stock and index options, whether puts, or calls, carried in a short position in clearing member accounts at OCC, and thereby "cover" the obligation to deliver case upon exercise settlement, through systemic means provided by OCC. Collateral supporting escrow program deposits is held at custodian banks, and therefore OCC relies upon reports of deposited collateral supplied by the custodian banks. Furthermore, pursuant to Rules 610(g)(2) and 613, the substantive terms of the escrow deposit program are included in a detailed agreement with each custodian bank (each, an "Escrow Deposit Agreement"),[21] and therefore OCC must maintain these individual agreements with each custodian bank that participates in the escrow deposit program.

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20 *See, e.g.*, Financial Industry Regulatory Authority ("FINRA") Rule 4210 and Chicago Board Options Exchange ("CBOE") Rule 12.3. These rules specifically refer to OCC's Rules governing specific and escrow deposits, in addition to providing more generally that margin need not be deposited with respect to short positions covered by an escrow agreement satisfying certain conditions.

21 See the Amended and Restated On-Line Escrow Deposit Agreement, enclosed as Exhibit B to the letter from Jean M. Cawley, OCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Securities and Exchange Commission (July 18, 1996), cited in Securities Exchange Act Release No. 34-37602 (August 26, 1996) (SR-OCC-95-17), and Amendment No. 1 to the Amended and Restated On-Line Escrow Deposit Agreement, attached as Exhibit 5 to Securities Exchange Act Release No. 34-51584 (April 20, 2005) (SR-OCC-2005-04).

In the case of both third-party escrow deposits and escrow program deposits, as set forth in Rules 610(j) and 613(b), respectively, if the custodian bank, on behalf of its customer, requests a release of the deposit through DTC's systems, the release must first be approved by the clearing member for whose benefit the deposit was made. OCC does not release its rights in the deposit until it first determines that the clearing member would be in compliance with OCC margin requirements in the account in which the position is carried upon the release's being effected.

Reorganization and Transition

Reorganization

Although escrow program deposits and third-party escrow deposits are both classified as "escrow deposits" under Rule 610(g), in practice third-party escrow deposits are more like specific deposits, as described in Rule 610(e). Third-party escrow deposits and specific deposits each require deposit of the *specific* securities underlying a short position, while this is not the case for escrow program deposits. Furthermore, for purposes of OCC's internal operations, a distinction is not made between specific underlying securities pledged through DTC's systems by a clearing member and those pledged through DTC's systems by a third party. Accordingly, the proposed Rules refer to (i) deposits by third parties of specific underlying securities, formerly classified as third-party escrow deposits, as "third-party specific deposits," and (ii) deposits by clearing members of specific underlying securities, formerly classified simply as specific deposits, as "member specific deposits." Deposits via the escrow deposit program would remain as the sole category of "escrow deposits" and, accordingly, would be referred to as such.

Corresponding to this revised terminology, the proposed Rules would be reorganized to distinguish more clearly the three forms of deposits in lieu of margin. While Rule 610 currently contains provisions governing each type of deposit in lieu of margin, and Rules 613 and 1801

provide additional detail with respect to escrow deposits, under the proposed Rules each type of deposit in lieu of margin would be governed by a distinct Rule. Proposed Rule 610 would govern deposits in lieu of margin generally, while proposed Rules 610A, 610B and 610C would govern member specific deposits, third-party specific deposits and escrow deposits, respectively. As part of this reorganization, certain provisions currently in Rules 613 and 1801 would be included in the proposed Rules corresponding to the applicable type of deposit in lieu of margin, and Rules 613 and 1801 would no longer be necessary and deleted in their entirety at the end of the transition period.

Communications with Custodian Banks

In light of the substantial changes proposed to the escrow deposit program in particular, OCC has sought to keep custodian banks informed regarding the proposed changes. These communications began in January and February 2012, when OCC notified each custodian bank of the proposal to restructure the escrow program. As part of this notification, OCC informed each custodian bank OCC's intention to require the security pledges to be made through DTC, the percentage of cash used in the escrow deposit program and the potential elimination of cash deposits.[22]

In June through August 2012, OCC provided a PowerPoint presentation to each custodian bank summarizing proposed changes to the escrow deposit program. This presentation included

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[22] While it was ultimately determined in April 2014 that cash collateral would remain in the escrow deposit program, prior discussions with participating escrow banks reflected the evolution of OCC's decision on this point. For example, the PowerPoint presentation given to banks during June – August 2012 indicated that cash collateral would not be permitted in the escrow deposit program, while the PowerPoint presentation given during April – May 2013, as well as the draft rules distributed to participating escrow banks for comment in July – August 2013, indicated that it *would* be included. A number of current participants in the escrow deposit program use cash, some to a substantial degree, and OCC determined that the use of cash collateral should remain an essential aspect of the escrow deposit program.

an explanation of the reasons for the proposed changes, including the desire to enhance and strengthen the escrow deposit program, and increase collateral transparency. The presentation also included a discussion of changes to the validation and valuation of collateral, and the calculation of contract quantities based on the collateral that has been pledged.

In April and May 2013, OCC provided each custodian bank with an operational overview of the restructured escrow deposit program in the form of a PowerPoint presentation. This presentation covered: eligible option types; types of eligible supporting collateral; required collateral value calculations for option contact coverage; valuation of supporting collateral; asset management locations/processing of supporting collateral; and validation and valuation of supporting collateral and calculation of option contract coverage.

In July and August 2013, OCC distributed a draft Participating Escrow Bank Agreement (as described below) and the related proposed OCC Rules to custodian banks along with a request for feedback. Following the receipt of questions and comments, OCC distributed "FAQ" responses to custodian banks.

During September 2013, OCC provided a walkthrough of the functions of its ENCORE system applicable to the restructured escrow deposit program for certain custodian banks in order to provide an orientation of such function to custodian banks as well as to solicit initial feedback on those functions. ENCORE is OCC's real-time clearing and settlement system that allows clearing members to, among other things, post and view margin collateral as well as deposits in lieu of margin. In connection with the restructured escrow deposit program, clearing members will continue to use ENCORE to view member specific deposits, and custodian banks will also use ENCORE to view third-party specific deposits and make escrow deposits consisting of cash. Moreover, OCC sent requests to custodian banks for validation of the DTC pledgor accounts to

be used for the restructured escrow deposit program. In October 2013, OCC distributed escrow deposit program eligible securities file details to custodian banks.

In February and March 2014, OCC arranged a series of calls with certain custodian banks to solicit feedback on a term sheet detailing cash account structures. Following the receipt of questions and comments, OCC distributed "FAQ" responses to custodian banks.

The questions and comments received from custodian banks are more fully described in Item 5 below.

Transition Period

For the administrative convenience of clearing members, custodian banks and customers, the existing Rules governing deposits in lieu of margin would remain in effect, in parallel with the proposed Rules, for a transition ending April 30, 2016. This would also reduce the risk of clearing members' needing to provide new collateral on a single date in the absence of a transition period. During this transition period, deposits in lieu of margin could be made under either the existing Rules or the proposed Rules. After the transition period, proposed Rules 610, 610A, 610B and 610C would provide the sole means of making deposits in lieu of margin; existing Rules 613 and 1801 would become ineffective and would be deleted from the Rules without the need for an additional rule filing. Existing Rule 610 would be redesignated as 610T to indicate that it is a temporary rule, and also would become ineffective after the transition period. Furthermore, following the transition period, existing Rule 503, which addresses instructions that call for the payment of a premium by or to the clearing member for whose account the deposit is made, would become ineffective and would be deleted from the Rules without the need for an additional rule filing, because these instructions would no longer be permitted under the revised escrow deposit program, as described below.

Notwithstanding the reorganization and change in terminology, proposed Rules 610B and 610C governing third-party specific deposits and escrow deposits, respectively, have certain parallel provisions because the collateral constituting each would continue to be pledged by a custodian bank. Consequently, much of the following explanation relates to both escrow deposits and third-party specific deposits, despite the differences in their underlying collateral.

Revised Rules Governing Escrow Deposits and Third-Party Specific Deposits Generally

The proposed Rules governing third-party specific deposits and escrow deposits, as introduced in proposed Rule 610B(a) and the initial paragraph of proposed Rule 610C, generally contain parallel provisions with respect to both OCC's and clearing members' respective rights in collateral included within a deposit.

OCC's Rights in Collateral Relating to Escrow Deposits and Third-Party Specific Deposits

The proposed Rules governing the escrow deposit program include a number of representations and agreements in paragraphs (i), (j) and (k) of proposed Rule 610C, previously included in the Escrow Deposit Agreement, which each custodian bank would be deemed to make each time that it makes an instruction with respect to an escrow deposit. For example, each custodian bank would agree, under Rule 610C(i)(1), not to release an escrow deposit without OCC's consent and, under Rule 610C(i)(2), not to subject deposits to any lien or right of set-off in favor of the custodian bank. Proposed Rules 610B(b) and 610C(e) also provide that the custodian bank may "roll over" a deposit to cover a different short position of the same customer and option type, subject to OCC's right to approve or reject such a rollover instruction.

With respect to both third-party specific deposits, under proposed Rule 610B(f), and escrow deposits, under proposed Rule 610C(q) and (r), in the event of a clearing member or custodian bank default, OCC would have the right, in the case of securities included within such a deposit, to direct DTC to deliver the securities to its DTC participant account for the purpose of

satisfying the obligations of the clearing member or custodian bank or reimbursing itself for losses incurred as a result of the failure, as applicable. Similarly, pursuant to Rule 610C(q) and (r) OCC would have the right in the event of such a default to take possession of cash included within an escrow deposit for the same purposes. In the event of a custodian bank default, including if the custodian bank failed to satisfy the minimum standards for participation in the revised escrow deposit program to be established by OCC and included in its operational procedures, under Rule 610C(r) OCC would further have the right to, among other things, remove the custodian bank from the escrow deposit program, prohibit the custodian bank from making new escrow deposits, disallow withdrawals with respect to existing deposits, close out short positions covered by escrow deposits and use the deposit to reimburse itself for the costs of the close-out or disregard or require the withdrawal of existing escrow deposits. Proposed Rules 610B(g) and 610C(t) provide that the release of a third-party specific deposit or an escrow deposit, respectively, would release OCC's rights against the custodian bank with respect to the deposit.

Proposed Rule 610C(h) also includes changes which would clarify OCC's ability to close out a position covered by any deposit in lieu of margin if the collateral supporting the position falls below the maintenance levels set forth in a schedule or other form as OCC shall make available to clearing members and participating escrow banks and described in the proposed Rules, and the relevant clearing member fails to satisfy a demand by OCC for margin and is suspended, and to use the cash and securities included within the escrow deposit to reimburse itself for costs incurred in connection with the close-out.

In addition to the proposed changes to the Rules governing escrow and third-party specific deposits relating to OCC's rights in the collateral included within these deposits, OCC is proposing to amend Rule 1106 to clarify the treatment of these deposits in the event of a

suspension of a clearing member. Rule 1106(b)(2) would be amended to clarify that OCC may close out a short position covered by an escrow or specific deposit, subject to the ability of the suspended clearing member or its representative to transfer the short position to another clearing member under certain circumstances. In addition, current Rule 1106(b)(3) would be combined with Rule 1106(b)(2) and amended to clarify OCC's right to take possession of the cash and/or securities included within an escrow or specific deposit for the purpose of reimbursing itself for costs incurred in connection with the close-out of a short position covered by the deposit.

Clearing Members' Rights in Collateral Relating to Escrow Deposits and Third-Party Specific Deposits

Proposed Rules 610C(d), (o), (p) and (s), relating to escrow deposits, and proposed Rules 610B(d) and (e), relating to third-party specific deposits, would provide that the clearing member maintaining the account with respect to which such a deposit was made would have the ability, in addition to a clearing member's right under DTC's rules with respect to third-party specific deposits to block the release of deposited securities requested by a custodian bank, to request a "hold" with respect to a deposit that would operate to prevent the withdrawal of deposited securities or cash by an approved custodian or the release of a deposit that would otherwise be effected by OCC as a matter of course on the business day following the exercise settlement date for the options covered by the deposit.

Proposed Rules 610C(d), (o), (r) and (s) and 610B(d) and (e) further provide that, in the event an exercise notice is allocated to a covered short position and the customer fails to satisfy its delivery obligation to the clearing member, the clearing member would have the right to request that OCC direct delivery of the underlying securities through DTC's systems or cash through an instruction to the custodian bank, as applicable, as specified by the clearing member. In addition, if a covered short position is closed out, at the direction of the customer or the

clearing member, through a closing purchase transaction and the customer fails to pay the premium and any related transaction costs, the clearing member would have the right to direct OCC to direct delivery of a sufficient amount of the deposited securities or cash to satisfy the customer's obligation to the clearing member with respect to the close-out.

With respect to both third-party specific deposits and escrow deposits, proposed Rules 610B(e) and 610C(s) also provide that by making a request for delivery, the clearing member would be deemed to make appropriate representations to OCC that the clearing member has a right to possession of the securities or cash and would grant to OCC the rights and remedies with respect to such securities or cash set forth in the Rules, and the clearing member would agree to indemnify OCC against losses resulting from a breach of these representations or the delivery of the securities or cash. A Clearing Member would also be required to provide such documentation regarding its right to possession of the securities or cash as OCC may reasonably request.

Proposed Rules 610B(c) and 610C(f) provide for the grant of a security interest by the customer to the clearing member in the securities and cash with respect to a specific short position. The Rules would provide that any such security interest of a clearing member in an escrow deposit would be subordinated to OCC's interest. For purposes of perfecting a clearing member's security interest under the Uniform Commercial Code, OCC would obtain control over the security both on its own behalf and on behalf of the relevant clearing member, with clear subordination of the clearing member's interest to OCC's interest; in the event OCC had to direct delivery of the security to the clearing member, OCC would do so on the clearing member's behalf.

Revised Rules Governing Escrow Deposits

While many of the proposed Rules govern both escrow deposits and third-party specific deposits, certain proposed Rules relate only to escrow deposits and the escrow deposit program, which governs such deposits. Additionally, and in the interest of clarity, OCC is proposing to change the term "approved depository" to "approved custodian" throughout the Rules concerning deposits in lieu of margin since the term "Depository" is defined as the Depository Trust Company.[23]

Overview of the Revised Escrow Deposit Program and Participating Escrow Bank Agreement

While custodian banks would still need to execute an agreement to participate in the revised escrow deposit program, the Escrow Deposit Agreement would be greatly simplified and retitled as the "Participating Escrow Bank Agreement." Among other things, the Participating Escrow Bank Agreement would provide that custodian banks are subject to all terms of the Rules governing the revised escrow deposit program, as they may be amended from time to time.[24] The Participating Escrow Bank Agreement would still retain certain custodian bank eligibility requirements, including representations regarding the custodian bank's equity and authority to enter into the Participating Escrow Bank Agreement, though it would no longer include a limitation on a custodian bank's overall exposure to securities included within escrow deposits.

Further, under Rule 610C(b) governing the revised escrow deposit program, all non-cash

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23 *See* OCC By-Laws, Article XXI, Section 1.D(1). An approved custodian must be either a bank or trust company.

24 Under the Participating Escrow Bank Agreement, however, OCC will agree to provide custodian banks with advance notice of material amendments to the Rules relating to deposits in lieu of margin and custodian banks will have the opportunity to withdraw from the program if they object to the amendments. As a general matter, the Participating Escrow Bank Agreement will not be negotiable, although OCC may determine to vary certain non-essential terms in limited circumstances. The Participating Escrow Bank Agreement is attached to this filing as Exhibit 5A.

collateral included within an escrow deposit would be held at, and pledged through, DTC. Cash collateral would continue to be held in accounts at custodian banks, but with certain enhanced controls, and pursuant to proposed Rule 610C(b) each customer participating in the revised escrow deposit program with respect to cash collateral would be required to enter into an agreement with OCC and the applicable custodian bank (the "Tri-Party Agreement") governing the customer's participation in the program and confirming the grant of a security interest in the customer's account, as provided for in proposed Rule 610C(f). Under the Tri-Party Agreement, each custodian bank would agree to follow disbursement directions of OCC with respect to cash included within escrow deposits and entitlement orders of OCC with respect to securities included within escrow deposits without further consent by the customer. [25] In addition, as set forth in the introductory paragraph of proposed Rule 610 and in Rule 610C(a), which describes eligible collateral, escrow deposits would no longer be permitted with respect to equity calls. Proposed Rules 610C(c) and (d) provide detail regarding available methods of making escrow deposits and withdrawals, respectively. Moreover, in an effort to reduce the escrow deposit program's complexity, instructions pursuant to Rules 613 and 503 that call for the payment of a premium by or to the clearing member for whose account the deposit is made, which have not been utilized, would no longer be permitted under the revised escrow deposit program. Rules

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25 OCC has determined to use this cash account structure as a result of a series of discussions with certain custodian banks involved in the cash portion of the escrow deposit program, as described above. The intended structure would permit a greater number of customers to participate in the escrow deposit program than, for example, a commingled "omnibus" account structure at each custodian bank, which would preclude the participation of customers subject to restrictions under the Investment Company Act of 1940 requiring segregation of a registered investment company's funds.

503 and 613 would both become ineffective after the transition period.[26] As this aspect of the escrow deposit program has not been used for a number of years, its elimination should not be harmful to any current participants in the escrow deposit program. Proposed Rule 610C(l) would also require that custodian banks notify OCC of certain material organizational changes, as clearing members must do under current Rule 215, while proposed Rules 610C(m) and (n) would govern the on-line reports provided to clearing members and custodian banks regarding escrow deposits.

Transparency and Control over Collateral Included in Escrow Deposits

In order to take advantage of the substantial degree of integration between OCC's systems and DTC's pledge system, proposed Rule 610C(b) governing the escrow deposit program requires that all non-cash collateral pledged to support an escrow be held by the custodian bank at, and pledged through, DTC. This manner of holding collateral would provide OCC with the ability to validate and value collateral supporting escrow deposits in real time, allowing OCC to perform the controls for which it currently relies on the custodian banks. It would also provide OCC with the ability to obtain possession of deposited securities upon a clearing member default by issuing a transfer instruction through DTC's systems, without the need for custodian bank involvement. Furthermore, a clearing member would have the ability to obtain possession of deposited securities upon a customer default in a similar manner by notifying OCC of such customer default and submitting a request for delivery of such deposited securities. Cash collateral pledged to support an escrow deposit would continue to be held through the existing program interfaces; however, for increased security, any pledges of cash

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26 Rule 613 has many provisions other than those relating to these instructions, but, as noted above, these provisions are incorporated into Rule 610C and Rule 613 will no longer be necessary.

would be required to be made in a customer account at the custodian bank to be used solely for the purpose of making escrow deposits, with respect to which the customer has entered into a Tri-Party Agreement. Each custodian bank would agree to disburse funds from the pledged account only at OCC's direction. While requiring a Tri-Party Agreement may affect certain custodian banks' ability to participate in the escrow deposit program, OCC would gain additional transparency and control over cash collateral as a result of the agreement. Each custodian bank would provide OCC with online view access to each customer's cash account designated for the escrow deposit program, allowing visibility into transactional activity and account balances.

Initial and Maintenance Collateral Requirements Relating to Escrow Deposits

In addition to the structural changes to the revised escrow deposit program, the proposed Rules include certain technical changes designed to ensure that the escrow deposit program remains consistent with self-regulatory organization margin rules, as well as to improve the overall risk management of the escrow deposit program. In particular, proposed Rule 610C(g) and (h) provide for minimum collateral requirements, both as of the deposit of collateral and in connection with OCC's daily margin calculations. These valuations would take into account certain "haircuts" with respect to pledged collateral, with the specific valuation percentages applicable to each type of short position and each type of collateral determined by OCC and set forth in a schedule or other form that OCC would make available to clearing members and participating escrow banks. The "initial" minimum requirement would be the product of the applicable initial percentage for the category of option covered by the short position, *e.g.*, stock put options, index call options or index put options, the number of option contracts specified in the instruction and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put

option contracts, the aggregate exercise price per contract. The "maintenance" minimum requirement would be the product of the applicable maintenance percentage for the category of option covered by the short position the number of option contracts covered by the escrow deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract.

B. Statutory Basis

OCC believes that the proposed rule change is consistent with Section 17A of the Securities Exchange Act of 1934 (the "Act")[27] and the rules and regulations thereunder, including Rules 17Ad-22(d)(3) and (11), because the proposed modifications would help ensure that the Rules of OCC are designed to assure the safeguarding of securities and funds which are in OCC's custody or control or for which it is responsible,[28] hold assets in a manner whereby risk of loss or of delay in access to them is minimized,[29] and permit OCC to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default.[30] These purposes would be achieved by, among other things, providing that all cash collateral would be held in customer account at the custodian bank to be used solely for the purpose of making escrow deposits, pursuant to a Tri-Party Agreement, and all non-cash

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27 15 U.S.C. 78q-1.

28 15 U.S.C. 78q-1(b)(3)(F)

29 17 CFR 240.17Ad-22(b)(3)

30 17 CFR 240.17Ad-22(b)(11).

collateral would be held at and pledged through DTC[31] so that OCC would be able to validate and value collateral in real time and to obtain possession of deposited securities by issuing a transfer instruction through DTC's systems in an event of default without involving custodian banks. OCC believes that the proposed rule change is also consistent with the requirement in Rule 17Ad-22(d)(11), that clearing agencies establish, implement, maintain and enforce policies and procedures reasonably designed to make key aspects of their default procedures publicly available, because the substantive terms of the escrow deposit program would be incorporated in OCC's Rules, which are publicly available on OCC's website, rather than in private agreements.

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

The proposed change would reflect changes to the Rules governing specific deposits and escrow deposits and, more generally, amend the Rules to distinguish more clearly the three forms of deposits in lieu of margin: escrow deposits, third-party specific deposits and member specific deposits. The proposed rule change would impose a burden on competition.[32] In particular, a burden would be imposed on certain custodian banks in light of the requirement that cash included within an escrow deposit be held in an account of the relevant customer at the custodian bank pursuant to a Tri-Party Agreement. This requirement may limit certain custodian banks' participation in the escrow deposit program. However, OCC believes that the resulting burden on competition is justified by the additional transparency and control over cash collateral that OCC obtains where cash is held in this manner.

OCC does not believe that the proposed rule change would impose burdens on custodian banks other than as described above, nor would it impose a burden on clearing members, other

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31 OCC has made DTC aware of the applicable changes to the escrow deposit program. DTC did not express any concerns with respect to such changes.

32 15 U.S.C. 78q-1(b)(3)(I).

users of OCC's services or other clearing agencies since the proposed rule change would both streamline the existing Rules governing the escrow deposit program and third-party specific deposits, permitting OCC to administer the program more effectively for all clearing members, and provide more clarity to all clearing members with respect to deposits in lieu of margin. Furthermore, there would be a period of several months during which clearing members can transition to the new Rules. Accordingly, the proposed rule change would not have a differential impact on any group of clearing members or customers.

Item 5. **Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others**

As described in Item 3 above, OCC discussed the changes to its escrow program with custodian banks several times since 2012. While these discussions were generally informational in nature, custodian banks provided OCC with comments and questions in two instances—the July/August 2013 discussions and the February/March 2014 discussion. The primary focus of the comments in both sets of discussions was the manner in which custodian banks would be required to hold cash under the new escrow rules: in an omnibus structure or in a tri-party structure. From a legal perspective, and with respect to OCC, the omnibus structure would provide OCC with an account in OCC's name and thereby perfect OCC's right under the UCC to take possession of cash escrow deposits in the event of a clearing member default. This would also eliminate the need for a separate tri-party agreement. However, with respect to custodian banks and their clients, the omnibus structure was less desirable since all of a custodian bank's OCC escrow program clients' assets would be comingled in a single account. From an operational perspective, a single omnibus account at a custodian bank is easier for OCC manage since OCC would only need to have "view access" into one account at a custodian bank. On the

other hand, custodian banks expressed privacy concerns with respect to several clients having view access into a single account.

Eventually, and as described in Item 3 above, OCC decided to use a tri-party account structure for cash escrow deposits, with certain controls to alleviate the concerns on both sides. Specifically, custodian banks agreed to facilitate the execution of a form tri-party agreement with each of its clients that participates in OCC's escrow program, which perfects OCC's security interest in cash escrow deposits. Additionally, custodian banks agreed to establish an escrow specific cash account for each client so that OCC does not need to differentiate a client's OCC escrow cash from the client's non-escrow cash. OCC believes that the current structure for cash accounts strikes the appropriate balance between OCC's desire for legal certainty as to its right to take possession of cash escrow deposits in the event of a clearing member default, and the operational desire to only access a client's OCC escrow program cash account balance at a custodian bank.

Additional comments OCC received from the July/August 2013 discussions with custodian banks centered on administrative items such as the escrow program documentation structure, and the manner in custodian banks would operationally post escrow deposits in OCC's clearing system, ENCORE. As discussed above, OCC moved the substantial majority of its Amended and Restated On-Line Escrow Deposit Agreement into proposed Rule 610C in order to have the majority of escrow "rules" in one place. Custodian banks were agreeable to the new documentation structure once OCC explained its rationale for such new structure. Also, custodian banks did not express any concerns regarding the operational steps necessary to post an escrow deposit in ENCORE once OCC provided custodian banks with a "walk through" of the operational process.

Item 6. **Extension of Time Period for Commission Action**

OCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act.

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

Not applicable.

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

The proposed rule change is not based on a rule change of another self-regulatory organization.

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 the proposed rule change for publication in the Federal Register.

Exhibit 4. Comparison of Proposed Rules 610A, 610B and 610C to existing Rules 610, 613 and 1801.

Exhibit 5A. Participating Escrow Bank Agreement.

Exhibit 5B. Escrow Program Tri-Party Agreement.

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: _____

Scott M. Kalish
Assistant Secretary

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-OCC-2015-011)

May 1, 2015

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Concerning Deposits in Lieu of Margin

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 May 1, 2015, 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 is being filed by OCC in connection with a change to OCC's By-Laws and Rules relating to deposits in lieu of margin.

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

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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 primary purpose of this proposed rule change is to reflect changes to OCC's Rules governing "escrow deposits" and "third-party specific deposits," each a type of deposit in lieu of margin, in order to, among other things, clarify the rights of clearing members to access deposited securities and cash in the event of a customer default and, in the case of escrow deposits, change the manner in which deposited securities and cash are held and include the majority of the terms of the escrow deposit program in the Rules rather than in an agreement signed by custodian banks. The proposed rule change is also intended to reorganize, restate and consolidate certain of OCC's Rules relating to deposits in lieu of margin in order to distinguish more clearly among the various types of deposits in lieu of margin and identify more clearly the provisions applicable to each. Further, the proposed rule change also establishes the process under which clearing members and custodian banks would transition from making deposits governed by OCC's existing Rules to making deposits governed by the amended Rules. In the interest of clarity, OCC is also proposing to make certain changes in the terminology used in connection with deposits in lieu of margin.

Background – Deposits in Lieu of Margin

Generally speaking, "deposits in lieu of margin" are used to "cover" a short position in an eligible option contract by deposit of the underlying securities—or acceptable collateral equal to the exercise price in the case of an equity put or the exercise settlement amount in the case of an index option—rather than collateralizing the short position through the deposit of margin.

Deposits in lieu of margin are currently divided into "specific deposits," which are made by a clearing member that holds the underlying security in its account at the Depository Trust Company ("DTC") on behalf of a particular customer, and "escrow deposits," which are made by custodian banks on behalf of a clearing member's customer. The Rules currently provide for two types of escrow deposits – escrow program deposits and third-party escrow deposits. A third-party escrow deposit is a pledge of the underlying securities in respect of a short call option through the systems of DTC. An escrow program deposit is a pledge of eligible collateral, made through a custodian bank pursuant to the escrow deposit program, in respect of short positions in equity and index put or call options via OCC's own on-line escrow deposit system.

Current Rules Governing Escrow Deposits

Under current Rules 610(d) and 610(g) governing third-party escrow deposits, a clearing member's customer may instruct a custodian bank to make such a deposit through the pledge of a security underlying a short equity call option position written by the customer to OCC through DTC's systems. This instruction also identifies the relevant clearing member. The pledged security remains in the custodian bank's DTC account with a "tag" indicating that it is pledged to OCC; if OCC releases the pledge, the tag is removed. OCC treats the pledge of the underlying security as a deposit in lieu of margin for the short equity call position. The short position is deemed to be "covered" for margin purposes, *i.e.*, the security that would be delivered on exercise has been pledged, thereby ensuring that physical delivery settlement obligations would be met, and is not included in calculating the clearing member's margin requirements.

Third-party escrow deposits also serve to cover the customer's short position at the clearing member. Under self-regulatory organization margin rules, the clearing member may

treat the customer's short position as being "covered" and need not collect customer level margin to secure the obligations of the customer to the clearing member.[3]

Under current Rules 610(d), 613 and 1801 governing escrow program deposits, a custodian bank may make deposits of eligible collateral in respect of stock and index options, whether puts, or calls, carried in a short position in clearing member accounts at OCC, and thereby "cover" the obligation to deliver case upon exercise settlement, through systemic means provided by OCC. Collateral supporting escrow program deposits is held at custodian banks, and therefore OCC relies upon reports of deposited collateral supplied by the custodian banks. Furthermore, pursuant to Rules 610(g)(2) and 613, the substantive terms of the escrow deposit program are included in a detailed agreement with each custodian bank (each, an "Escrow Deposit Agreement"),[4] and therefore OCC must maintain these individual agreements with each custodian bank that participates in the escrow deposit program.

In the case of both third-party escrow deposits and escrow program deposits, as set forth in Rules 610(j) and 613(b), respectively, if the custodian bank, on behalf of its customer, requests a release of the deposit through DTC's systems, the release must first be approved by the clearing member for whose benefit the deposit was made. OCC does not release its rights in

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3 *See, e.g.*, Financial Industry Regulatory Authority ("FINRA") Rule 4210 and Chicago Board Options Exchange ("CBOE") Rule 12.3. These rules specifically refer to OCC's Rules governing specific and escrow deposits, in addition to providing more generally that margin need not be deposited with respect to short positions covered by an escrow agreement satisfying certain conditions.

4 See the Amended and Restated On-Line Escrow Deposit Agreement, enclosed as Exhibit B to the letter from Jean M. Cawley, OCC, to Jerry W. Carpenter, Assistant Director, Division of Market Regulation, Securities and Exchange Commission (July 18, 1996), cited in Securities Exchange Act Release No. 34-37602 (August 26, 1996) (SR-OCC-95-17), and Amendment No. 1 to the Amended and Restated On-Line Escrow Deposit Agreement, attached as Exhibit 5 to Securities Exchange Act Release No. 34-51584 (April 20, 2005) (SR-OCC-2005-04).

the deposit until it first determines that the clearing member would be in compliance with OCC margin requirements in the account in which the position is carried upon the release's being effected.

Reorganization and Transition

Reorganization

Although escrow program deposits and third-party escrow deposits are both classified as "escrow deposits" under Rule 610(g), in practice third-party escrow deposits are more like specific deposits, as described in Rule 610(e). Third-party escrow deposits and specific deposits each require deposit of the *specific* securities underlying a short position, while this is not the case for escrow program deposits. Furthermore, for purposes of OCC's internal operations, a distinction is not made between specific underlying securities pledged through DTC's systems by a clearing member and those pledged through DTC's systems by a third party. Accordingly, the proposed Rules refer to (i) deposits by third parties of specific underlying securities, formerly classified as third-party escrow deposits, as "third-party specific deposits," and (ii) deposits by clearing members of specific underlying securities, formerly classified simply as specific deposits, as "member specific deposits." Deposits via the escrow deposit program would remain as the sole category of "escrow deposits" and, accordingly, would be referred to as such.

Corresponding to this revised terminology, the proposed Rules would be reorganized to distinguish more clearly the three forms of deposits in lieu of margin. While Rule 610 currently contains provisions governing each type of deposit in lieu of margin, and Rules 613 and 1801 provide additional detail with respect to escrow deposits, under the proposed Rules each type of deposit in lieu of margin would be governed by a distinct Rule. Proposed Rule 610 would govern deposits in lieu of margin generally, while proposed Rules 610A, 610B and 610C would

govern member specific deposits, third-party specific deposits and escrow deposits, respectively. As part of this reorganization, certain provisions currently in Rules 613 and 1801 would be included in the proposed Rules corresponding to the applicable type of deposit in lieu of margin, and Rules 613 and 1801 would no longer be necessary and deleted in their entirety at the end of the transition period.

Communications with Custodian Banks

In light of the substantial changes proposed to the escrow deposit program in particular, OCC has sought to keep custodian banks informed regarding the proposed changes. These communications began in January and February 2012, when OCC notified each custodian bank of the proposal to restructure the escrow program. As part of this notification, OCC informed each custodian bank OCC's intention to require the security pledges to be made through DTC, the percentage of cash used in the escrow deposit program and the potential elimination of cash deposits.[5]

In June through August 2012, OCC provided a PowerPoint presentation to each custodian bank summarizing proposed changes to the escrow deposit program. This presentation included an explanation of the reasons for the proposed changes, including the desire to enhance and strengthen the escrow deposit program, and increase collateral transparency. The presentation

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5 While it was ultimately determined in April 2014 that cash collateral would remain in the escrow deposit program, prior discussions with participating escrow banks reflected the evolution of OCC's decision on this point. For example, the PowerPoint presentation given to banks during June – August 2012 indicated that cash collateral would not be permitted in the escrow deposit program, while the PowerPoint presentation given during April – May 2013, as well as the draft rules distributed to participating escrow banks for comment in July – August 2013, indicated that it *would* be included. A number of current participants in the escrow deposit program use cash, some to a substantial degree, and OCC determined that the use of cash collateral should remain an essential aspect of the escrow deposit program.

also included a discussion of changes to the validation and valuation of collateral, and the calculation of contract quantities based on the collateral that has been pledged.

In April and May 2013, OCC provided each custodian bank with an operational overview of the restructured escrow deposit program in the form of a PowerPoint presentation. This presentation covered: eligible option types; types of eligible supporting collateral; required collateral value calculations for option contact coverage; valuation of supporting collateral; asset management locations/processing of supporting collateral; and validation and valuation of supporting collateral and calculation of option contract coverage.

In July and August 2013, OCC distributed a draft Participating Escrow Bank Agreement (as described below) and the related proposed OCC Rules to custodian banks along with a request for feedback. Following the receipt of questions and comments, OCC distributed "FAQ" responses to custodian banks.

During September 2013, OCC provided a walkthrough of the functions of its ENCORE system applicable to the restructured escrow deposit program for certain custodian banks in order to provide an orientation of such function to custodian banks as well as to solicit initial feedback on those functions. ENCORE is OCC's real-time clearing and settlement system that allows clearing members to, among other things, post and view margin collateral as well as deposits in lieu of margin. In connection with the restructured escrow deposit program, clearing members will continue to use ENCORE to view member specific deposits, and custodian banks will also use ENCORE to view third-party specific deposits and make escrow deposits consisting of cash. Moreover, OCC sent requests to custodian banks for validation of the DTC pledgor accounts to be used for the restructured escrow deposit program. In October 2013, OCC distributed escrow deposit program eligible securities file details to custodian banks.

In February and March 2014, OCC arranged a series of calls with certain custodian banks to solicit feedback on a term sheet detailing cash account structures. Following the receipt of questions and comments, OCC distributed "FAQ" responses to custodian banks.

The questions and comments received from custodian banks are more fully described in Paragraph II.C below.

Transition Period

For the administrative convenience of clearing members, custodian banks and customers, the existing Rules governing deposits in lieu of margin would remain in effect, in parallel with the proposed Rules, for a transition ending April 30, 2016. This would also reduce the risk of clearing members' needing to provide new collateral on a single date in the absence of a transition period. During this transition period, deposits in lieu of margin could be made under either the existing Rules or the proposed Rules. After the transition period, proposed Rules 610, 610A, 610B and 610C would provide the sole means of making deposits in lieu of margin; existing Rules 613 and 1801 would become ineffective and would be deleted from the Rules without the need for an additional rule filing. Existing Rule 610 would be redesignated as 610T to indicate that it is a temporary rule, and also would become ineffective after the transition period. Furthermore, following the transition period, existing Rule 503, which addresses instructions that call for the payment of a premium by or to the clearing member for whose account the deposit is made, would become ineffective and would be deleted from the Rules without the need for an additional rule filing, because these instructions would no longer be permitted under the revised escrow deposit program, as described below.

Notwithstanding the reorganization and change in terminology, proposed Rules 610B and 610C governing third-party specific deposits and escrow deposits, respectively, have certain

parallel provisions because the collateral constituting each would continue to be pledged by a custodian bank. Consequently, much of the following explanation relates to both escrow deposits and third-party specific deposits, despite the differences in their underlying collateral.

Revised Rules Governing Escrow Deposits and Third-Party Specific Deposits Generally

The proposed Rules governing third-party specific deposits and escrow deposits, as introduced in proposed Rule 610B(a) and the initial paragraph of proposed Rule 610C, generally contain parallel provisions with respect to both OCC's and clearing members' respective rights in collateral included within a deposit.

OCC's Rights in Collateral Relating to Escrow Deposits and Third-Party Specific Deposits

The proposed Rules governing the escrow deposit program include a number of representations and agreements in paragraphs (i), (j) and (k) of proposed Rule 610C, previously included in the Escrow Deposit Agreement, which each custodian bank would be deemed to make each time that it makes an instruction with respect to an escrow deposit. For example, each custodian bank would agree, under Rule 610C(i)(1), not to release an escrow deposit without OCC's consent and, under Rule 610C(i)(2), not to subject deposits to any lien or right of set-off in favor of the custodian bank. Proposed Rules 610B(b) and 610C(e) also provide that the custodian bank may "roll over" a deposit to cover a different short position of the same customer and option type, subject to OCC's right to approve or reject such a rollover instruction.

With respect to both third-party specific deposits, under proposed Rule 610B(f), and escrow deposits, under proposed Rule 610C(q) and (r), in the event of a clearing member or custodian bank default, OCC would have the right, in the case of securities included within such a deposit, to direct DTC to deliver the securities to its DTC participant account for the purpose of satisfying the obligations of the clearing member or custodian bank or reimbursing itself for

losses incurred as a result of the failure, as applicable. Similarly, pursuant to Rule 610C(q) and (r) OCC would have the right in the event of such a default to take possession of cash included within an escrow deposit for the same purposes. In the event of a custodian bank default, including if the custodian bank failed to satisfy the minimum standards for participation in the revised escrow deposit program to be established by OCC and included in its operational procedures, under Rule 610C(r) OCC would further have the right to, among other things, remove the custodian bank from the escrow deposit program, prohibit the custodian bank from making new escrow deposits, disallow withdrawals with respect to existing deposits, close out short positions covered by escrow deposits and use the deposit to reimburse itself for the costs of the close-out or disregard or require the withdrawal of existing escrow deposits. Proposed Rules 610B(g) and 610C(t) provide that the release of a third-party specific deposit or an escrow deposit, respectively, would release OCC's rights against the custodian bank with respect to the deposit.

Proposed Rule 610C(h) also includes changes which would clarify OCC's ability to close out a position covered by any deposit in lieu of margin if the collateral supporting the position falls below the maintenance levels set forth in a schedule or other form as OCC shall make available to clearing members and participating escrow banks and described in the proposed Rules, and the relevant clearing member fails to satisfy a demand by OCC for margin and is suspended, and to use the cash and securities included within the escrow deposit to reimburse itself for costs incurred in connection with the close-out.

In addition to the proposed changes to the Rules governing escrow and third-party specific deposits relating to OCC's rights in the collateral included within these deposits, OCC is proposing to amend Rule 1106 to clarify the treatment of these deposits in the event of a

suspension of a clearing member. Rule 1106(b)(2) would be amended to clarify that OCC may close out a short position covered by an escrow or specific deposit, subject to the ability of the suspended clearing member or its representative to transfer the short position to another clearing member under certain circumstances. In addition, current Rule 1106(b)(3) would be combined with Rule 1106(b)(2) and amended to clarify OCC's right to take possession of the cash and/or securities included within an escrow or specific deposit for the purpose of reimbursing itself for costs incurred in connection with the close-out of a short position covered by the deposit.

Clearing Members' Rights in Collateral Relating to Escrow Deposits and Third-Party Specific Deposits

Proposed Rules 610C(d), (o), (p) and (s), relating to escrow deposits, and proposed Rules 610B(d) and (e), relating to third-party specific deposits, would provide that the clearing member maintaining the account with respect to which such a deposit was made would have the ability, in addition to a clearing member's right under DTC's rules with respect to third-party specific deposits to block the release of deposited securities requested by a custodian bank, to request a "hold" with respect to a deposit that would operate to prevent the withdrawal of deposited securities or cash by an approved custodian or the release of a deposit that would otherwise be effected by OCC as a matter of course on the business day following the exercise settlement date for the options covered by the deposit.

Proposed Rules 610C(d), (o), (r) and (s) and 610B(d) and (e) further provide that, in the event an exercise notice is allocated to a covered short position and the customer fails to satisfy its delivery obligation to the clearing member, the clearing member would have the right to request that OCC direct delivery of the underlying securities through DTC's systems or cash through an instruction to the custodian bank, as applicable, as specified by the clearing member. In addition, if a covered short position is closed out, at the direction of the customer or the

clearing member, through a closing purchase transaction and the customer fails to pay the premium and any related transaction costs, the clearing member would have the right to direct OCC to direct delivery of a sufficient amount of the deposited securities or cash to satisfy the customer's obligation to the clearing member with respect to the close-out.

With respect to both third-party specific deposits and escrow deposits, proposed Rules 610B(e) and 610C(s) also provide that by making a request for delivery, the clearing member would be deemed to make appropriate representations to OCC that the clearing member has a right to possession of the securities or cash and would grant to OCC the rights and remedies with respect to such securities or cash set forth in the Rules, and the clearing member would agree to indemnify OCC against losses resulting from a breach of these representations or the delivery of the securities or cash. A Clearing Member would also be required to provide such documentation regarding its right to possession of the securities or cash as OCC may reasonably request.

Proposed Rules 610B(c) and 610C(f) provide for the grant of a security interest by the customer to the clearing member in the securities and cash with respect to a specific short position. The Rules would provide that any such security interest of a clearing member in an escrow deposit would be subordinated to OCC's interest. For purposes of perfecting a clearing member's security interest under the Uniform Commercial Code, OCC would obtain control over the security both on its own behalf and on behalf of the relevant clearing member, with clear subordination of the clearing member's interest to OCC's interest; in the event OCC had to direct delivery of the security to the clearing member, OCC would do so on the clearing member's behalf.

Revised Rules Governing Escrow Deposits

While many of the proposed Rules govern both escrow deposits and third-party specific deposits, certain proposed Rules relate only to escrow deposits and the escrow deposit program, which governs such deposits. Additionally, and in the interest of clarity, OCC is proposing to change the term "approved depository" to "approved custodian" throughout the Rules concerning deposits in lieu of margin since the term "Depository" is defined as the Depository Trust Company.[6]

Overview of the Revised Escrow Deposit Program and Participating Escrow Bank Agreement

While custodian banks would still need to execute an agreement to participate in the revised escrow deposit program, the Escrow Deposit Agreement would be greatly simplified and retitled as the "Participating Escrow Bank Agreement." Among other things, the Participating Escrow Bank Agreement would provide that custodian banks are subject to all terms of the Rules governing the revised escrow deposit program, as they may be amended from time to time.[7] The Participating Escrow Bank Agreement would still retain certain custodian bank eligibility requirements, including representations regarding the custodian bank's equity and authority to enter into the Participating Escrow Bank Agreement, though it would no longer include a limitation on a custodian bank's overall exposure to securities included within escrow deposits.

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6 *See* OCC By-Laws, Article XXI, Section 1.D(1). An approved custodian must be either a bank or trust company.

7 Under the Participating Escrow Bank Agreement, however, OCC will agree to provide custodian banks with advance notice of material amendments to the Rules relating to deposits in lieu of margin and custodian banks will have the opportunity to withdraw from the program if they object to the amendments. As a general matter, the Participating Escrow Bank Agreement will not be negotiable, although OCC may determine to vary certain non-essential terms in limited circumstances. The Participating Escrow Bank Agreement is attached to this filing as Exhibit 5A.

Further, under Rule 610C(b) governing the revised escrow deposit program, all non-cash collateral included within an escrow deposit would be held at, and pledged through, DTC. Cash collateral would continue to be held in accounts at custodian banks, but with certain enhanced controls, and pursuant to proposed Rule 610C(b) each customer participating in the revised escrow deposit program with respect to cash collateral would be required to enter into an agreement with OCC and the applicable custodian bank (the "Tri-Party Agreement") governing the customer's participation in the program and confirming the grant of a security interest in the customer's account, as provided for in proposed Rule 610C(f). Under the Tri-Party Agreement, each custodian bank would agree to follow disbursement directions of OCC with respect to cash included within escrow deposits and entitlement orders of OCC with respect to securities included within escrow deposits without further consent by the customer. [8] In addition, as set forth in the introductory paragraph of proposed Rule 610 and in Rule 610C(a), which describes eligible collateral, escrow deposits would no longer be permitted with respect to equity calls. Proposed Rules 610C(c) and (d) provide detail regarding available methods of making escrow deposits and withdrawals, respectively. Moreover, in an effort to reduce the escrow deposit program's complexity, instructions pursuant to Rules 613 and 503 that call for the payment of a premium by or to the clearing member for whose account the deposit is made, which have not been utilized, would no longer be permitted under the revised escrow deposit program. Rules

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8 OCC has determined to use this cash account structure as a result of a series of discussions with certain custodian banks involved in the cash portion of the escrow deposit program, as described above. The intended structure would permit a greater number of customers to participate in the escrow deposit program than, for example, a commingled "omnibus" account structure at each custodian bank, which would preclude the participation of customers subject to restrictions under the Investment Company Act of 1940 requiring segregation of a registered investment company's funds.

503 and 613 would both become ineffective after the transition period.[9] As this aspect of the escrow deposit program has not been used for a number of years, its elimination should not be harmful to any current participants in the escrow deposit program. Proposed Rule 610C(l) would also require that custodian banks notify OCC of certain material organizational changes, as clearing members must do under current Rule 215, while proposed Rules 610C(m) and (n) would govern the on-line reports provided to clearing members and custodian banks regarding escrow deposits.

Transparency and Control over Collateral Included in Escrow Deposits

In order to take advantage of the substantial degree of integration between OCC's systems and DTC's pledge system, proposed Rule 610C(b) governing the escrow deposit program requires that all non-cash collateral pledged to support an escrow be held by the custodian bank at, and pledged through, DTC. This manner of holding collateral would provide OCC with the ability to validate and value collateral supporting escrow deposits in real time, allowing OCC to perform the controls for which it currently relies on the custodian banks. It would also provide OCC with the ability to obtain possession of deposited securities upon a clearing member default by issuing a transfer instruction through DTC's systems, without the need for custodian bank involvement. Furthermore, a clearing member would have the ability to obtain possession of deposited securities upon a customer default in a similar manner by notifying OCC of such customer default and submitting a request for delivery of such deposited securities. Cash collateral pledged to support an escrow deposit would continue to be held through the existing program interfaces; however, for increased security, any pledges of cash

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9 Rule 613 has many provisions other than those relating to these instructions, but, as noted above, these provisions are incorporated into Rule 610C and Rule 613 will no longer be necessary.

would be required to be made in a customer account at the custodian bank to be used solely for the purpose of making escrow deposits, with respect to which the customer has entered into a Tri-Party Agreement. Each custodian bank would agree to disburse funds from the pledged account only at OCC's direction. While requiring a Tri-Party Agreement may affect certain custodian banks' ability to participate in the escrow deposit program, OCC would gain additional transparency and control over cash collateral as a result of the agreement. Each custodian bank would provide OCC with online view access to each customer's cash account designated for the escrow deposit program, allowing visibility into transactional activity and account balances.

Initial and Maintenance Collateral Requirements Relating to Escrow Deposits

In addition to the structural changes to the revised escrow deposit program, the proposed Rules include certain technical changes designed to ensure that the escrow deposit program remains consistent with self-regulatory organization margin rules, as well as to improve the overall risk management of the escrow deposit program. In particular, proposed Rule 610C(g) and (h) provide for minimum collateral requirements, both as of the deposit of collateral and in connection with OCC's daily margin calculations. These valuations would take into account certain "haircuts" with respect to pledged collateral, with the specific valuation percentages applicable to each type of short position and each type of collateral determined by OCC and set forth in a schedule or other form that OCC would make available to clearing members and participating escrow banks. The "initial" minimum requirement would be the product of the applicable initial percentage for the category of option covered by the short position, *e.g.*, stock put options, index call options or index put options, the number of option contracts specified in the instruction and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day

preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract. The "maintenance" minimum requirement would be the product of the applicable maintenance percentage for the category of option covered by the short position the number of option contracts covered by the escrow deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract.

2. Statutory Basis

OCC believes that the proposed rule change is consistent with Section 17A of the Act[10] and the rules and regulations thereunder, including Rules 17Ad-22(d)(3) and (11), because the proposed modifications would help ensure that the Rules of OCC are designed to assure the safeguarding of securities and funds which are in OCC's custody or control or for which it is responsible,[11] hold assets in a manner whereby risk of loss or of delay in access to them is minimized,[12] and permit OCC to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default.[13] These purposes would be achieved by, among other things, providing that all cash collateral would be held in customer account at the custodian bank to be used solely for the purpose of making escrow deposits, pursuant to a Tri-Party Agreement, and all non-cash collateral would be held at and pledged

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10 15 U.S.C. 78q-1.

11 15 U.S.C. 78q-1(b)(3)(F)

12 17 CFR 240.17Ad-22(b)(3)

13 17 CFR 240.17Ad-22(b)(11).

through DTC[14] so that OCC would be able to validate and value collateral in real time and to obtain possession of deposited securities by issuing a transfer instruction through DTC's systems in an event of default without involving custodian banks. OCC believes that the proposed rule change is also consistent with the requirement in Rule 17Ad-22(d)(11), that clearing agencies establish, implement, maintain and enforce policies and procedures reasonably designed to make key aspects of their default procedures publicly available, because the substantive terms of the escrow deposit program would be incorporated in OCC's Rules, which are publicly available on OCC's website, rather than in private agreements.

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

The proposed change would reflect changes to the Rules governing specific deposits and escrow deposits and, more generally, amend the Rules to distinguish more clearly the three forms of deposits in lieu of margin: escrow deposits, third-party specific deposits and member specific deposits. The proposed rule change would impose a burden on competition.[15] In particular, a burden would be imposed on certain custodian banks in light of the requirement that cash included within an escrow deposit be held in an account of the relevant customer at the custodian bank pursuant to a Tri-Party Agreement. This requirement may limit certain custodian banks' participation in the escrow deposit program. However, OCC believes that the resulting burden on competition is justified by the additional transparency and control over cash collateral that OCC obtains where cash is held in this manner.

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14 OCC has made DTC aware of the applicable changes to the escrow deposit program. DTC did not express any concerns with respect to such changes.

15 15 U.S.C. 78q-1(b)(3)(I).

OCC does not believe that the proposed rule change would impose burdens on custodian banks other than as described above, nor would it impose a burden on clearing members, other users of OCC's services or other clearing agencies since the proposed rule change would both streamline the existing Rules governing the escrow deposit program and third-party specific deposits, permitting OCC to administer the program more effectively for all clearing members, and provide more clarity to all clearing members with respect to deposits in lieu of margin. Furthermore, there would be a period of several months during which clearing members can transition to the new Rules. Accordingly, the proposed rule change would not have a differential impact on any group of clearing members or customers.

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

As described in Paragraph II.A above, OCC discussed the changes to its escrow program with custodian banks several times since 2012. While these discussions were generally informational in nature, custodian banks provided OCC with comments and questions in two instances—the July/August 2013 discussions and the February/March 2014 discussion. The primary focus of the comments in both sets of discussions was the manner in which custodian banks would be required to hold cash under the new escrow rules: in an omnibus structure or in a tri-party structure. From a legal perspective, and with respect to OCC, the omnibus structure would provide OCC with an account in OCC's name and thereby perfect OCC's right under the UCC to take possession of cash escrow deposits in the event of a clearing member default. This would also eliminate the need for a separate tri-party agreement. However, with respect to custodian banks and their clients, the omnibus structure was less desirable since all of a custodian bank's OCC escrow program clients' assets would be comingled in a single account. From an operational perspective, a single omnibus account at a custodian bank is easier for OCC

manage since OCC would only need to have "view access" into one account at a custodian bank. On the other hand, custodian banks expressed privacy concerns with respect to several clients having view access into a single account.

Eventually, and as described in Paragraph II.A above, OCC decided to use a tri-party account structure for cash escrow deposits, with certain controls to alleviate the concerns on both sides. Specifically, custodian banks agreed to facilitate the execution of a form tri-party agreement with each of its clients that participates in OCC's escrow program, which perfects OCC's security interest in cash escrow deposits. Additionally, custodian banks agreed to establish an escrow specific cash account for each client so that OCC does not need to differentiate a client's OCC escrow cash from the client's non-escrow cash. OCC believes that the current structure for cash accounts strikes the appropriate balance between OCC's desire for legal certainty as to its right to take possession of cash escrow deposits in the event of a clearing member default, and the operational desire to only access a client's OCC escrow program cash account balance at a custodian bank.

Additional comments OCC received from the July/August 2013 discussions with custodian banks centered on administrative items such as the escrow program documentation structure, and the manner in custodian banks would operationally post escrow deposits in OCC's clearing system, ENCORE. As discussed above, OCC moved the substantial majority of its Amended and Restated On-Line Escrow Deposit Agreement into proposed Rule 610C in order to have the majority of escrow "rules" in one place. Custodian banks were agreeable to the new documentation structure once OCC explained its rationale for such new structure. Also, custodian banks did not express any concerns regarding the operational steps necessary to post an

escrow deposit in ENCORE once OCC provided custodian banks with a "walk through" of the operational process.

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 Commissions 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-2015-011 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2015-011. 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 Section, 100 F Street, N.E., 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

http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_15_011.pdf

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2015-011 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.[16]

Kevin M. O'Neill
Deputy Secretary

Action as set forth recommended herein
APPROVED pursuant to authority delegated by
the Commission under Public Law 87-592.
For: Division of Trading and Markets

By:_____

Print Name:_____

Date:_____

16 17 CFR 200.30-3(a)(12).

EXHIBIT 4

The proposed rule change is partially intended to reorganize and restate certain of OCC's Rules relating to deposits in lieu of margin in order to more clearly distinguish among the various types of deposits in lieu of margin and identify more clearly the provisions that are applicable to each. Many of the new provisions of the reorganized and restated Rules were moved from, or based upon, provisions of existing Rules, in each case with some revisions. Although the underlining and bracketing of the rule text in Item 1 shows proposed changes to existing Rules, Item 1 does not show, where applicable, differences between new Rules and a related existing Rule. This Appendix shows these differences. Material proposed to be added to OCC's Rules as currently in effect, and not simply moved from an existing rule, is underlined and material proposed to be deleted is enclosed in bold brackets.

Proposed Rule 610A(a) Compared to Existing Rule 610(e)

(a) Member [S]specific deposits may be made only of underlying securities held by a Clearing Member at the Depository for the account of a particular customer[s] in respect of specified call stock option contracts held by the Clearing Member in a short position [or an exercise position] for such customer[s]. To make a member specific deposit, a Clearing Member shall cause confirmation to be issued through the Depository's EDP Pledge System that such securities have been pledged to the Corporation in respect of such short position, subject to the provisions of this Rule.[1] The Clearing Member shall maintain a record for each member specific deposit identifying the customer[s], the account[s] of the customer[s] in which the underlying securities are held and the specified option contracts for which the member specific deposit[s have been]was made, and the Clearing Member shall supply such record to the Corporation upon the Corporation's request.

Proposed Rule 610B(d) Compared to Existing Rule 613(f)[2]

An approved custodian may request the release of a third-party specific deposit by submitting a request through the Depository's EDP Pledge System. A Clearing Member may request a "hold" with respect to a third-party specific deposit by submitting an instruction, requesting that the Corporation not release such deposit, either upon request of the relevant

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1 This sentence only is based on existing Rules 610(f) and (g).

2 Proposed Rule 610B(d) is based upon existing Rule 613(f), with differences shown.

approved custodian or on its own initiative, for so long as such instruction is in effect. No requested release shall be given effect by the Corporation unless (i) the margin requirements under this Chapter VI in respect of the customers' account of the Clearing Member in respect of which the deposit was made are met after giving effect to such release; (ii) the Clearing Member has approved the release through the Depository's EDP Pledge System, and (iii) the deposit is not subject to a "hold" instruction. Any third-party specific [escrow] deposit made in accordance with this Rule [in respect of stock options] shall be released by the Corporation on its own initiative at [6:00 P.M. Central Time (7:00 P.M. Eastern Time)] a time specified by the Corporation on the business day following the exercise settlement date unless (i) the Corporation has received notice from the correspondent clearing corporation by such time indicating that the settlement obligations in respect of such short position have not been met [by the Clearing Member or the member of the correspondent clearing corporation effecting settlements of exercises and assignments on the Clearing Member's behalf] or that the correspondent clearing corporation has determined to suspend, decline or cease to act for the Clearing Member in respect of whose account such deposit was made or prohibit or limit such Clearing Member's access to services offered by the correspondent clearing corporation, in which case the deposit shall not be released until [the first business day after the Corporation receives confirmation that it shall have] such time as the Corporation determines it has no further obligations in respect of the short position, [or] (ii) the Corporation has directed that the exercise be settled otherwise than through the correspondent clearing corporation, in which case the deposit shall not be released until the Corporation [receives confirmation that settlement has been made] determines it has no further obligations in respect of the short position and [notifies the Escrow Bank holding the deposit, in accordance with the terms of the applicable escrow deposit agreement, that the deposit is released] approves the release of such deposit, or (iii) the deposit is subject to a "hold" instruction, in which case, notwithstanding clauses (i) or (ii), the deposit shall be treated in accordance with paragraph (e) of this Rule. [Any escrow deposits made in accordance with this Rule in respect of index options shall be released by the Corporation on its own initiative as specified in Rule 1801.]

Proposed Rule 610C Introductory Paragraph Compared to Existing Rule 613 Introductory Paragraph[3]

A participating escrow bank, which must be a participant of the Depository[, or other depository that has entered into an escrow deposit agreement with the Corporation (an "Escrow Bank")] unless it effects escrow deposits consisting only of cash, may [make] effect escrow deposits in respect of short positions in stock put option contracts and index put or call option contracts [carried in short positions] and may effect "roll overs" and withdrawals of such deposits, and a Clearing Member may [withdraw] instruct the Corporation with regard to short positions to be covered by such deposits, by submitting instructions to the Corporation through [any electronic means prescribed by the Corporation for such purposes] an EDP Pledge System, subject to the following provisions of this Rule:

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[3] The introductory paragraph of Rule 610C is based upon the introductory paragraph of existing Rule 613, with differences shown.

Proposed Rule 610C(a) Compared to Existing Rule 1801(b)[4]

([b)(1]a) [Index option] Eligible Collateral. [e]Escrow deposits [shall] may consist of the following instruments with respect to the following short positions:

(1) with respect to short positions in stock put option contracts or index put option contracts: [(a)] cash, [(b) short-term] U.S. Government securities[,]; or any combination thereof; and

([c]2) [in the case of deposits made in] with respect [of] to short positions in index call options: [contracts] cash; U.S. Government securities; common stocks [listed on a national securities exchange or the NASDAQ Stock Market ("common stocks"),]; or[(d)] any combination thereof. [, held for the account of the Clearing Member's customer by a bank or trust company approved by the Corporation (the "depository").]

[(2) The term "common stocks", as used in this Rule 1801, includes fund shares. In order to be eligible to be deposited hereunder, fund shares must meet the requirements applicable to common stocks under subsection (b)(1)(c) and must be of a class approved by the Corporation for deposit as margin under Rule 604(d).]

Proposed Rule 610C(g) Compared to Existing Rule 1801(c)[5]

([c]g) Initial Minimum. The total value of the [cash, short-term Government securities, and/or common stocks comprising an index option] escrow deposit [(the "deposited property")] as of the [date of the writing transaction in which the short position covered by the deposit was opened (the "trade date")] time such deposit is made shall [have been] not be less than the product of:

(1) the applicable initial percentage for the category of option covered by the short position (*e.g.*, stock put options, index call options or index put options), as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks; and

(2) the product of the number of option contracts [covered by] specified in the [deposit] instruction and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index [group] at the close of trading on the [trade] trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract.

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4 Proposed Rule 610C(a) is based upon existing Rule 1801(b), with differences shown.

5 Proposed Rule 610C(g) is based upon existing Rule 1801(c), with differences shown.

Proposed Rule 610C(h) Compared to Existing Rule 1801(e)[6]

([e]h) Maintenance Minimum. [A depository may from time to time substitute cash, short-term Government securities, or (in the case of deposits made in respect of index call option contracts) common stocks for any property theretofore deposited, provided that the value of the substituted property is at least equal to that of the property for which it is substituted. If the total value of the deposited property] In connection with its calculation of required margin pursuant to Rule 601, the Corporation shall calculate the value of each escrow deposit made pursuant to this Rule. If in making such calculation the Corporation determines that the total value of an escrow deposit shall [at any time]be less than [50%]the product of:

(1) the applicable maintenance percentage for the category of option covered by the short position, as specified from time to time by the Corporation in such schedule or other form as the Corporation shall make available to Clearing Members and participating escrow banks; and

(2) the product of the number of option contracts covered by the escrow deposit and (i) in the case of a deposit made in respect of index call option contracts, the aggregate current index value of the underlying index [group] at the close of trading on the trading day preceding the date of deposit, or (ii) in the case of a deposit made in respect of stock or index put option contracts, the aggregate exercise price per contract, the Corporation may, upon [telephonic or] written notice to the Clearing Member [that made] on whose behalf the escrow deposit was made, disregard the escrow deposit and require that margin be deposited in respect of the short position theretofore covered by the escrow deposit. If such margin is not timely deposited and the Clearing Member is suspended by the Corporation, the Corporation may close out such short position and [certify to the depository that it has closed out such position.]: (i) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (ii) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of reimbursing itself for costs incurred in connection with such close-out.

Proposed Rule 610C(m) Compared to Existing Rule 613(e)[7]

([e]m) Reports. [At or before 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on]On each business day, the Corporation shall make available to the participating escrow bank and to each Clearing Member [and to each Escrow Bank an on-line escrow settlement report] a listing of [any] all [approved] deposit, rollover[, or] and withdrawal instructions [from the previous day's on-line escrow activity reports which affect such Clearing Member or Bank, and listing the aggregate premium settlement amounts in connection therewith. All approved instructions listed on the escrow settlement report shall be deemed to have been accepted by the Corporation as of the opening of business on that business day, provided that if a Clearing Member fails to meet its settlement obligations on that day, the Corporation may, in accordance with the terms of the applicable escrow deposit agreement, reject any deposit or rollover

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6 Proposed Rule 610C(h) is based upon existing Rule 1801(e), with differences shown.

7 Proposed Rule 610C(m) is based upon existing Rule 613(e), with differences shown.

instruction requiring the payment of premiums by such Clearing Member through the facilities of the Corporation or any withdrawal instruction whatsoever.] submitted to the Corporation on that business day with respect to escrow deposits made by the participating escrow bank for such Clearing Member.

Proposed Rules 610C(o) and 610C(p) Compared to Existing Rule 613(f)[8]

([f]o) Release of Escrow Deposits in Respect of Stock Put Options upon Expiration. Any escrow deposit [made in accordance with this Rule] in respect of a short position in stock put options shall be released by the Corporation on its own initiative at [6:00 P.M. Central Time (7:00 P.M. Eastern Time)] a time specified by the Corporation on the fourth business day following the [exercise settlement] expiration date for the short position covered by such escrow deposit, unless:

([i]1) the Corporation has received notice from the correspondent clearing corporation indicating that the [settlement] Clearing Member's obligations in respect of such short position have not been [met] satisfied, [by the Clearing Member or the member of the correspondent clearing corporation effecting settlements of exercises and assignments on the Clearing Member's behalf,] in which case the escrow deposit shall not be released until [the first business day after the Corporation receives confirmation that it shall have] such time as the Corporation determines it has no further obligations in respect of the short position[,]; or

([ii]2) the deposit is subject to a "hold," instruction, in which case the procedures set forth in paragraph (s) below shall apply [Corporation has directed that the exercise be settled otherwise than through the correspondent clearing corporation, until the Corporation receives confirmation that settlement has been made and notifies the Escrow Bank holding the deposit, in accordance with the terms of the applicable escrow deposit agreement, that the deposit is released].

(p) Release of Escrow Deposits in Respect of Index Options upon Expiration. Any escrow deposit made in [accordance with this Rule in] respect of a short position in index options shall be released by the Corporation on its own initiative [as specified in Rule 1801.] at a time specified by the Corporation on the first business day following the expiration date for the short position covered by such escrow deposit, unless:

(1) the Clearing Member carrying the short position is not in full compliance with its obligations to the Corporation; or

(2) the deposit is subject to a "hold" instruction, in which case the procedures set forth in paragraph (s) below shall apply.

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[8] Proposed Rules 610C(o) and 610C(p) are based upon existing Rule 613(f), with differences shown.

Proposed Rule 610C(r) Compared to Existing Rule 613(h)[9]

([h]r) Participating Escrow Bank Default. If a[n Escrow Bank] participating escrow bank [shall fail to meet its settlement obligations in connection with escrow deposit activity on any business day,] has become insolvent, fails to satisfy the applicable requirements set forth in Rules 610 and 610C and/or in the Corporation's operational procedures or breaches the relevant participating escrow bank agreement or tri-party agreement, the Corporation [shall] may nonetheless accept new deposits or accept any escrow rollovers or withdrawals for which settlement was to have been made by [such Bank] the participating escrow bank (provided that the affected Clearing Members would be in compliance with their [margin] obligations to the Corporation after giving effect thereto), but such acceptance shall not prejudice or impair such rights as such Clearing Members may have against [such Bank] the participating escrow bank or its customers; provided, that the Corporation may also take any of the following actions: (i) disqualify the participating escrow bank from submitting new escrow deposits, (ii) disapprove any withdrawals by such participating escrow bank, (iii) take possession of deposited securities and cause such securities to be delivered to the participant account of the Corporation at the Depository and/or take possession of deposited cash and cause such cash to be delivered to a bank account specified by the Corporation, in either case for satisfying the participating escrow bank's settlement obligations (or reimbursing itself for losses incurred as a result of such failure or insolvency), (iv) disregard any escrow deposits, (v) require the participating escrow bank to withdraw any escrow deposit, or (vi) close out any short position supported by an escrow deposit made by the participating escrow bank, take possession of the securities and/or cash making up any escrow deposit supporting such short position and: (A) in the case of securities, direct the Depository to deliver such securities to the participant account of the Corporation at the Depository and (B) in the case of cash, cause such cash to be delivered to a bank account specified by the Corporation, in either case for the purpose of reimbursing itself for costs incurred in connection with such close-out. In the event of a participating escrow bank's failure to meet its settlement obligations with respect to a Clearing Member or a participating escrow bank's insolvency, the Clearing Member shall have the right to take possession of the deposited securities or cash, as described in paragraph (s) below, provided that the Corporation has released its rights in such deposited securities or cash. [The Corporation shall in no event have any responsibility to any Clearing Member for premiums payable by a Bank in connection with escrow deposit activity.]

Proposed Rule 610C(t) Compared to Existing Rule 613(i)[10]

([i]t) Effect of Release or Withdrawal of Escrow Deposit. The release of an escrow deposit by the Corporation or the withdrawal of an escrow deposit [from the Corporation in accordance with the provisions of this Rule shall have the effect of releasing] with the Corporation's consent releases any and all rights of the Corporation against the participating escrow bank with respect to the escrow deposit. [against the Escrow Bank through whose facilities the deposit was made. Subject (in the case of a withdrawal) to the provisions of

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9 Proposed Rule 610C(r) is based upon existing Rule 613(h), with differences shown.

10 Proposed Rule 610C(t) is based upon existing Rule 613(i), with differences shown.

paragraph (h) above, such] A release or withdrawal [shall also release any and all rights against such Bank of the] of an escrow deposit will not affect any other rights of the Clearing Member for whose account the escrow deposit was made. [; provided, however, that if any on-line report referred to in paragraph (d) above indicates that an exercise notice has been allocated to a short position covered by an escrow deposit that is being withdrawn or released, an Escrow Bank shall be prohibited, under the terms of its escrow deposit agreement, from returning the deposit to the customer and shall remain obligated under the terms of its escrow deposit agreement, (i) as to any stock option escrow deposit, to deliver to the Clearing Member (x) in the case of a deposit made in respect of one or more calls, the underlying securities deposited against payment of the aggregate exercise price of the call(s) covered by such deposit (less all applicable commissions and other charges), upon presentation by the Clearing Member of a duly executed delivery order in a form prescribed by the Corporation, or (y) in the case of a deposit made in respect of one or more puts, the aggregate exercise price of the put(s) covered by such deposit (plus all applicable commissions and other charges) against delivery of the underlying securities, upon presentation by the Clearing Member of a duly executed payment order in a form prescribed by the Corporation, or (ii) as to any index option escrow deposit, to pay to the Clearing Member the exercise settlement amount (plus any applicable commissions or other charges) upon presentation by the Clearing Member of a duly executed payment order in a form prescribed by the Corporation.]

Rule 610C Interpretations and Policies Compared to Existing Rule 613 Interpretations and Policies

.01 The Corporation will not accept, or if initially accepted, will thereafter reject, an escrow deposit pursuant to this Rule [613] 610C from a [bank or other depository] participating escrow bank other than through the Depository, if such participating escrow bank [or other depository], a parent or an affiliate has an equity interest in the amount of 20% or more of the total capital of the Clearing Member for whose account the deposit is made.

The definition of "participating escrow bank agreement" is based upon the definition of "escrow deposit agreement," which is being moved from Rule 101 to Rule 613. Material proposed to be added to the definition of "participating escrow bank agreement" as currently in effect, and not simply taken from the definition of "escrow deposit agreement," is underlined and material proposed to be deleted is enclosed in bold brackets:

.03 For purposes of this Rule, the term "[escrow deposit] participating escrow bank agreement" shall mean an agreement between the Corporation and a [bank or other depository] participating escrow bank approved to act as a custodian of escrow deposits for the purposes of Chapter VI of the Rules, providing, among other things, that such bank is subject to all provisions of the Rules governing the escrow deposit program for [the confirmation,] effecting escrow deposits, rollovers[,]and withdrawals of escrow deposits without the issuance of escrow receipts [and establishing procedures whereby premium settlements between such depository and Clearing Members may be made through the facilities of the Corporation. When used with respect to an escrow deposit consisting of securities other than common stocks, such term shall mean an Escrow Deposit Agreement, as defined above, supplemented by such supplementary agreements as the Corporation shall from time to time].

EXHIBIT 5A

Participating Escrow Bank Agreement

This Participating Escrow Bank Agreement ("Agreement"), dated this _____ day of _____, 20___, is made between _____("Bank") and The Options Clearing Corporation, a Delaware corporation ("OCC") in respect of Bank's participation in OCC's Escrow Deposit Program (the "Program").

WHEREAS, Bank desires to participate in the Program, under which, in order to cover their obligations as writers of option contracts issued by OCC, customers of Bank may from time to time deposit with Bank, in escrow, cash and/or securities, and Bank may in turn effect escrow deposits of such cash and securities with OCC ("Deposits"), and effect withdrawals or "roll overs" of such Deposits;

WHEREAS, OCC desires to admit Bank as a participating escrow bank in the Program (a "Participating Escrow Bank"), subject to the terms and conditions set forth herein and the provisions of OCC's By-Laws and Rules (together, the "Rules") relating to the Program (the "Program Rules"), as described in greater detail in Section 2 below;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. **Representations, Warranties and Covenants of Bank.** As of the date set forth above and subsequently upon effecting a Deposit or submitting an instruction with respect to a Deposit, Bank represents and warrants to OCC that it satisfies the following Participating Escrow Bank eligibility criteria:

    a. Bank is a bank or trust company organized under the laws of the United States or any state thereof, or a branch of a foreign bank, in either case doing business under the laws of any state or of the United States and supervised and examined by a state or federal authority having supervision over banks or trust companies.

    b. Equity attributable to all outstanding shares of capital stock issued by Bank is not less than the minimum amount specified by OCC to Bank in connection with this Agreement and set forth in such schedule or other form as OCC may make available to Bank.

    c. If Bank effects any Deposit of securities under the Program, Bank is a Participant of The Depository Trust Company and, if Bank effects any Deposit of cash under the Program, Bank will establish an "approved account" at Bank for each customer participating in the Program, as described in the Program Rules, for holding such cash Deposits and will enter into an Escrow Program Tri-Party Agreement ("Tri-Party Agreement") with OCC and each customer.

    d. Neither the execution and delivery of this Agreement, nor any act to be performed pursuant to this Agreement by, or on behalf of, Bank, will violate Bank's charter, bylaws or other organizational documents, or any other material agreement which is binding upon Bank, or any provisions of law applicable to Bank.

    e. This Agreement is the legal, valid and binding obligation of Bank, enforceable against Bank in accordance with its terms, subject to the effects of bankruptcy, insolvency and equitable principles.

Bank covenants and agrees that it will continue to satisfy the foregoing Participating Escrow Bank eligibility criteria during the term of this Agreement; provided, that with respect to the eligibility criteria in Section 1.b above, Bank will maintain sufficient equity attributable to all outstanding shares of capital stock issued by Bank in an amount not less than the amount specified by OCC from time to time, provided that Bank may terminate this Agreement immediately upon the effectiveness of an increase in the capital requirement that would cause it to no longer be eligible to be a Participating Escrow Bank.

2. **Compliance with and Incorporation of Program Rules.** Bank shall abide by the Program Rules and shall be bound by all the provisions thereof and by all operating procedures adopted by OCC pursuant thereto, as either may be amended from time to time, including without limitation the financial requirements specified in Rule 610C(j)(8). The Program Rules shall be a part of the terms and conditions of every Deposit that may be made or maintained by Bank or any customer of Bank with OCC, while Bank is a Participating Escrow Bank. The following provisions of the Rules shall constitute the Program Rules, provided that OCC may amend this list to reflect one or more Program Rules' ceasing to be effective or in connection with any amendment to the Program Rules adopted pursuant to Section 3 below:

   Article I of OCC's By-Laws – Definitions
   Article XVII of OCC's By-Laws – Index Options and Certain Other Cash-Settled Options – Section 1 – Definitions
   Chapter I of OCC's Rules – Definitions
   OCC Rules 610, 610A, 610B and 610C – Deposits in Lieu of Margin

3. **Amendment.** No provision of this Agreement may be amended, supplemented or modified, or any of its terms waived, except by a written instrument executed by OCC and Bank, provided that Bank shall be bound by any amendment to the Program Rules and by all operating procedures adopted by OCC pursuant thereto as fully as though such amendment were now a part of the Program Rules or operating procedures without further consent by Bank. OCC agrees to provide 60 days' written notice prior to implementation of any amendments to the Program Rules. Bank may terminate this Agreement upon written notice to OCC within 30 days of such notification, with effectiveness as of the later of the implementation of such amendments to the Program Rules or applicable procedures or the receipt by OCC of such notice, in which case the Agreement shall nonetheless remain in effect with regard to any outstanding Deposits outstanding as of the termination date until such Deposits are withdrawn or released, provided that during such period such rule change shall not be effective with respect to such Deposits.

4. **Instructions of OCC/UCC Jurisdiction.** Bank agrees that it will follow disbursement directions of OCC with respect to cash included within Deposits promptly and fully without further consent by the customer. Bank shall have no duty to investigate or make any determinations as to whether OCC is entitled to give disbursement directions with respect to Deposits and shall comply with such disbursement directions without regard to the authority or lack of authority to give such disbursement directions. Bank agrees that its "jurisdiction" (as described in Section 8-110 and 9-304 of the Uniform Commercial Code) for purposes of the Uniform Commercial Code as in effect in the State of Illinois is the State of Illinois.

5. **Binding Court Order or Judgment.** Nothing herein shall be deemed to require Bank to deliver a Deposit or any portion thereof in contravention of any court order or judgment binding on Bank in its capacity as Participating Escrow Bank, [which on its face affects such Deposit or portion thereof] **[OPEN POINT]**. Bank agrees that it will not take any action to cause the issuance of an order described in the preceding sentence.

6. **Default by Bank.** If at any time (a) Bank fails to comply with its obligations under this Agreement or the Program Rules, (b) any representation and warranty made or deemed made by the Bank hereunder or under the Program Rules is determined to have been false or misleading when made or deemed made or (c) Bank becomes insolvent (each a "Bank Default"), OCC shall have all remedies available to it under this Agreement, the Program Rules and all procedures adopted by OCC pursuant thereto, as well as all remedies available to it under applicable law (subject in all respects to Section 14 below).

7. **Term/Termination.** Either OCC or Bank may terminate this Agreement for any reason on 45 days' prior written notice, in which case the Agreement shall nonetheless remain in effect with regard to any outstanding Deposits outstanding as of the termination date, until such Deposits are withdrawn or released. Upon the occurrence of a Bank Default, OCC may terminate this Agreement immediately and disregard any existing Deposits pursuant to Rule 610C(r).

8. **Access to Rules.** Bank acknowledges that it has access to a copy of the Program Rules on OCC's website and has reviewed the Program Rules as in effect at the date of this Agreement.

9. **Secure Website Access Agreement.** Bank's use of OCC's Escrow Deposit Processing System in connection with the transactions contemplated by this Agreement shall be governed by the Secure Website Access Agreement entered into between the Bank and OCC.

10. **Assignment; Beneficiaries.** The rights and obligations of Bank hereunder shall not be assignable without the written consent of OCC. This Agreement shall be binding upon, and inure to the benefit of, Bank and its successors and assigns, and shall also inure to the benefit of OCC and its successors and assigns.

11. **GOVERNING LAW AND CONSENT TO JURISDICTION.** THIS AGREEMENT IS DEEMED TO BE MADE UNDER, AND SHALL BE CONSTRUED BY, THE LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO ITS CONFLICT OF LAW PRINCIPLES. BANK IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF THIS AGREEMENT OR THE PROGRAM. OCC AND BANK WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE PROGRAM.

12. **Miscellaneous.** No failure by OCC to exercise, and no delay in exercising, any right under this Agreement waives that right. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, together shall constitute one instrument. This Agreement, including the Program Rules and all operating procedures adopted by OCC pursuant thereto, constitutes the entire agreement and understanding between the parties with respect to the Program. In the event that any one or more of the provisions in this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement. Section headings used in this Agreement are for convenience of reference only and shall not define or limit the provisions of this Agreement.

13. **Notices**. All notices or other communications to be given in writing shall be sent to the addresses provided below. In addition, any notice of a material change from Bank pursuant to Rule 610C(l) shall also be provided via email to [banknotifications@occ.com] **[OCC TO CONFIRM.]**

14. **Limitation of Bank Liability**. Bank has no duties with respect to the Program other than those expressly set forth herein, in each Tri-Party Agreement to which Bank is a party, and in the Program Rules and operating procedures. Bank shall have no liability for losses arising in connection with the Program other than those caused by its own breach of its obligations in respect of the Program (including a breach of this Agreement or any Tri-Party Agreement among OCC, Bank and any customer of Bank or a violation of the Program Rules) or by its own negligence, fraud or willful misconduct. Bank shall not be liable for any special, indirect, consequential or punitive damages of any form incurred by any person or entity with respect to Bank's performance or non-performance under this Agreement. In addition, Bank shall have no liability for any damage, loss, expense or liability of any nature that OCC or Customer may suffer or incur caused by an event beyond the control of Bank.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their duly authorized officers, as of the date first set forth above.

THE OPTIONS CLEARING CORPORATION	BANK
By_____	By_____
Printed Name_____	Printed Name_____
Title_____	Title_____
Address: Email: Attn: General Counsel	Address: Email:

EXHIBIT 5B

Escrow Program Tri-Party Agreement

This Escrow Program Tri-Party Agreement ("Agreement"), dated this _____ day of _____, 20___, is made between _____("Bank"), _____("Customer") and The Options Clearing Corporation, a Delaware corporation ("OCC") in respect of Bank's participation in OCC's Escrow Deposit Program (the "Program").

WHEREAS, Customer desires to participate in the Program, under which, in order to cover its obligations as writer of option contracts issued by OCC, Customer may from time to time deposit with Bank, in escrow, cash held in an account at Bank, and Bank, in its capacity as a Participating Escrow Bank and on behalf of Customer, may in turn effect deposits of such cash in connection with the Program for the benefit of OCC ("Deposits"), and withdrawals or "roll overs" such Deposits;

WHEREAS, OCC has admitted Bank as a participating escrow bank in the Program (a "Participating Escrow Bank");

WHEREAS, the participation by the Customer and the Bank is, in each case, subject to the terms and conditions set forth herein and the provisions of OCC's By-Laws and Rules (together, the "Rules") relating to the Program (the "Program Rules"), as described in greater detail in Section 2 below;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. **Representations, Warranties and Covenants of Customer.** As of the date set forth above and subsequently upon making a Deposit or submitting an instruction with respect to a Deposit, Customer represents and warrants to OCC and Bank that:

   a. Customer by entering into this Agreement appoints Bank as a Participating Escrow Bank with respect to its participation in the Program in accordance with the Program Rules.

   b. This Agreement is the legal, valid and binding obligation of Customer, enforceable against Customer in accordance with its terms, subject to the effects of bankruptcy, insolvency and equitable principles.

   c. To the extent of a Deposit in respect of a short position in index call options, Customer or its duly authorized representative affirms that all index call options written for such Customer's account and covered by Deposits with the Bank are written against a diversified stock portfolio.

   d. Customer understands that, in accordance with Rule 610C(j)(4): (i) if the short position specified in the instruction is closed out under circumstances permitting the related Deposit to be withdrawn by the clearing member, Customer shall work with Bank to withdraw the Deposit from OCC, and until the Deposit is duly released by OCC, OCC will retain the right to demand delivery or payment of the Deposit or its proceeds upon the assignment of an exercise notice to any short position in an option series specified in the instruction carried in the clearing member's customers' account with OCC; and (ii) exercise notices assigned by OCC to short positions for which Deposits have been made by the clearing member are allocated to particular customers by the clearing member or by their respective brokers, and if the clearing member is suspended by OCC and OCC cannot promptly determine the identities of the assigned customers, OCC will reallocate the exercise notices, and reallocation will be binding on Customer notwithstanding any contrary notice or confirmation which Customer may have received from the clearing member or Customer's broker.

e. Customer has established an account at the Bank for the benefit of OCC and such account shall be used solely for the purpose of making Deposits.

Customer covenants and agrees that each of the foregoing shall remain true during the term of this Agreement.

2. **Compliance with and Incorporation of Program Rules.** Customer shall abide by the Program Rules and shall be bound by all the provisions thereof and by all operating procedures adopted by OCC pursuant thereto, as either may be amended from time to time. The Program Rules shall be a part of the terms and conditions of every Deposit which Customer may make pursuant to the Program. The following provisions of the Rules shall constitute the Program Rules, provided that OCC may amend this list to reflect one or more Program Rules' ceasing to be effective or in connection with any amendment to the Program Rules adopted pursuant to Section 3 below:

Article I of OCC's By-Laws – Definitions
Article XVII of OCC's By-Laws – Index Options and Certain Other Cash-Settled Options – Section 1 – Definitions
Chapter I of OCC's Rules – Definitions
OCC Rules 610, 610A, 610B and 610C – Deposits in Lieu of Margin

3. **Amendment.** No provision of this Agreement may be amended, supplemented or modified, or any of its terms waived, except by a written instrument executed by OCC, Customer and Bank, provided that Bank and Customer shall be bound by any amendment to the Program Rules and by all operating procedures adopted by OCC pursuant thereto as fully as though such amendment were now a part of the Program Rules or operating procedures without further consent by Customer or Bank. OCC agrees to provide Bank with 60 days' written notice prior to implementation of any amendments to the Program Rules. Customer agrees that OCC shall not be required to deliver notice of amendments to the Customer. Customer or Bank may terminate this Agreement upon written notice to OCC within 30 days of such notification to Bank, with effectiveness as of the later of the implementation of such amendments to the Program Rules or applicable procedures or the receipt by OCC of such notice, in which case the Agreement shall nonetheless remain in effect with regard to any outstanding Deposits outstanding as of the termination date until such Deposits are withdrawn or released, provided that during such period such rule change shall not be effective with respect to such Deposits.

4. **Security Interest; Instructions of OCC/UCC Jurisdiction.**

a. Pursuant to the Rules and this Agreement, Customer grants a security interest to OCC in and a right of setoff against all cash Deposits, and in all proceeds thereof, to secure Customer's obligations to the clearing member or OCC and to secure clearing member's obligations to OCC with respect to the applicable short position.

b. Each of OCC, Customer and Bank agree that Bank will follow disbursement directions of OCC with respect to cash included within Deposits promptly and fully without further consent by the Customer. Bank shall have no duty to investigate or make any determinations as to whether OCC is entitled to give disbursement directions with respect to Deposits and shall comply with such disbursement directions without regard to the authority or lack of authority to give such disbursement directions. Bank agrees that its "jurisdiction" (as described in Section 9-304 of the Uniform Commercial Code) for purposes of the Uniform Commercial Code as in effect in the State of Illinois is the State of Illinois.

5. **Binding Court Order or Judgment.** Nothing herein shall be deemed to require Bank to deliver a Deposit or any portion thereof in contravention of any court order or judgment binding on Bank in its capacity as Participating Escrow Bank, [which on its face affects such Deposit or portion thereof] **[OPEN POINT]**.

6. **Default by Customer.** If at any time (a) Customer fails to comply with its obligations under this Agreement or the Program Rules, (b) any representation and warranty made or deemed made by the Customer hereunder or under the Program Rules is determined to have been false or misleading when made or deemed made or (c) Customer becomes insolvent (each a "Customer Default"), OCC shall have all remedies available to it under this

Agreement, the Program Rules and all procedures adopted by OCC pursuant thereto, as well as all remedies available to it under applicable law (subject in all respects to Section 13 below).

7. **Term/Termination.** Any of OCC, Bank or Customer may terminate this Agreement for any reason on 45 days' prior written notice, in which case the Agreement shall nonetheless remain in effect with regard to any outstanding Deposits outstanding as of the termination date, until such Deposits are withdrawn or released. Upon the occurrence of a Customer Default, OCC may terminate this Agreement immediately and disregard any existing Deposits, or take possession of cash and/or securities making up such Deposits for the purposes set forth in, and in accordance with, Rule 610C(r).

8. **Access to Rules.** Customer acknowledges that it has access to a copy of the Program Rules on OCC's website and has reviewed the Program Rules as in effect at the date of this Agreement.

9. **Assignment; Beneficiaries.** The rights and obligations of Customer and Bank hereunder shall not be assignable without the written consent of OCC. This Agreement shall be binding upon, and inure to the benefit of, Customer and Bank and their respective successors and assigns, and shall also inure to the benefit of OCC and its successors and assigns.

10. **GOVERNING LAW AND CONSENT TO JURISDICTION.** THIS AGREEMENT IS DEEMED TO BE MADE UNDER, AND SHALL BE CONSTRUED BY, THE LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO ITS CONFLICT OF LAW PRINCIPLES. CUSTOMER AND BANK IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF THIS AGREEMENT OR THE PROGRAM. OCC, CUSTOMER AND BANK WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE PROGRAM.

11. **Miscellaneous.** No failure by OCC to exercise, and no delay in exercising, any right under this Agreement waives that right. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, together shall constitute one instrument. This Agreement, including the Program Rules and all operating procedures adopted by OCC pursuant thereto, constitutes the entire agreement and understanding between the parties with respect to the Program. In the event that any one or more of the provisions in this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement. Section headings used in this Agreement are for convenience of reference only and shall not define or limit the provisions of this Agreement.

12. **Notices**. All notices or other communications to be given in writing shall be sent to the addresses provided below.

13. **Limitation of Bank Liability**. Bank has no duties with respect to the Program other than those expressly set forth herein, in the Participating Escrow Bank agreement to which Bank is a Party (the "PEB Agreement"), and in the Program Rules and operating procedures. Bank shall have no liability for losses arising in connection with the Program other than those caused by its own breach of its obligations in respect of the Program (including a breach of this Agreement, the PEB Agreement or a violation of the Program Rules) or by its own negligence, fraud or willful misconduct. Bank shall not be liable for any special, indirect, consequential or punitive damages of any form incurred by any person or entity with respect to Bank's performance or non-performance under this Agreement. In addition, Bank shall have no liability for any damage, loss, expense or liability of any nature that OCC or Customer may suffer or incur caused by an event beyond the control of Bank.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their duly authorized officers, as of the date first set forth above.

THE OPTIONS CLEARING CORPORATION

By_____

Printed Name_____

Title_____

Address:
Email:

BANK

By_____

Printed Name_____

Title_____

Address:
Email:

CUSTOMER

By_____

Printed Name_____

Title_____

Address:
Email:
Bank Account Number: