



May 4, 2018

VIA ELECTRONIC MAIL

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

Re: Rule Filing SR-OCC-2018-007 Rule Certification

Dear Secretary Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Commodity Futures Trading Commission (“CFTC”) Regulation 40.6, enclosed is a copy of the above-referenced rule filing submitted by The Options Clearing Corporation (“OCC”). The 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 (“SEC”) or otherwise becomes effective under the Securities Exchange Act of 1934 (“Exchange Act”). This rule, as subsequently amended, has been submitted to the SEC under the Exchange Act.¹

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

Explanation and Analysis

The proposed change by OCC concerns modifications to OCC’s By-Laws and Rules to: (1) clarify the time at which OCC accepts and novates the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to acceptance, novation and trade reporting; and (3) delete provisions that apply only to certain dormant products that OCC no longer clears and settles or that are no longer applicable to OCC’s current clearing processes.

The proposed amendments to OCC’s By-Laws and Rules can be found in Exhibits 5A and 5B, respectively. 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 marked with strikethrough text. Because proposed Rules 403 through 406 in Chapter IV are new and are based on provisions relocated from Article VI of OCC’s By-Laws, underlining and strikethrough text have been omitted with respect to those rules in order to enhance their readability.

¹ Attached please find OCC’s submission to the SEC, including subsequently filed Amendment No. 1.

All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.²

Background

Acceptance and Novation Timing

Specifying a clear time at which OCC accepts transactions for clearance and settlement is important to Clearing Members because that is the time under OCC's By-Laws and Rules at which the following events occur: (1) OCC is substituted through novation as the central counterparty ("CCP") to each Clearing Member that was an initial party to the transaction; (2) the rights of the initial Clearing Member parties to the transaction become solely as against OCC; and (3) OCC becomes obligated to each Clearing Member in accordance with the By-Laws and Rules.³ Acceptance of transactions is important to Clearing Members because, among other things, settlement obligations associated with transactions that OCC accepts and novates are generally guaranteed by OCC based upon certain financial safeguards it maintains as a CCP.

Current Acceptance and Novation of Confirmed Trades

Under OCC's current By-Laws and Rules, a user must parse through a number of definitions and provisions in various locations to identify that time at which acceptance and novation occur. The term Confirmed Trade is defined in OCC's By-Laws to include all of the products for which OCC currently provides clearance and settlement services, with the exception of certain Stock Loan⁴ transactions. Under OCC's current By-Laws, a Confirmed Trade⁵ is novated upon OCC's acceptance, but acceptance is not deemed to occur until a designated Commencement Time. Commencement Time is defined differently for different products that meet the definition of a Confirmed Trade, but Article VI, Section 5 of the By-Laws (regarding OCC's obligations) generally defines it as the time at which OCC makes available to Clearing

² OCC's By-Laws and Rules can be found on OCC's public website:
<http://optionsclearing.com/about/publications/bylaws.jsp>.

³ See, e.g., Article VI, Section 5 of the By-Laws.

⁴ See Article I, Section 1.S.(21) of the By-Laws. The term Stock Loan may refer to either a Hedge Loan that is part of OCC's Stock Loan/Hedge Program or a Market Loan that is part of OCC's Market Loan Program. Matters regarding the acceptance and novation of these products is addressed separately below.

⁵ Under OCC's By-Laws, a Confirmed Trade is defined as "a transaction for the purchase, writing, or sale of a cleared contract, or for the closing out of a long or short position in a cleared contract, that is (i) effected on or through the facilities of an Exchange and submitted to the Corporation for clearance or (ii) affirmed through the facilities of an OTC Trade Source and submitted to the Corporation for clearance."

Members a Daily Position Report reflecting the Confirmed Trade.⁶ Pursuant to Article VI, Section 7 of the By-Laws (regarding the reporting of Confirmed Trades) this acceptance is subject to the condition that the Exchange or OTC Trade Source on which the transaction occurred has reported to OCC, during such times as OCC has prescribed, certain information regarding the Confirmed Trade and that such information passes OCC's initial validation checks.

Under Article VI, Section 8 of the By-Laws, OCC generally has no right (other than regarding certain types of Confirmed Trades discussed below) to reject a Confirmed Trade due to the failure of the Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. This means that transactions in most products that are Confirmed Trades will inevitably be accepted for clearing and novated at the Commencement Time simply due to the passage of time.⁷ Therefore, most Confirmed Trades are functionally novated under the current By-Laws and Rules upon proper submission to OCC for clearing.

Different Commencement Times and Rejection Rights for Certain Confirmed Trades

Certain categories of Confirmed Trades, however, are not subject to the general Commencement Time described above, and OCC retains certain rights to reject such transactions. Specifically, Article VI, Section 5 of the By-Laws excludes the products described below from the general Commencement Time and alternate definitions of Commencement Time are set forth as follows:

- (1) Futures issued in exchange-for-physical transactions,⁸ block trades,⁹ or other trades designated as non-competitively executed – the time after the transaction is reported to OCC that OCC receives the first variation settlement payment;¹⁰

⁶ This typically occurs at the end of each business day.

⁷ An Exchange or OTC Trade Source, however, may instruct OCC to disregard a transaction that it previously reported as a Confirmed Trade “because of a subsequent determination that (i) the trade information submitted by the Purchasing Clearing Member and Selling Clearing Member did not agree, (ii) the trade information did not contain all the information required by the Corporation as set forth in the By-Laws and Rules, or (iii) new or revised trade information was required to properly clear the transaction.” See Article VI, Section 7 of the OCC By-Laws. This authority would be preserved and relocated into OCC's Rules in connection with the proposed changes described herein.

⁸ An exchange-for-physical transaction (or “EFP”) is a transaction between two parties in which a futures contract on a commodity or security is exchanged for the actual physical good.

⁹ A block trade is a trade involving a large number of shares being traded at an arranged price between parties, outside of the open markets, in order to lessen the impact of such a large trade being made public.

¹⁰ See Article XII, Section 7 of the OCC By-Laws.

- (2) Cross-rate FX options and FX index options – the time that is three hours following the settlement time of the Confirmed Trade in which such contract was purchased;¹¹ and
- (3) OTC Options (other than Backloaded OTC Options) – the time when a report of OCC’s acceptance is made available to Clearing Members through OCC’s clearing system.¹²

For Backloaded OTC Options, the transaction is not accepted until the Selling Clearing Member has met its regular morning settlement obligation on the business day following the reporting of the trade to OCC.¹³

In addition to the separate Commencement Times for these types of Confirmed Trades, OCC also currently has certain authority to reject such trades due to the failure of the Purchasing Clearing Member to pay an amount due to OCC at or before the applicable settlement time.¹⁴ In contrast to most other types of Confirmed Trades, this means that OCC continues to have authority to reject these transactions even after they are properly submitted for clearing. OCC’s authority to reject these types of Confirmed Trades arises under the following circumstances:

- (1) Futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed – in the event OCC fails to receive any variation payment due in the accounts of the Clearing Members;¹⁵
- (2) Cross-rate FX options and FX index options – in the event OCC fails to receive from the Purchasing Clearing Member premiums denominated in the proper trading currency in the account in which the transaction is effected;¹⁶ and
- (3) Backloaded OTC Options – in the event the Selling Clearing Member does not meet its regular morning settlement obligation on the business day following the reporting of the trade to OCC.¹⁷

¹¹ See Articles XX, Section 1 and XXIII, Section 1 of the OCC By-Laws.

¹² See Article VI, Section 5 of the OCC By-Laws.

¹³ Id.

¹⁴ See generally Article VI, Section 8 of the OCC By-Laws identifying these exceptions.

¹⁵ See Article XII, Section 7 of the OCC By-Laws.

¹⁶ See Article XX, Section 5, Article XXIII, Section 7 of the OCC By-Laws.

¹⁷ See Article VI, Section 8 of the OCC By-Laws. In addition, OCC will not accept a Backloaded OTC Option for clearing if OCC receives it from the OTC Trade Source after 4 p.m. Central on the business day that is four business days prior to its expiration.

Proposed Changes to Acceptance and Novation Rules

Proposed Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades

To provide greater certainty and clarity to Clearing Members and other interested parties regarding the acceptance and novation timing for transactions that OCC clears and settles, OCC is proposing to amend the substance of Article VI, Section 5 of the By-Laws¹⁸ to set forth a uniform acceptance and novation time for nearly all Confirmed Trades. As described in more detail below, OCC would retain exceptions from the uniform acceptance and novation time for Confirmed Trades in Backloaded OTC Options and Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed.

To accomplish this, OCC proposes to eliminate the concept of Commencement Time and instead deem nearly all Confirmed Trades to be accepted and simultaneously novated when they are reported to OCC and the related position information has been recorded in OCC's clearing system (which occurs on a real-time basis).¹⁹ This would, however, be subject to the condition that the required transaction information reported to OCC by the Exchange or OTC Trade Source first passes OCC's validation procedures²⁰ and is provided to OCC at such time as OCC prescribes. OCC believes this change provides a more clear indication of the point after which OCC does not have authority to reject such transactions for clearing.²¹ Eliminating the concept of Commencement Time also necessitates the deletion of the term from the defined terms that appear in Article I, Section 1 of the By-Laws and replacing all references to Commencement Time with references to the time at which OCC accepts a transaction for clearing. This change requires amendments to OCC's By-Laws, specifically, amendments to the Article I definition of "American; American-style," Article VI, Sections 5 and 6,²² Section 12 of Article VI, and Section 7 of Article XII.

¹⁸ As described below under the heading *Reorganization*, OCC also proposes to relocate the provisions currently in Article VI, Section 5 of the By-Laws to Rules 401 and 404.

¹⁹ OCC notes that upon acceptance and recording of position information in OCC's ENCORE clearing system, Clearing Members have the ability to see the trades they are responsible for via position information screens in the ENCORE system and through real-time messaging.

²⁰ All inbound trades to OCC are subject to coded validation of the required fields for trades. These fields contain the critical details of the trade. These details include, but are not limited to, the trade source, symbol, expiration, strike, call or put, quantity, price, and Clearing Member details of both sides of the trade.

²¹ As described above, an Exchange or OTC Trade Source would continue to have the authority to instruct OCC to disregard a Confirmed Trade. See supra 7.

²² As described in more detail below, OCC proposes to relocate Article VI, Sections 5 and 6 to Rules 401, 404 and 405 to help streamline and reorganize provisions addressing trade reporting and novation.

As part of this proposed rule change, OCC also proposes to clarify the trade information required to be submitted by the participant Exchange to OCC as a condition to acceptance and novation. For options transactions, Rule 401(a)(1)(i) would provide that these terms include: (a) the identity of the Purchasing Clearing Member and Writing Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the trade price; (g) the security type; (h) the ticker symbol; (i) the series/contract date; (j) whether the trade is a put or a call; (k) the strike price; (l) whether the trade is a purchase or a sale; (m) the account type; (n) the allocation indicator, if applicable; (o) the CMTA indicator, if applicable; (p) the Give-Up Clearing Member, if applicable; (q) the trade type, including, in the case of futures options, whether the transaction is a block trade, exchange-for-physical, or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade; (r) in the case of OTC options transactions in a securities customers' account, a unique customer ID for the customer for whom the trade was executed; and (s) in the case of OTC options, such other variable terms as provided in Section 6 of Article XVII of the By-Laws. In addition to the foregoing information that is required as a condition to OCC's acceptance of the confirmed trade, Rule 401(a)(1)(ii) would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.²³

For futures transactions, Rule 401(a)(2)(i) would provide that the required terms for acceptance and novation include: (a) the identity of the Purchasing Clearing Member and the Selling Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the trade price; (g) the security type; (h) the ticker symbol; (i) the series/contract date; (j) whether the trade is a purchase or a sale; (k) the account type; (l) the allocation indicator, if applicable; (m) the CMTA indicator, if applicable; (n) the Give-Up Clearing Member, if applicable; and (o) whether the trade is an exchange-for-physical or block trade or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade. In addition to the foregoing information that is required as a condition to OCC's acceptance of the confirmed trade, Rule 401(a)(2)(ii) would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.

Reasons the Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades is Appropriate

OCC believes that using a uniform approach for nearly all Confirmed Trades regarding acceptance and novation and reducing the complexity of related provisions would provide significantly greater clarity and transparency in OCC's legal framework for Clearing Members and other interested parties concerning the point at which OCC does not have authority to reject a transaction after it has been properly submitted to and validated by OCC. As described above,

²³ OCC makes available to its participant Exchanges and Clearing Members the complete list of required and optional trade information in an inbound reference guide for Exchange trades.

amending OCC's By-Laws and Rules to provide that nearly all Confirmed Trades are accepted and novated upon proper submission functionally would not change the time at which OCC becomes obligated regarding such Confirmed Trades because, upon proper submission, OCC has no right today to reject such transactions due to the failure of a Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. OCC generally does not collect margin with respect to such Confirmed Trades until 9:00 a.m. Central the following business day,²⁴ and therefore OCC already faces this same credit risk between the acceptance of the Confirmed Trades and the time that it collects margin from Clearing Members. Accordingly, OCC believes that moving the novation time from the general Commencement Time to earlier in the day as described above – at the point of acceptance – would not alter the credit risk OCC faces with respect to such Confirmed Trades. In addition, OCC would continue to have the same authority that it does today to address any credit risk as necessary through intra-day margin collection.²⁵

OTC Options that are not Backloaded OTC Options are not currently subject to the general Commencement Time; however, OCC believes that applying the uniform acceptance and novation time to those transactions is appropriate. This is because under the current approach, acceptance and the Commencement Time both occur when a report is made available to Clearing Members within OCC's clearing system, and therefore this approach is already consistent with the proposed approach described herein. In practice, OCC automatically makes a report available to Clearing Members in its clearing system regarding an OTC Option provided that it is properly reported to OCC, the contract passes OCC's validation process, and the contract is not rejected. All of this is generally completed immediately upon submission and therefore OCC does not believe there is any operational, risk management, or other reason for excluding OTC Options that are not Backloaded OTC Options from the proposed uniform acceptance and novation timing.²⁶

Proposed Exceptions to the Uniform Acceptance and Novation Timing

For other categories of Confirmed Trades that are not subject to the general definition of Commencement Time, OCC proposes to preserve the existing structure under which OCC has authority to reject the transactions even after they are properly submitted for clearing. An exception to the uniform acceptance and novation timing would be made for Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed. OCC believes that delayed novation is still appropriate for such

²⁴ See Article I, Section 1.S.(16) of the By-Laws (defining the term "settlement time" in respect of a Clearing Member's obligation to pay amounts owed to OCC).

²⁵ See OCC Rule 609 (addressing OCC's authority to require intra-day margin).

²⁶ See Securities Exchange Act Release No. 68434 (December 14, 2012), 77 FR 75243 (December 19, 2012) (SR-OCC-2012-14 and AN-OCC-2012-01) (discussing the trade submission mechanics for OTC Options).

non-competitively executed transactions because there is a heightened risk that non-competitive execution may cause them to be effected at off-market prices, which could lead to significant losses if a Clearing Member defaults on the related settlement obligations.²⁷

As proposed, an exception to the uniform acceptance and novation timing would also be made for Confirmed Trades that are Backloaded OTC Options, which are defined as OTC Options for which the premium payment date is prior to the business day on which the transaction is submitted to OCC for clearing.²⁸ OCC believes an exception for Backloaded OTC Options remains necessary because of their “backloaded” nature, which means that the premium payment has already been made. In addition, Backloaded OTC Options are subject to being non-competitively executed and therefore present the same heightened settlement default risk that is discussed above regarding other non-competitively executed transactions. However, in contrast to those other types of non-competitively executed transactions, OCC is not able to immediately validate a Backloaded OTC Options transaction or check its price reasonability upon submission. Therefore, OCC believes it remains appropriate to delay acceptance and novation for these contracts until the selling Clearing Member has met its regular morning settlement obligations on the business day following trade reporting.

Provisional Information Regarding Confirmed Trades

OCC proposes that its acceptance and novation time would no longer be tied to publication of a Daily Position Report as OCC’s acceptance of a Confirmed Trade would instead be reflected in the position information that OCC makes available to Clearing Members throughout the business day. OCC therefore proposes to amend Interpretation and Policy .01 to Rule 501 to: (1) clarify that OCC makes updated position data reflecting accepted and novated trades available to its Clearing Members throughout the day; and (2) remove from that provision a statement that Clearing Members must rely on the Daily Position Report for definitive information regarding their positions.

Hedge Loans and Market Loans

²⁷ OCC also proposes to add new Interpretation and Policy .05 to provide that OCC will not treat an EFP or block trade as a noncompetitively executed trade subject to Article XII, Section 7 of the By-Laws if the Exchange on which such trade is executed has made representations satisfactory to OCC that the Exchange has rules, policies or procedures that require each EFP and block trade that is submitted to OCC to be executed at a reasonable price and that such price is validated by the Exchange. This new Interpretation and Policy to Rule 401 would reiterate current Interpretation and Policy .04 to Article XII, Section 7 of the By-Laws to provide additional clarity in the Rules around the acceptance and novation time for competitively executed EFPs and block trades.

²⁸ See Article I, Section 1.B.(1) of the OCC By-Laws.

In addition to its clearance and settlement of Confirmed Trades, OCC also acts as a CCP for certain stock lending transactions that are part of its Stock Loan/Hedge Program and Market Loan Program. OCC proposes to amend its Stock Loan/Hedge Program and Market Loan Program Rules to better describe OCC's process for accepting Hedge Loans and Market Loans and to appropriately harmonize certain provisions governing each type of Stock Loan.²⁹

Hedge Loans are initiated as stock lending transactions that are negotiated and settled between Clearing Members at The Depository Trust Company ("Depository") before they are reported to OCC. Rule 2202(b) provides that OCC must generally accept these stock lending transactions upon receipt of a report from the Depository that shows a completed transaction.³⁰ However, OCC *may* reject a transaction if it determines that it is: (1) not in accordance with OCC's By-Laws or Rules; (2) one or both account numbers specified are invalid for Hedge Loans; or (3) the information provided by the Depository contains errors or omissions. Moreover, Rule 2202(b) provides that if OCC does not affirmatively reject a reported transaction by such a time as OCC is authorized to specify from time to time then the transaction is deemed accepted as a Hedge Loan. Upon acceptance, OCC becomes the lender to the Borrowing Clearing Member and the borrower to the Lending Clearing Member. Although OCC has discretion during each business day to make provisional information available to Clearing Members regarding their lending and borrowing activity, only the Stock Loan Mark to Market Activity Report is recognized as providing definitive Hedge Loan positions.³¹

OCC proposes to amend Rule 2202(b) to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day and would delete the statement that a transaction is deemed accepted by a particular cut off time if OCC does not affirmatively notify Clearing Members of a rejection. Rule 2202(b) would instead state that OCC generally accepts completed transactions reported to it unless: (1) OCC is otherwise required to reject a transaction because it is not in accordance with the By-Laws or Rules; (2) one or both account numbers specified are invalid; or (3) the information provided contains unresolved errors or omissions. OCC believes these changes would help clarify the time at which Hedge Loans are accepted and the specific circumstances in which Hedge Loans will be rejected. As described below, the change would also ensure consistency between parallel provisions in the Stock Loan/Hedge Program and Market Loan Program regarding the initiation process that OCC believes should apply equally. Finally, a reference to the Stock Loan Market to Market Activity Report being the only definitive statement of positions would be deleted because Hedge Loan positions would be definitive upon acceptance in OCC's clearing system.

²⁹ See OCC Rules 2202(b); 2202A(b), (c).

³⁰ OCC is not obligated to accept the stock lending transactions of a Clearing Member that has been suspended by the Depository. See OCC Rule 2210(a). The same condition applies regarding Market Loans. See OCC Rule 2210A(a).

³¹ See Rule 2202, Interpretation and Policy .01.

In connection with the Market Loan Program initiation process, the Depository also sends information to OCC regarding completed stock lending transactions. Rule 2202A(b) provides that upon OCC's receipt of an end of day stock loan activity file from the Depository OCC must accept the transactions as Market Loans unless it is required to reject them for the same reasons described above concerning Hedge Loans. The Rule further provides that, upon OCC's affirmative acceptance, OCC becomes the lender to the Borrowing Clearing Member and the borrower to the Lending Clearing Member.

As with the proposed changes to the Stock Loan Hedge Program, OCC proposes to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day. OCC also proposes to delete a reference to affirmative acceptance in Rule 2202A(b) because the other proposed changes would clarify that acceptance will generally take place automatically unless OCC is specifically required to reject transactions due to the deficiencies described above. A conforming change would also be made in this regard in Rule 2202A(c). References to the definitive nature of the Stock Loan Mark to Market Activity Report would be deleted for the same reasons described above regarding Hedge Loans.

Streamlining and Reorganization

As part of its continued efforts to streamline its By-Laws and Rules, OCC proposes to relocate certain provisions from Article VI, Sections 4 through 8 of the By-Laws to Chapter IV of the Rules. This would promote a centralized location for provisions that address trade reporting and novation. OCC also proposes to consolidate certain provisions in Chapter IV of the Rules to eliminate redundancy. These proposed organizational changes are summarized below.

Article VI, Section 4 of OCC's By-Laws regarding a Purchasing Clearing Member's obligations with respect to a Confirmed Trade would be relocated, without amendment, to a new Rule 403. Article VI, Section 5 of the By-Laws regarding OCC's obligations with respect to a Confirmed Trade would be amended, as described above, and incorporated into existing Rule 401 and new Rule 404. Article VI, Section 6 of the By-Laws regarding the issuance of cleared contracts would be amended as described above and relocated to a new Rule 405. Article VI, Section 7 of the By-Laws regarding the reporting of confirmed trades would be relocated and incorporated into Rule 401. More specifically, Article VI, Section 7(b) of the By-Laws would become Rule 401(e), Section 7(c) would become Rule 401(f), and Interpretation and Policy .01 to Section 7 would become Interpretation and Policy .03 to Rule 401. Article VI, Section 8 of the By-Laws regarding payments made to OCC would be amended as described above and relocated to new Rule 406. To accommodate these new rules in Chapter IV, current Rule 403 would be renumbered as 407, and current Rule 405 would be renumbered as Rule 408. Cross-references would also be updated to reflect this renumbering throughout Chapter IV of the Rules, as well as in Article I, Section 1.G.(3) and (4), Article VI, Section 2, and Article XVII, Sections 2(a) and 2(c)(1) of the By-Laws, and Rules 504(e), 504(g), and 611(a).

Additionally, OCC proposes to delete existing Rule 404 regarding the reporting of confirmed trades in OTC Options and to incorporate its substance into Rule 401 in order create a more centralized trade reporting rule. This incorporation of Rule 404 into Rule 401 would require the addition of references to OTC Trade Sources in Rule 401(a) and (b), and the merger of language from Rule 404(b) into Rule 401(b) and from Rule 404(c) into Rule 401(d).

Elimination of Dormant Products and Rules

OCC proposes to delete certain provisions from its By-Laws and Rules that only apply to cross-rate foreign currency options and flexibly-structured index options denominated in a foreign currency because OCC no longer clears and settles such products. These products, when they were still actively cleared and settled, were subject to delayed novation, so OCC believes eliminating the rules governing these products at this time would reduce confusion related to the adoption of the proposed changes described herein concerning trade acceptance and novation timing. Consequently, OCC proposes to delete Articles XX and XXIII of its By-Laws and Chapters XXI and XXIV of its Rules, which govern each of those products, respectively. Additionally, OCC proposes to eliminate all other references to such products throughout its By-Laws and Rules, including in Section 1(d) of Article V, and Interpretation and Policy .03 to Section 1 of Article V of the By-Laws and Rules 607, 1107(a)(3) and 1107(a)(4), as well as in the definitions of Option Contract, Trading Currency and Underlying Currency in Article I of the By-Laws.

OCC also proposes to delete Rule 402 concerning the supplementary reporting of Confirmed Trades. Under Rule 402, in certain extraordinary circumstances, OCC may in its discretion accept from an Exchange after the cut-off time for receiving Confirmed Trade information for a particular business day (“trade date”) supplementary Confirmed Trade information reflecting the comparison of additional trades executed on or before the trade date that remained unconfirmed at the cut-off time. Rule 402 was adopted at a time when OCC received matched trade information from Exchanges for a given trade date in a single batch submission after the close of the trading day.³² Under this old process, trades that remained unmatched when an Exchange prepared its nightly trade tape to OCC were omitted from the tape and, if a trade was subsequently matched, the Exchange reported the trade to OCC the following night to be processed as if it had not been executed until the date when it was reported. Rule 402 was adopted to accommodate the late submission of trades that had not been matched in time to be submitted on the Exchange’s original trade tape, thereby allowing those trades to be processed as if they were submitted on their original trade date. OCC is proposing to delete Rule 402 because it is no longer applicable to OCC’s current clearing processes, whereby OCC continuously receives matched trade information from Exchanges on a real-time basis.

³² See Filing and Order Granting Accelerated Approval of Proposed Rule Change of Options Clearing Corporation, Securities Exchange Act Release No. 21233 (August 10, 1984) (SR-OCC-84-12).

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

Legal Risk. OCC believes that implementing the proposed rule change will be consistent with Core Principle R, which requires that each DCO has a well-founded, transparent, and enforceable legal framework for each aspect of the activities of the DCO.³³ CFTC Regulation 39.27(b)(1) further requires that a DCO operate pursuant to a well-founded, transparent, and enforceable legal framework that addresses each aspect of the activities of the DCO and that provides for the DCO to act as a counterparty, including novation.³⁴ OCC believes the proposed change is consistent with Core Principle R because it would provide a clear and uniform acceptance and novation time for nearly all Confirmed Trades and clarify the acceptance and novation timing regarding Stock Loans by creating greater certainty regarding the time at which novation occurs and such Confirmed Trades and Stock Loans may no longer be rejected by OCC. In addition, the proposed rule change also would eliminate certain dormant rules that are no longer applicable to OCC’s clearance and settlement services and processes. As a result, OCC believes that the proposed rule change would provide for a well-founded, transparent, and enforceable legal framework regarding OCC’s processes for the reporting of transactions, acceptance, and novation.

In this regard, the proposed changes would further OCC’s compliance with Core Principle R.

³³ 7 U.S.C. 7a-1(c)(2)(R).

³⁴ 17 CFR 39.27(b)(1).

Opposing Views

No opposing views were expressed related to the rule amendments.

Notice of Pending Rule Certification

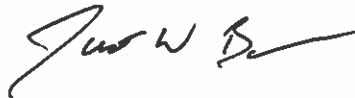
OCC hereby certifies that notice of this rule filing has been given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the submission on OCC's website concurrently with the filing of this submission.

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,



Justin W. Byrne
Vice President, Regulatory Filings

Enclosure

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 73	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2018 - * 007	Amendment No. (req. for Amendments *)
Filing by Options Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>		Section 806(e)(2) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="Proposed rule change by The Options Clearing Corporation concerning its trade acceptance and novation rules."/>				
Contact Information				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	<input type="text" value="Justin"/>	Last Name *	<input type="text" value="Byrne"/>	
Title *	<input type="text" value="Vice Presidents, Regulatory Filings"/>			
E-mail *	<input type="text" value="jbyrne@theocc.com"/>			
Telephone *	<input type="text" value="(202) 971-7238"/>	Fax	<input type="text" value="(312) 322-6280"/>	
Signature				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	<input type="text" value="03/23/2018"/>	<input type="text" value="Vice President, Regulatory Filings"/>		
By	<input type="text" value="Justin W. Byrne"/>	<input type="text" value="Justin W. Byrne"/>		
(Name *)				
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				
<input type="button" value="Justin Byrne, jbyrne@theocc.com"/>				

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

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

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

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

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

Add Remove View

Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

Add Remove View

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

Partial Amendment

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

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

Item 1. Text of the Proposed Rule Change

This proposed rule change by The Options Clearing Corporation (“OCC”) concerns modifications to OCC’s By-Laws and Rules to: (1) clarify the time at which OCC accepts and novates the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to acceptance, novation and trade reporting; and (3) delete provisions that apply only to certain dormant products that OCC no longer clears and settles or that are no longer applicable to OCC’s current clearing processes.

The proposed amendments to OCC’s By-Laws and Rules can be found in Exhibits 5A and 5B, respectively. 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 marked with strikethrough text. Because proposed Rules 403 through 406 in Chapter IV are new and are based on provisions relocated from Article VI of OCC’s By-Laws, underlining and strikethrough text have been omitted with respect to those rules in order to enhance their readability.

All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.¹

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved for filing with the Commission by the Board of Directors of OCC at a meeting held on July 12, 2017.

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

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

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

A. Purpose

The purpose of this proposed rule change is to amend OCC's By-Laws and Rules to: (1) clarify the time at which OCC accepts and novates² the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to trade reporting and novation; and (3) delete provisions that apply only to certain dormant products that OCC no longer clears and settles or that are no longer applicable to OCC's current clearing processes.

Background

Acceptance and Novation Timing

Specifying a clear time at which OCC accepts transactions for clearance and settlement is important to Clearing Members because that is the time under OCC's By-Laws and Rules at which the following events occur: (1) OCC is substituted through novation as the central counterparty ("CCP") to each Clearing Member that was an initial party to the transaction; (2) the rights of the initial Clearing Member parties to the transaction become solely as against OCC; and (3) OCC becomes obligated to each Clearing Member in accordance with the By-Laws and Rules.³ Acceptance of transactions is important to Clearing Members because, among other things, settlement obligations associated with transactions that OCC accepts and novates are generally guaranteed by OCC based upon certain financial safeguards it maintains as a CCP consistent with its responsibilities under the Securities Exchange Act of 1934, as amended

² In this context, novation is the process through which OCC is substituted as the buyer to the seller and the seller to the buyer for each cleared contact.

³ See, e.g., Article VI, Section 5 of the By-Laws.

(“Act”), and relevant regulations thereunder.⁴

Current Acceptance and Novation of Confirmed Trades

Under OCC’s current By-Laws and Rules, a user must parse through a number of definitions and provisions in various locations to identify that time at which acceptance and novation occur. The term Confirmed Trade is defined in OCC’s By-Laws to include all of the products for which OCC currently provides clearance and settlement services, with the exception of certain Stock Loan⁵ transactions. Under OCC’s current By-Laws, a Confirmed Trade⁶ is novated upon OCC’s acceptance, but acceptance is not deemed to occur until a designated Commencement Time. Commencement Time is defined differently for different products that meet the definition of a Confirmed Trade, but Article VI, Section 5 of the By-Laws (regarding OCC’s obligations) generally defines it as the time at which OCC makes available to Clearing Members a Daily Position Report reflecting the Confirmed Trade.⁷ Pursuant to Article VI, Section 7 of the By-Laws (regarding the reporting of Confirmed Trades) this acceptance is subject to the condition that the Exchange or OTC Trade Source on which the transaction occurred has reported to OCC, during such times as OCC has prescribed, certain information regarding the Confirmed Trade and that such information passes OCC’s initial validation checks.

⁴ See generally 15 U.S.C. 78q-1; 17 CFR 240.17Ad-22.

⁵ See Article I, Section 1.S.(21) of the By-Laws. The term Stock Loan may refer to either a Hedge Loan that is part of OCC’s Stock Loan/Hedge Program or a Market Loan that is part of OCC’s Market Loan Program. Matters regarding the acceptance and novation of these products is addressed separately below.

⁶ Under OCC’s By-Laws, a Confirmed Trade is defined as “a transaction for the purchase, writing, or sale of a cleared contract, or for the closing out of a long or short position in a cleared contract, that is (i) effected on or through the facilities of an Exchange and submitted to the Corporation for clearance or (ii) affirmed through the facilities of an OTC Trade Source and submitted to the Corporation for clearance.”

⁷ This typically occurs at the end of each business day.

Under Article VI, Section 8 of the By-Laws, OCC generally has no right (other than regarding certain types of Confirmed Trades discussed below) to reject a Confirmed Trade due to the failure of the Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. This means that transactions in most products that are Confirmed Trades will inevitably be accepted for clearing and novated at the Commencement Time simply due to the passage of time.⁸ Therefore, most Confirmed Trades are functionally novated under the current By-Laws and Rules upon proper submission to OCC for clearing.

Different Commencement Times and Rejection Rights for Certain Confirmed Trades

Certain categories of Confirmed Trades, however, are not subject to the general Commencement Time described above, and OCC retains certain rights to reject such transactions. Specifically, Article VI, Section 5 of the By-Laws excludes the products described below from the general Commencement Time and alternate definitions of Commencement Time are set forth as follows:

(1) Futures issued in exchange-for-physical transactions,⁹ block trades,¹⁰ or other trades designated as non-competitively executed – the time after the transaction is reported to

⁸ An Exchange or OTC Trade Source, however, may instruct OCC to disregard a transaction that it previously reported as a Confirmed Trade “because of a subsequent determination that (i) the trade information submitted by the Purchasing Clearing Member and Selling Clearing Member did not agree, (ii) the trade information did not contain all the information required by the Corporation as set forth in the By-Laws and Rules, or (iii) new or revised trade information was required to properly clear the transaction.” See Article VI, Section 7 of the OCC By-Laws. This authority would be preserved and relocated into OCC’s Rules in connection with the proposed changes described herein.

⁹ An exchange-for-physical transaction (or “EFP”) is a transaction between two parties in which a futures contract on a commodity or security is exchanged for the actual physical good.

¹⁰ A block trade is a trade involving a large number of shares being traded at an arranged price between parties, outside of the open markets, in order to lessen the impact of such a large trade being made public.

OCC that OCC receives the first variation settlement payment;¹¹

(2) Cross-rate FX options and FX index options – the time that is three hours following the settlement time of the Confirmed Trade in which such contract was purchased;¹² and

(3) OTC Options (other than Backloaded OTC Options) – the time when a report of OCC's acceptance is made available to Clearing Members through OCC's clearing system.¹³

For Backloaded OTC Options, the transaction is not accepted until the Selling Clearing Member has met its regular morning settlement obligation on the business day following the reporting of the trade to OCC.¹⁴

In addition to the separate Commencement Times for these types of Confirmed Trades, OCC also currently has certain authority to reject such trades due to the failure of the Purchasing Clearing Member to pay an amount due to OCC at or before the applicable settlement time.¹⁵ In contrast to most other types of Confirmed Trades, this means that OCC continues to have authority to reject these transactions even after they are properly submitted for clearing. OCC's authority to reject these types of Confirmed Trades arises under the following circumstances:

(1) Futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed – in the event OCC fails to receive any variation payment due in the accounts of the Clearing Members;¹⁶

¹¹ See Article XII, Section 7 of the OCC By-Laws.

¹² See Articles XX, Section 1 and XXIII, Section 1 of the OCC By-Laws.

¹³ See Article VI, Section 5 of the OCC By-Laws.

¹⁴ Id.

¹⁵ See generally Article VI, Section 8 of the OCC By-Laws identifying these exceptions.

¹⁶ See Article XII, Section 7 of the OCC By-Laws.

(2) Cross-rate FX options and FX index options – in the event OCC fails to receive from the Purchasing Clearing Member premiums denominated in the proper trading currency in the account in which the transaction is effected;¹⁷ and

(3) Backloaded OTC Options – in the event the Selling Clearing Member does not meet its regular morning settlement obligation on the business day following the reporting of the trade to OCC.¹⁸

Proposed Changes to Acceptance and Novation Rules

Proposed Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades

To provide greater certainty and clarity to Clearing Members and other interested parties regarding the acceptance and novation timing for transactions that OCC clears and settles, OCC is proposing to amend the substance of Article VI, Section 5 of the By-Laws¹⁹ to set forth a uniform acceptance and novation time for nearly all Confirmed Trades. As described in more detail below, OCC would retain exceptions from the uniform acceptance and novation time for Confirmed Trades in Backloaded OTC Options and Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed.

To accomplish this, OCC proposes to eliminate the concept of Commencement Time and instead deem nearly all Confirmed Trades to be accepted and simultaneously novated when they are reported to OCC and the related position information has been recorded in OCC's clearing

¹⁷ See Article XX, Section 5, Article XXIII, Section 7 of the OCC By-Laws.

¹⁸ See Article VI, Section 8 of the OCC By-Laws. In addition, OCC will not accept a Backloaded OTC Option for clearing if OCC receives it from the OTC Trade Source after 4 p.m. Central on the business day that is four business days prior to its expiration.

¹⁹ As described below under the heading *Reorganization*, OCC also proposes to relocate the provisions currently in Article VI, Section 5 of the By-Laws to Rules 401 and 404.

system (which occurs on a real-time basis).²⁰ This would, however, be subject to the condition that the required transaction information reported to OCC by the Exchange or OTC Trade Source first passes OCC's validation procedures²¹ and is provided to OCC at such time as OCC prescribes. OCC believes this change provides a more clear indication of the point after which OCC does not have authority to reject such transactions for clearing.²² Eliminating the concept of Commencement Time also necessitates the deletion of the term from the defined terms that appear in Article I, Section 1 of the By-Laws and replacing all references to Commencement Time with references to the time at which OCC accepts a transaction for clearing. This change requires amendments to OCC's By-Laws, specifically, amendments to the Article I definition of "American; American-style," Article VI, Sections 5 and 6,²³ Section 12 of Article VI, and Section 7 of Article XII.

As part of this proposed rule change, OCC also proposes to clarify the trade information required to be submitted by the participant Exchange to OCC as a condition to acceptance and novation. For options transactions, Rule 401(a)(1)(i) would provide that these terms include: (a) the identity of the Purchasing Clearing Member and Writing Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the

²⁰ OCC notes that upon acceptance and recording of position information in OCC's ENCORE clearing system, Clearing Members have the ability to see the trades they are responsible for via position information screens in the ENCORE system and through real-time messaging.

²¹ All inbound trades to OCC are subject to coded validation of the required fields for trades. These fields contain the critical details of the trade. These details include, but are not limited to, the trade source, symbol, expiration, strike, call or put, quantity, price, and Clearing Member details of both sides of the trade.

²² As described above, an Exchange or OTC Trade Source would continue to have the authority to instruct OCC to disregard a Confirmed Trade. See supra 8.

²³ As described in more detail below, OCC proposes to relocate Article VI, Sections 5 and 6 to Rules 401, 404 and 405 to help streamline and reorganize provisions addressing trade reporting and novation.

trade price; (g) the security type; (h) the ticker symbol; (i) the series/contract date; (j) whether the trade is a put or a call; (k) the strike price; (l) whether the trade is a purchase or a sale; (m) the account type; (n) the allocation indicator, if applicable; (o) the CMTA indicator, if applicable; (p) the Give-Up Clearing Member, if applicable; (q) the trade type, including, in the case of futures options, whether the transaction is a block trade, exchange-for-physical, or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade; (r) in the case of OTC options transactions in a securities customers' account, a unique customer ID for the customer for whom the trade was executed; and (s) in the case of OTC options, such other variable terms as provided in Section 6 of Article XVII of the By-Laws. In addition to the foregoing information that is required as a condition to OCC's acceptance of the confirmed trade, Rule 401(a)(1)(ii) would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.²⁴

For futures transactions, Rule 401(a)(2)(i) would provide that the required terms for acceptance and novation include: (a) the identity of the Purchasing Clearing Member and the Selling Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the trade price; (g) the security type; (h) the ticker symbol; (i) the series/contract date; (j) whether the trade is a purchase or a sale; (k) the account type; (l) the allocation indicator, if applicable; (m) the CMTA indicator, if applicable; (n) the Give-Up Clearing Member, if applicable; and (o) whether the trade is an exchange-for-physical or block trade or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade. In addition to the foregoing information that is

²⁴ OCC makes available to its participant Exchanges and Clearing Members the complete list of required and optional trade information in an inbound reference guide for Exchange trades.

required as a condition to OCC's acceptance of the confirmed trade, Rule 401(a)(2)(ii) would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.

Reasons the Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades is Appropriate

OCC believes that using a uniform approach for nearly all Confirmed Trades regarding acceptance and novation and reducing the complexity of related provisions would provide significantly greater clarity and transparency in OCC's legal framework for Clearing Members and other interested parties concerning the point at which OCC does not have authority to reject a transaction after it has been properly submitted to and validated by OCC. As described above, amending OCC's By-Laws and Rules to provide that nearly all Confirmed Trades are accepted and novated upon proper submission functionally would not change the time at which OCC becomes obligated regarding such Confirmed Trades because, upon proper submission, OCC has no right today to reject such transactions due to the failure of a Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. OCC generally does not collect margin with respect to such Confirmed Trades until 9:00 a.m. Central the following business day,²⁵ and therefore OCC already faces this same credit risk between the acceptance of the Confirmed Trades and the time that it collects margin from Clearing Members. Accordingly, OCC believes that moving the novation time from the general Commencement Time to earlier in the day as described above – at the point of acceptance – would not alter the credit risk OCC faces with respect to such Confirmed Trades. In addition, OCC would continue to have the same authority that it does today to address any credit risk as necessary through intra-day margin

²⁵ See Article I, Section 1.S.(16) of the By-Laws (defining the term "settlement time" in respect of a Clearing Member's obligation to pay amounts owed to OCC).

collection.²⁶

OTC Options that are not Backloaded OTC Options are not currently subject to the general Commencement Time; however, OCC believes that applying the uniform acceptance and novation time to those transactions is appropriate. This is because under the current approach, acceptance and the Commencement Time both occur when a report is made available to Clearing Members within OCC's clearing system, and therefore this approach is already consistent with the proposed approach described herein. In practice, OCC automatically makes a report available to Clearing Members in its clearing system regarding an OTC Option provided that it is properly reported to OCC, the contract passes OCC's validation process, and the contract is not rejected. All of this is generally completed immediately upon submission and therefore OCC does not believe there is any operational, risk management, or other reason for excluding OTC Options that are not Backloaded OTC Options from the proposed uniform acceptance and novation timing.²⁷

Proposed Exceptions to the Uniform Acceptance and Novation Timing

For other categories of Confirmed Trades that are not subject to the general definition of Commencement Time, OCC proposes to preserve the existing structure under which OCC has authority to reject the transactions even after they are properly submitted for clearing. An exception to the uniform acceptance and novation timing would be made for Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed. OCC believes that delayed novation is still appropriate for such

²⁶ See OCC Rule 609 (addressing OCC's authority to require intra-day margin).

²⁷ See Securities Exchange Act Release No. 68434 (December 14, 2012), 77 FR 75243 (December 19, 2012) (SR-OCC-2012-14 and AN-OCC-2012-01) (discussing the trade submission mechanics for OTC Options).

non-competitively executed transactions because there is a heightened risk that non-competitive execution may cause them to be effected at off-market prices, which could lead to significant losses if a Clearing Member defaults on the related settlement obligations.²⁸

As proposed, an exception to the uniform acceptance and novation timing would also be made for Confirmed Trades that are Backloaded OTC Options, which are defined as OTC Options for which the premium payment date is prior to the business day on which the transaction is submitted to OCC for clearing.²⁹ OCC believes an exception for Backloaded OTC Options remains necessary because of their “backloaded” nature, which means that the premium payment has already been made. In addition, Backloaded OTC Options are subject to being non-competitively executed and therefore present the same heightened settlement default risk that is discussed above regarding other non-competitively executed transactions. However, in contrast to those other types of non-competitively executed transactions, OCC is not able to immediately validate a Backloaded OTC Options transaction or check its price reasonability upon submission. Therefore, OCC believes it remains appropriate to delay acceptance and novation for these contracts until the selling Clearing Member has met its regular morning settlement obligations on the business day following trade reporting.

Provisional Information Regarding Confirmed Trades

²⁸ OCC also proposes to add new Interpretation and Policy .05 to provide that OCC will not treat an EFP or block trade as a noncompetitively executed trade subject to Article XII, Section 7 of the By-Laws if the Exchange on which such trade is executed has made representations satisfactory to OCC that the Exchange has rules, policies or procedures that require each EFP and block trade that is submitted to OCC to be executed at a reasonable price and that such price is validated by the Exchange. This new Interpretation and Policy to Rule 401 would reiterate current Interpretation and Policy .04 to Article XII, Section 7 of the By-Laws to provide additional clarity in the Rules around the acceptance and novation time for competitively executed EFPs and block trades.

²⁹ See Article I, Section 1.B.(1) of the OCC By-Laws.

OCC proposes that its acceptance and novation time would no longer be tied to publication of a Daily Position Report as OCC's acceptance of a Confirmed Trade would instead be reflected in the position information that OCC makes available to Clearing Members throughout the business day. OCC therefore proposes to amend Interpretation and Policy .01 to Rule 501 to: (1) clarify that OCC makes updated position data reflecting accepted and novated trades available to its Clearing Members throughout the day; and (2) remove from that provision a statement that Clearing Members must rely on the Daily Position Report for definitive information regarding their positions.

Hedge Loans and Market Loans

In addition to its clearance and settlement of Confirmed Trades, OCC also acts as a CCP for certain stock lending transactions that are part of its Stock Loan/Hedge Program and Market Loan Program. OCC proposes to amend its Stock Loan/Hedge Program and Market Loan Program Rules to better describe OCC's process for accepting Hedge Loans and Market Loans and to appropriately harmonize certain provisions governing each type of Stock Loan.³⁰

Hedge Loans are initiated as stock lending transactions that are negotiated and settled between Clearing Members at The Depository Trust Company ("Depository") before they are reported to OCC. Rule 2202(b) provides that OCC must generally accept these stock lending transactions upon receipt of a report from the Depository that shows a completed transaction.³¹ However, OCC *may* reject a transaction if it determines that it is: (1) not in accordance with OCC's By-Laws or Rules; (2) one or both account numbers specified are invalid for Hedge

³⁰ See OCC Rules 2202(b); 2202A(b), (c).

³¹ OCC is not obligated to accept the stock lending transactions of a Clearing Member that has been suspended by the Depository. See OCC Rule 2210(a). The same condition applies regarding Market Loans. See OCC Rule 2210A(a).

Loans; or (3) the information provided by the Depository contains errors or omissions.

Moreover, Rule 2202(b) provides that if OCC does not affirmatively reject a reported transaction by such a time as OCC is authorized to specify from time to time then the transaction is deemed accepted as a Hedge Loan. Upon acceptance, OCC becomes the lender to the Borrowing Clearing Member and the borrower to the Lending Clearing Member. Although OCC has discretion during each business day to make provisional information available to Clearing Members regarding their lending and borrowing activity, only the Stock Loan Mark to Market Activity Report is recognized as providing definitive Hedge Loan positions.³²

OCC proposes to amend Rule 2202(b) to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day and would delete the statement that a transaction is deemed accepted by a particular cut off time if OCC does not affirmatively notify Clearing Members of a rejection. Rule 2202(b) would instead state that OCC generally accepts completed transactions reported to it unless: (1) OCC is otherwise required to reject a transaction because it is not in accordance with the By-Laws or Rules; (2) one or both account numbers specified are invalid; or (3) the information provided contains unresolved errors or omissions. OCC believes these changes would help clarify the time at which Hedge Loans are accepted and the specific circumstances in which Hedge Loans will be rejected. As described below, the change would also ensure consistency between parallel provisions in the Stock Loan/Hedge Program and Market Loan Program regarding the initiation process that OCC believes should apply equally. Finally, a reference to the Stock Loan Market to Market Activity Report being the only definitive statement of positions would be deleted because Hedge Loan positions would be definitive upon acceptance in OCC's clearing system.

³² See Rule 2202, Interpretation and Policy .01.

In connection with the Market Loan Program initiation process, the Depository also sends information to OCC regarding completed stock lending transactions. Rule 2202A(b) provides that upon OCC's receipt of an end of day stock loan activity file from the Depository OCC must accept the transactions as Market Loans unless it is required to reject them for the same reasons described above concerning Hedge Loans. The Rule further provides that, upon OCC's affirmative acceptance, OCC becomes the lender to the Borrowing Clearing Member and the borrower to the Lending Clearing Member.

As with the proposed changes to the Stock Loan Hedge Program, OCC proposes to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day. OCC also proposes to delete a reference to affirmative acceptance in Rule 2202A(b) because the other proposed changes would clarify that acceptance will generally take place automatically unless OCC is specifically required to reject transactions due to the deficiencies described above. A conforming change would also be made in this regard in Rule 2202A(c). References to the definitive nature of the Stock Loan Mark to Market Activity Report would be deleted for the same reasons described above regarding Hedge Loans.

Streamlining and Reorganization

As part of its continued efforts to streamline its By-Laws and Rules, OCC proposes to relocate certain provisions from Article VI, Sections 4 through 8 of the By-Laws to Chapter IV of the Rules. This would promote a centralized location for provisions that address trade reporting and novation. OCC also proposes to consolidate certain provisions in Chapter IV of the Rules to eliminate redundancy. These proposed organizational changes are summarized below.

Article VI, Section 4 of OCC's By-Laws regarding a Purchasing Clearing Member's

obligations with respect to a Confirmed Trade would be relocated, without amendment, to a new Rule 403. Article VI, Section 5 of the By-Laws regarding OCC's obligations with respect to a Confirmed Trade would be amended, as described above, and incorporated into existing Rule 401 and new Rule 404. Article VI, Section 6 of the By-Laws regarding the issuance of cleared contracts would be amended as described above and relocated to a new Rule 405. Article VI, Section 7 of the By-Laws regarding the reporting of confirmed trades would be relocated and incorporated into Rule 401. More specifically, Article VI, Section 7(b) of the By-Laws would become Rule 401(e), Section 7(c) would become Rule 401(f), and Interpretation and Policy .01 to Section 7 would become Interpretation and Policy .03 to Rule 401. Article VI, Section 8 of the By-Laws regarding payments made to OCC would be amended as described above and relocated to new Rule 406. To accommodate these new rules in Chapter IV, current Rule 403 would be renumbered as 407, and current Rule 405 would be renumbered as Rule 408. Cross-references would also be updated to reflect this renumbering throughout Chapter IV of the Rules, as well as in Article I, Section 1.G.(3) and (4), Article VI, Section 2, and Article XVII, Sections 2(a) and 2(c)(1) of the By-Laws, and Rules 504(e), 504(g), and 611(a).

Additionally, OCC proposes to delete existing Rule 404 regarding the reporting of confirmed trades in OTC Options and to incorporate its substance into Rule 401 in order create a more centralized trade reporting rule. This incorporation of Rule 404 into Rule 401 would require the addition of references to OTC Trade Sources in Rule 401(a) and (b), and the merger of language from Rule 404(b) into Rule 401(b) and from Rule 404(c) into Rule 401(d).

Elimination of Dormant Products and Rules

OCC proposes to delete certain provisions from its By-Laws and Rules that only apply to cross-rate foreign currency options and flexibly-structured index options denominated in a

foreign currency because OCC no longer clears and settles such products. These products, when they were still actively cleared and settled, were subject to delayed novation, so OCC believes eliminating the rules governing these products at this time would reduce confusion related to the adoption of the proposed changes described herein concerning trade acceptance and novation timing. Consequently, OCC proposes to delete Articles XX and XXIII of its By-Laws and Chapters XXI and XXIV of its Rules, which govern each of those products, respectively. Additionally, OCC proposes to eliminate all other references to such products throughout its By-Laws and Rules, including in Section 1(d) of Article V, and Interpretation and Policy .03 to Section 1 of Article V of the By-Laws and Rules 607, 1107(a)(3) and 1107(a)(4), as well as in the definitions of Option Contract, Trading Currency and Underlying Currency in Article I of the By-Laws.

OCC also proposes to delete Rule 402 concerning the supplementary reporting of Confirmed Trades. Under Rule 402, in certain extraordinary circumstances, OCC may in its discretion accept from an Exchange after the cut-off time for receiving Confirmed Trade information for a particular business day (“trade date”) supplementary Confirmed Trade information reflecting the comparison of additional trades executed on or before the trade date that remained unconfirmed at the cut-off time. Rule 402 was adopted at a time when OCC received matched trade information from Exchanges for a given trade date in a single batch submission after the close of the trading day.³³ Under this old process, trades that remained unmatched when an Exchange prepared its nightly trade tape to OCC were omitted from the tape and, if a trade was subsequently matched, the Exchange reported the trade to OCC the following

³³ See Filing and Order Granting Accelerated Approval of Proposed Rule Change of Options Clearing Corporation, Securities Exchange Act Release No. 21233 (August 10, 1984) (SR-OCC-84-12).

night to be processed as if it had not been executed until the date when it was reported. Rule 402 was adopted to accommodate the late submission of trades that had not been matched in time to be submitted on the Exchange's original trade tape, thereby allowing those trades to be processed as if they were submitted on their original trade date. OCC is proposing to delete Rule 402 because it is no longer applicable to OCC's current clearing processes, whereby OCC continuously receives matched trade information from Exchanges on a real-time basis.

B. Statutory Basis

Section 17A(b)(3)(F) of the Act³⁴ requires, among other things, that the rules of a clearing agency be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, promote the prompt and accurate clearance and settlement of securities and derivatives transactions, and, in general, protect investors and the public interest. The proposed rule change is intended to provide a clear and uniform acceptance and novation time for nearly all Confirmed Trades and to clarify the acceptance and novation timing regarding Stock Loans by creating greater certainty regarding the time at which novation occurs and such Confirmed Trades and Stock Loans may no longer be rejected by OCC. Under the newly proposed uniform acceptance time, OCC would deem nearly all Confirmed Trades to be accepted and simultaneously novated when they are reported to OCC, provided that the transaction information reported to OCC by the Exchange or OTC Trade Source first passes OCC's validation procedures and is provided to OCC at such time as OCC prescribes. In addition, the proposed rule change also would eliminate certain dormant rules that are no longer applicable to OCC's clearance and settlement services and processes. As a result, OCC believes that the proposed rule change would provide greater clarity and transparency to Clearing

³⁴ 15 U.S.C. 78q-1(b)(3)(F).

Members, other users of OCC, and the general public regarding OCC's processes for the reporting of transactions, acceptance, and novation. OCC therefore believes that the proposed rule change is designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, promote the prompt and accurate clearance and settlement of securities and derivatives transactions, and, in general, protect investors and the public interest in accordance with Section 17A(b)(3)(F) of the Act.³⁵

In addition, Rule 17Ad-22(e)(1)³⁶ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. First, the proposed rule change would provide a clear and uniform time regarding OCC's acceptance and novation for nearly all Confirmed Trades and clarify OCC's acceptance and novation process regarding Stock Loans. Achieving this outcome by, among other things, eliminating the use of the term Commencement Time and the current structure in which users must parse through a number of By-Law and Rule provisions to identify the time at which novation occurs would help ensure that OCC has a well-founded, clear, transparent, and enforceable legal basis regarding the rights and obligations of OCC and Clearing Members in respect of the reporting of transactions, acceptance, and novation. Second, OCC also believes that the proposal to streamline and reorganize provisions concerning transaction reporting, acceptance, and novation is consistent with Rule 17Ad-22(e)(1)³⁷ because consolidating them in Chapter IV of the Rules would promote readability and therefore allow the

³⁵ Id.

³⁶ 17 CFR 240.17Ad-22(e)(1).

³⁷ Id.

provisions to be more easily understood. OCC believes this same purpose of promoting clarity and readability would also be furthered by eliminating By-Law and Rule provisions that concern certain dormant products that are no longer cleared and settled by OCC or that concern processes no longer supported by OCC.

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

Section 17A(b)(3)(I) of the Act³⁸ requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC does not believe that the proposed rule change would impact or impose any burden on competition. The proposed rule change is designed to provide more clarity and transparency to, and therefore foster cooperation and coordination among, Clearing Members, other users of OCC, and the general public regarding OCC's processes regarding the reporting of transactions, acceptance and novation. This proposed rule change would not inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another, and it would be applied uniformly to all Clearing Members. For the foregoing reasons, OCC believes the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies and would not impact or impose a burden on competition.

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

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

Item 6. Extension of Time Period for Commission Action

³⁸ 15 U.S.C. 78q-1(b)(3)(I).

OCC does not consent to an extension of the time period for Commission action on the proposed rule change.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

Item 11. Exhibits

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

Exhibit 5A. OCC By-Laws

Exhibit 5B. OCC Rules

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

THE OPTIONS CLEARING CORPORATION

By: _____
Justin W. Byrne
Vice President, Regulatory Filings

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-[_____]; File No. SR-OCC-2018-007)

March __, 2018

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Related to The Options Clearing Corporation's Trade Acceptance and Novation Rules

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 March 23, 2018, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by OCC. 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

The proposed rule change by OCC concerns modifications to OCC's By-Laws and Rules to: (1) clarify the time at which OCC accepts and novates the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to acceptance, novation and trade reporting; and (3) delete provisions that apply only to certain dormant products that OCC no longer clears and settles or that are no longer applicable to OCC's current clearing processes.

The proposed amendments to OCC's By-Laws and Rules can be found in Exhibits 5A and 5B to the filing, respectively. Material proposed to be added to OCC's By-Laws

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

and Rules as currently in effect is marked by underlining and material proposed to be deleted is marked with strikethrough text. Because proposed Rules 403 through 406 in Chapter IV are new and are based on provisions relocated from Article VI of OCC's By-Laws, underlining and strikethrough text have been omitted with respect to those rules in order to enhance their readability.

All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in the By-Laws and Rules.³

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

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

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

(1) Purpose

The purpose of this proposed rule change is to amend OCC's By-Laws and Rules to: (1) clarify the time at which OCC accepts and novates⁴ the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to trade reporting and novation; and (3) delete provisions that apply only to certain dormant products that OCC

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

⁴ In this context, novation is the process through which OCC is substituted as the buyer to the seller and the seller to the buyer for each cleared contact.

no longer clears and settles or that are no longer applicable to OCC's current clearing processes.

Background

Acceptance and Novation Timing

Specifying a clear time at which OCC accepts transactions for clearance and settlement is important to Clearing Members because that is the time under OCC's By-Laws and Rules at which the following events occur: (1) OCC is substituted through novation as the central counterparty ("CCP") to each Clearing Member that was an initial party to the transaction; (2) the rights of the initial Clearing Member parties to the transaction become solely as against OCC; and (3) OCC becomes obligated to each Clearing Member in accordance with the By-Laws and Rules.⁵ Acceptance of transactions is important to Clearing Members because, among other things, settlement obligations associated with transactions that OCC accepts and novates are generally guaranteed by OCC based upon certain financial safeguards it maintains as a CCP consistent with its responsibilities under the Act and relevant regulations thereunder.⁶

Current Acceptance and Novation of Confirmed Trades

Under OCC's current By-Laws and Rules, a user must parse through a number of definitions and provisions in various locations to identify that time at which acceptance and novation occur. The term Confirmed Trade is defined in OCC's By-Laws to include all of the products for which OCC currently provides clearance and settlement services,

⁵ See, e.g., Article VI, Section 5 of the By-Laws.

⁶ See generally 15 U.S.C. 78q-1; 17 CFR 240.17Ad-22.

with the exception of certain Stock Loan⁷ transactions. Under OCC's current By-Laws, a Confirmed Trade⁸ is novated upon OCC's acceptance, but acceptance is not deemed to occur until a designated Commencement Time. Commencement Time is defined differently for different products that meet the definition of a Confirmed Trade, but Article VI, Section 5 of the By-Laws (regarding OCC's obligations) generally defines it as the time at which OCC makes available to Clearing Members a Daily Position Report reflecting the Confirmed Trade.⁹ Pursuant to Article VI, Section 7 of the By-Laws (regarding the reporting of Confirmed Trades) this acceptance is subject to the condition that the Exchange or OTC Trade Source on which the transaction occurred has reported to OCC, during such times as OCC has prescribed, certain information regarding the Confirmed Trade and that such information passes OCC's initial validation checks.

Under Article VI, Section 8 of the By-Laws, OCC generally has no right (other than regarding certain types of Confirmed Trades discussed below) to reject a Confirmed Trade due to the failure of the Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. This means that transactions in most products that are Confirmed Trades will inevitably be accepted for clearing and novated at the

⁷ See Article I, Section 1.S.(21) of the By-Laws. The term Stock Loan may refer to either a Hedge Loan that is part of OCC's Stock Loan/Hedge Program or a Market Loan that is part of OCC's Market Loan Program. Matters regarding the acceptance and novation of these products is addressed separately below.

⁸ Under OCC's By-Laws, a Confirmed Trade is defined as "a transaction for the purchase, writing, or sale of a cleared contract, or for the closing out of a long or short position in a cleared contract, that is (i) effected on or through the facilities of an Exchange and submitted to the Corporation for clearance or (ii) affirmed through the facilities of an OTC Trade Source and submitted to the Corporation for clearance."

⁹ This typically occurs at the end of each business day.

Commencement Time simply due to the passage of time.¹⁰ Therefore, most Confirmed Trades are functionally novated under the current By-Laws and Rules upon proper submission to OCC for clearing.

Different Commencement Times and Rejection Rights for Certain Confirmed Trades

Certain categories of Confirmed Trades, however, are not subject to the general Commencement Time described above, and OCC retains certain rights to reject such transactions. Specifically, Article VI, Section 5 of the By-Laws excludes the products described below from the general Commencement Time and alternate definitions of Commencement Time are set forth as follows:

- (1) Futures issued in exchange-for-physical transactions,¹¹ block trades,¹² or other trades designated as non-competitively executed – the time after the transaction is reported to OCC that OCC receives the first variation settlement payment,¹³

¹⁰ An Exchange or OTC Trade Source, however, may instruct OCC to disregard a transaction that it previously reported as a Confirmed Trade “because of a subsequent determination that (i) the trade information submitted by the Purchasing Clearing Member and Selling Clearing Member did not agree, (ii) the trade information did not contain all the information required by the Corporation as set forth in the By-Laws and Rules, or (iii) new or revised trade information was required to properly clear the transaction.” See Article VI, Section 7 of the OCC By-Laws. This authority would be preserved and relocated into OCC’s Rules in connection with the proposed changes described herein.

¹¹ An exchange-for-physical transaction (or “EFP”) is a transaction between two parties in which a futures contract on a commodity or security is exchanged for the actual physical good.

¹² A block trade is a trade involving a large number of shares being traded at an arranged price between parties, outside of the open markets, in order to lessen the impact of such a large trade being made public.

¹³ See Article XII, Section 7 of the OCC By-Laws.

(2) Cross-rate FX options and FX index options – the time that is three hours following the settlement time of the Confirmed Trade in which such contract was purchased;¹⁴ and

(3) OTC Options (other than Backloaded OTC Options) – the time when a report of OCC’s acceptance is made available to Clearing Members through OCC’s clearing system.¹⁵

For Backloaded OTC Options, the transaction is not accepted until the Selling Clearing Member has met its regular morning settlement obligation on the business day following the reporting of the trade to OCC.¹⁶

In addition to the separate Commencement Times for these types of Confirmed Trades, OCC also currently has certain authority to reject such trades due to the failure of the Purchasing Clearing Member to pay an amount due to OCC at or before the applicable settlement time.¹⁷ In contrast to most other types of Confirmed Trades, this means that OCC continues to have authority to reject these transactions even after they are properly submitted for clearing. OCC’s authority to reject these types of Confirmed Trades arises under the following circumstances:

¹⁴ See Articles XX, Section 1 and XXIII, Section 1 of the OCC By-Laws.

¹⁵ See Article VI, Section 5 of the OCC By-Laws.

¹⁶ Id.

¹⁷ See generally Article VI, Section 8 of the OCC By-Laws identifying these exceptions.

- (1) Futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed – in the event OCC fails to receive any variation payment due in the accounts of the Clearing Members;¹⁸
- (2) Cross-rate FX options and FX index options – in the event OCC fails to receive from the Purchasing Clearing Member premiums denominated in the proper trading currency in the account in which the transaction is effected;¹⁹ and
- (3) Backloaded OTC Options – in the event the Selling Clearing Member does not meet its regular morning settlement obligation on the business day following the reporting of the trade to OCC.²⁰

Proposed Changes to Acceptance and Novation Rules

Proposed Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades

To provide greater certainty and clarity to Clearing Members and other interested parties regarding the acceptance and novation timing for transactions that OCC clears and settles, OCC is proposing to amend the substance of Article VI, Section 5 of the By-Laws²¹ to set forth a uniform acceptance and novation time for nearly all Confirmed Trades. As described in more detail below, OCC would retain exceptions from the uniform acceptance and novation time for Confirmed Trades in Backloaded OTC Options

¹⁸ See Article XII, Section 7 of the By-Laws.

¹⁹ See Article XX, Section 5, Article XXIII, Section 7 of the By-Laws.

²⁰ See Article VI, Section 8 of the By-Laws. In addition, OCC will not accept a Backloaded OTC Option for clearing if OCC receives it from the OTC Trade Source after 4 p.m. Central on the business day that is four business days prior to its expiration.

²¹ As described below under the heading *Reorganization*, OCC also proposes to relocate the provisions currently in Article VI, Section 5 of the By-Laws to Rules 401 and 404.

and Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed.

To accomplish this, OCC proposes to eliminate the concept of Commencement Time and instead deem nearly all Confirmed Trades to be accepted and simultaneously novated when they are reported to OCC and the related position information has been recorded in OCC's clearing system (which occurs on a real-time basis).²² This would, however, be subject to the condition that the required transaction information reported to OCC by the Exchange or OTC Trade Source first passes OCC's validation procedures²³ and is provided to OCC at such time as OCC prescribes. OCC believes this change provides a more clear indication of the point after which OCC does not have authority to reject such transactions for clearing.²⁴ Eliminating the concept of Commencement Time also necessitates the deletion of the term from the defined terms that appear in Article I, Section 1 of the By-Laws and replacing all references to Commencement Time with references to the time at which OCC accepts a transaction for clearing. This change requires amendments to OCC's By-Laws, specifically, amendments to the Article I

²² OCC notes that upon acceptance and recording of position information in OCC's ENCORE clearing system, Clearing Members have the ability to see the trades they are responsible for via position information screens in the ENCORE system and through real-time messaging.

²³ All inbound trades to OCC are subject to coded validation of the required fields for trades. These fields contain the critical details of the trade. These details include, but are not limited to, the trade source, symbol, expiration, strike, call or put, quantity, price, and Clearing Member details of both sides of the trade.

²⁴ As described above, an Exchange or OTC Trade Source would continue to have the authority to instruct OCC to disregard a Confirmed Trade. See supra 10.

definition of “American; American-style,” Article VI, Sections 5 and 6,²⁵ Section 12 of Article VI, and Section 7 of Article XII.

As part of this proposed rule change, OCC also proposes to clarify the trade information required to be submitted by the participant Exchange to OCC as a condition to acceptance and novation. For options transactions, Rule 401(a)(1)(i) would provide that these terms include: (a) the identity of the Purchasing Clearing Member and Writing Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the trade price; (g) the security type; (h) the ticker symbol; (i) the series/contract date; (j) whether the trade is a put or a call; (k) the strike price; (l) whether the trade is a purchase or a sale; (m) the account type; (n) the allocation indicator, if applicable; (o) the CMTA indicator, if applicable; (p) the Give-Up Clearing Member, if applicable; (q) the trade type, including, in the case of futures options, whether the transaction is a block trade, exchange-for-physical, or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade; (r) in the case of OTC options transactions in a securities customers’ account, a unique customer ID for the customer for whom the trade was executed; and (s) in the case of OTC options, such other variable terms as provided in Section 6 of Article XVII of the By-Laws. In addition to the foregoing information that is required as a condition to OCC’s acceptance of the confirmed trade, Rule 401(a)(1)(ii)

²⁵ As described in more detail below, OCC proposes to relocate Article VI, Sections 5 and 6 to Rules 401, 404 and 405 to help streamline and reorganize provisions addressing trade reporting and novation.

would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.²⁶

For futures transactions, Rule 401(a)(2)(i) would provide that the required terms for acceptance and novation include: (a) the identity of the Purchasing Clearing Member and the Selling Clearing Member to the transaction; (b) the clearing date; (c) the transaction time; (d) the trade source; (e) the trade quantity; (f) the trade price; (g) the security type; (h) the ticker symbol; (i) the series/contract date; (j) whether the trade is a purchase or a sale; (k) the account type; (l) the allocation indicator, if applicable; (m) the CMTA indicator, if applicable; (n) the Give-Up Clearing Member, if applicable; and (o) whether the trade is an exchange-for-physical or block trade or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade. In addition to the foregoing information that is required as a condition to OCC's acceptance of the confirmed trade, Rule 401(a)(2)(ii) would provide that OCC may also request certain optional trade information that is not required as a condition for acceptance.

Reasons the Uniform Acceptance and Novation Timing for Nearly All Confirmed Trades is Appropriate

OCC believes that using a uniform approach for nearly all Confirmed Trades regarding acceptance and novation and reducing the complexity of related provisions would provide significantly greater clarity and transparency in OCC's legal framework for Clearing Members and other interested parties concerning the point at which OCC does not have authority to reject a transaction after it has been properly submitted to and

²⁶ OCC makes available to its participant Exchanges and Clearing Members the complete list of required and optional trade information in an inbound reference guide for Exchange trades.

validated by OCC. As described above, amending OCC's By-Laws and Rules to provide that nearly all Confirmed Trades are accepted and novated upon proper submission functionally would not change the time at which OCC becomes obligated regarding such Confirmed Trades because, upon proper submission, OCC has no right today to reject such transactions due to the failure of a Purchasing Clearing Member to pay any amount due to OCC at or before the settlement time. OCC generally does not collect margin with respect to such Confirmed Trades until 9:00 a.m. Central the following business day,²⁷ and therefore OCC already faces this same credit risk between the acceptance of the Confirmed Trades and the time that it collects margin from Clearing Members.

Accordingly, OCC believes that moving the novation time from the general Commencement Time to earlier in the day as described above – at the point of acceptance – would not alter the credit risk OCC faces with respect to such Confirmed Trades. In addition, OCC would continue to have the same authority that it does today to address any credit risk as necessary through intra-day margin collection.²⁸

OTC Options that are not Backloaded OTC Options are not currently subject to the general Commencement Time; however, OCC believes that applying the uniform acceptance and novation time to those transactions is appropriate. This is because under the current approach, acceptance and the Commencement Time both occur when a report is made available to Clearing Members within OCC's clearing system, and therefore this approach is already consistent with the proposed approach described herein. In practice,

²⁷ See Article I, Section 1.S.(16) of the By-Laws (defining the term “settlement time” in respect of a Clearing Member's obligation to pay amounts owed to OCC).

²⁸ See OCC Rule 609 (addressing OCC's authority to require intra-day margin).

OCC automatically makes a report available to Clearing Members in its clearing system regarding an OTC Option provided that it is properly reported to OCC, the contract passes OCC's validation process, and the contract is not rejected. All of this is generally completed immediately upon submission and therefore OCC does not believe there is any operational, risk management, or other reason for excluding OTC Options that are not Backloaded OTC Options from the proposed uniform acceptance and novation timing.²⁹

Proposed Exceptions to the Uniform Acceptance and Novation Timing

For other categories of Confirmed Trades that are not subject to the general definition of Commencement Time, OCC proposes to preserve the existing structure under which OCC has authority to reject the transactions even after they are properly submitted for clearing. An exception to the uniform acceptance and novation timing would be made for Confirmed Trades in futures issued in exchange-for-physical transactions, block trades, or other trades designated as non-competitively executed. OCC believes that delayed novation is still appropriate for such non-competitively executed transactions because there is a heightened risk that non-competitive execution may cause them to be effected at off-market prices, which could lead to significant losses if a Clearing Member defaults on the related settlement obligations.³⁰

²⁹ See Securities Exchange Act Release No. 68434 (December 14, 2012), 77 FR 75243 (December 19, 2012) (SR-OCC-2012-14 and AN-OCC-2012-01) (discussing the trade submission mechanics for OTC Options).

³⁰ OCC also proposes to add new Interpretation and Policy .05 to provide that OCC will not treat an EFP or block trade as a noncompetitively executed trade subject to Article XII, Section 7 of the By-Laws if the Exchange on which such trade is executed has made representations satisfactory to OCC that the Exchange has rules, policies or procedures that require each EFP and block trade that is submitted to OCC to be executed at a reasonable price and that such price is validated by the Exchange. This new Interpretation and Policy to Rule 401 would reiterate current Interpretation and Policy .04 to Article XII, Section 7 of the By-

As proposed, an exception to the uniform acceptance and novation timing would also be made for Confirmed Trades that are Backloaded OTC Options, which are defined as OTC Options for which the premium payment date is prior to the business day on which the transaction is submitted to OCC for clearing.³¹ OCC believes an exception for Backloaded OTC Options remains necessary because of their “backloaded” nature, which means that the premium payment has already been made. In addition, Backloaded OTC Options are subject to being non-competitively executed and therefore present the same heightened settlement default risk that is discussed above regarding other non-competitively executed transactions. However, in contrast to those other types of non-competitively executed transactions, OCC is not able to immediately validate a Backloaded OTC Options transaction or check its price reasonability upon submission. Therefore, OCC believes it remains appropriate to delay acceptance and novation for these contracts until the selling Clearing Member has met its regular morning settlement obligations on the business day following trade reporting.

Provisional Information Regarding Confirmed Trades

OCC proposes that its acceptance and novation time would no longer be tied to publication of a Daily Position Report as OCC’s acceptance of a Confirmed Trade would instead be reflected in the position information that OCC makes available to Clearing Members throughout the business day. OCC therefore proposes to amend Interpretation and Policy .01 to Rule 501 to: (1) clarify that OCC makes updated position data reflecting accepted and novated trades available to its Clearing Members throughout the day; and

Laws to provide additional clarity in the Rules around the acceptance and novation time for competitively executed EFPs and block trades.

³¹ See Article I, Section 1.B.(1) of the OCC By-Laws.

(2) remove from that provision a statement that Clearing Members must rely on the Daily Position Report for definitive information regarding their positions.

Hedge Loans and Market Loans

In addition to its clearance and settlement of Confirmed Trades, OCC also acts as a CCP for certain stock lending transactions that are part of its Stock Loan/Hedge Program and Market Loan Program. OCC proposes to amend its Stock Loan/Hedge Program and Market Loan Program Rules to better describe OCC's process for accepting Hedge Loans and Market Loans and to appropriately harmonize certain provisions governing each type of Stock Loan.³²

Hedge Loans are initiated as stock lending transactions that are negotiated and settled between Clearing Members at The Depository Trust Company ("Depository") before they are reported to OCC. Rule 2202(b) provides that OCC must generally accept these stock lending transactions upon receipt of a report from the Depository that shows a completed transaction.³³ However, OCC *may* reject a transaction if it determines that it is: (1) not in accordance with OCC's By-Laws or Rules; (2) one or both account numbers specified are invalid for Hedge Loans; or (3) the information provided by the Depository contains errors or omissions. Moreover, Rule 2202(b) provides that if OCC does not affirmatively reject a reported transaction by such a time as OCC is authorized to specify from time to time then the transaction is deemed accepted as a Hedge Loan. Upon acceptance, OCC becomes the lender to the Borrowing Clearing Member and the

³² See OCC Rules 2202(b); 2202A(b), (c).

³³ OCC is not obligated to accept the stock lending transactions of a Clearing Member that has been suspended by the Depository. See OCC Rule 2210(a). The same condition applies regarding Market Loans. See OCC Rule 2210A(a).

borrower to the Lending Clearing Member. Although OCC has discretion during each business day to make provisional information available to Clearing Members regarding their lending and borrowing activity, only the Stock Loan Mark to Market Activity Report is recognized as providing definitive Hedge Loan positions.³⁴

OCC proposes to amend Rule 2202(b) to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day and would delete the statement that a transaction is deemed accepted by a particular cut off time if OCC does not affirmatively notify Clearing Members of a rejection. Rule 2202(b) would instead state that OCC generally accepts completed transactions reported to it unless: (1) OCC is otherwise required to reject a transaction because it is not in accordance with the By-Laws or Rules; (2) one or both account numbers specified are invalid; or (3) the information provided contains unresolved errors or omissions. OCC believes these changes would help clarify the time at which Hedge Loans are accepted and the specific circumstances in which Hedge Loans will be rejected. As described below, the change would also ensure consistency between parallel provisions in the Stock Loan/Hedge Program and Market Loan Program regarding the initiation process that OCC believes should apply equally. Finally, a reference to the Stock Loan Market to Market Activity Report being the only definitive statement of positions would be deleted because Hedge Loan positions would be definitive upon acceptance in OCC's clearing system.

In connection with the Market Loan Program initiation process, the Depository also sends information to OCC regarding completed stock lending transactions. Rule 2202A(b) provides that upon OCC's receipt of an end of day stock loan activity file from

³⁴ See Rule 2202, Interpretation and Policy .01.

the Depository OCC must accept the transactions as Market Loans unless it is required to reject them for the same reasons described above concerning Hedge Loans. The Rule further provides that, upon OCC's affirmative acceptance, OCC becomes the lender to the Borrowing Clearing Member and the borrower to the Lending Clearing Member.

As with the proposed changes to the Stock Loan Hedge Program, OCC proposes to clarify that OCC receives and accepts completed transaction information from the Depository throughout the day. OCC also proposes to delete a reference to affirmative acceptance in Rule 2202A(b) because the other proposed changes would clarify that acceptance will generally take place automatically unless OCC is specifically required to reject transactions due to the deficiencies described above. A conforming change would also be made in this regard in Rule 2202A(c). References to the definitive nature of the Stock Loan Mark to Market Activity Report would be deleted for the same reasons described above regarding Hedge Loans.

Streamlining and Reorganization

As part of its continued efforts to streamline its By-Laws and Rules, OCC proposes to relocate certain provisions from Article VI, Sections 4 through 8 of the By-Laws to Chapter IV of the Rules. This would promote a centralized location for provisions that address trade reporting and novation. OCC also proposes to consolidate certain provisions in Chapter IV of the Rules to eliminate redundancy. These proposed organizational changes are summarized below.

Article VI, Section 4 of OCC's By-Laws regarding a Purchasing Clearing Member's obligations with respect to a Confirmed Trade would be relocated, without amendment, to a new Rule 403. Article VI, Section 5 of the By-Laws regarding OCC's

obligations with respect to a Confirmed Trade would be amended, as described above, and incorporated into existing Rule 401 and new Rule 404. Article VI, Section 6 of the By-Laws regarding the issuance of cleared contracts would be amended as described above and relocated to a new Rule 405. Article VI, Section 7 of the By-Laws regarding the reporting of confirmed trades would be relocated and incorporated into Rule 401. More specifically, Article VI, Section 7(b) of the By-Laws would become Rule 401(e), Section 7(c) would become Rule 401(f), and Interpretation and Policy .01 to Section 7 would become Interpretation and Policy .03 to Rule 401. Article VI, Section 8 of the By-Laws regarding payments made to OCC would be amended as described above and relocated to new Rule 406. To accommodate these new rules in Chapter IV, current Rule 403 would be renumbered as 407, and current Rule 405 would be renumbered as Rule 408. Cross-references would also be updated to reflect this renumbering throughout Chapter IV of the Rules, as well as in Article I, Section 1.G.(3) and (4), Article VI, Section 2, and Article XVII, Sections 2(a) and 2(c)(1) of the By-Laws, and Rules 504(e), 504(g), and 611(a).

Additionally, OCC proposes to delete existing Rule 404 regarding the reporting of confirmed trades in OTC Options and to incorporate its substance into Rule 401 in order to create a more centralized trade reporting rule. This incorporation of Rule 404 into Rule 401 would require the addition of references to OTC Trade Sources in Rule 401(a) and (b), and the merger of language from Rule 404(b) into Rule 401(b) and from Rule 404(c) into Rule 401(d).

Elimination of Dormant Products and Rules

OCC proposes to delete certain provisions from its By-Laws and Rules that only apply to cross-rate foreign currency options and flexibly-structured index options denominated in a foreign currency because OCC no longer clears and settles such products. These products, when they were still actively cleared and settled, were subject to delayed novation, so OCC believes eliminating the rules governing these products at this time would reduce confusion related to the adoption of the proposed changes described herein concerning trade acceptance and novation timing. Consequently, OCC proposes to delete Articles XX and XXIII of its By-Laws and Chapters XXI and XXIV of its Rules, which govern each of those products, respectively. Additionally, OCC proposes to eliminate all other references to such products throughout its By-Laws and Rules, including in Section 1(d) of Article V, and Interpretation and Policy .03 to Section 1 of Article V of the By-Laws and Rules 607, 1107(a)(3) and 1107(a)(4), as well as in the definitions of Option Contract, Trading Currency and Underlying Currency in Article I of the By-Laws.

OCC also proposes to delete Rule 402 concerning the supplementary reporting of Confirmed Trades. Under Rule 402, in certain extraordinary circumstances, OCC may in its discretion accept from an Exchange after the cut-off time for receiving Confirmed Trade information for a particular business day (“trade date”) supplementary Confirmed Trade information reflecting the comparison of additional trades executed on or before the trade date that remained unconfirmed at the cut-off time. Rule 402 was adopted at a time when OCC received matched trade information from Exchanges for a given trade

date in a single batch submission after the close of the trading day.³⁵ Under this old process, trades that remained unmatched when an Exchange prepared its nightly trade tape to OCC were omitted from the tape and, if a trade was subsequently matched, the Exchange reported the trade to OCC the following night to be processed as if it had not been executed until the date when it was reported. Rule 402 was adopted to accommodate the late submission of trades that had not been matched in time to be submitted on the Exchange's original trade tape, thereby allowing those trades to be processed as if they were submitted on their original trade date. OCC is proposing to delete Rule 402 because it is no longer applicable to OCC's current clearing processes, whereby OCC continuously receives matched trade information from Exchanges on a real-time basis.

(2) Statutory Basis

Section 17A(b)(3)(F) of the Act³⁶ requires, among other things, that the rules of a clearing agency be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, promote the prompt and accurate clearance and settlement of securities and derivatives transactions, and, in general, protect investors and the public interest. The proposed rule change is intended to provide a clear and uniform acceptance and novation time for nearly all Confirmed Trades and to clarify the acceptance and novation timing regarding Stock Loans by creating greater certainty regarding the time at which novation occurs and such

³⁵ See Filing and Order Granting Accelerated Approval of Proposed Rule Change of Options Clearing Corporation, Securities Exchange Act Release No. 21233 (August 10, 1984) (SR-OCC-84-12).

³⁶ 15 U.S.C. 78q-1(b)(3)(F).

Confirmed Trades and Stock Loans may no longer be rejected by OCC. Under the newly proposed uniform acceptance time, OCC would deem nearly all Confirmed Trades to be accepted and simultaneously novated when they are reported to OCC, provided that the transaction information reported to OCC by the Exchange or OTC Trade Source first passes OCC's validation procedures and is provided to OCC at such time as OCC prescribes. In addition, the proposed rule change also would eliminate certain dormant rules that are no longer applicable to OCC's clearance and settlement services and processes. As a result, OCC believes that the proposed rule change would provide greater clarity and transparency to Clearing Members, other users of OCC, and the general public regarding OCC's processes for the reporting of transactions, acceptance, and novation. OCC therefore believes that the proposed rule change is designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, promote the prompt and accurate clearance and settlement of securities and derivatives transactions, and, in general, protect investors and the public interest in accordance with Section 17A(b)(3)(F) of the Act.³⁷

In addition, Rule 17Ad-22(e)(1)³⁸ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. First, the proposed rule change would provide a clear and uniform time regarding OCC's acceptance and novation for nearly all Confirmed Trades and clarify OCC's acceptance and novation process regarding Stock

³⁷ Id.

³⁸ 17 CFR 240.17Ad-22(e)(1).

Loans. Achieving this outcome by, among other things, eliminating the use of the term Commencement Time and the current structure in which users must parse through a number of By-Law and Rule provisions to identify the time at which novation occurs would help ensure that OCC has a well-founded, clear, transparent, and enforceable legal basis regarding the rights and obligations of OCC and Clearing Members in respect of the reporting of transactions, acceptance, and novation. Second, OCC also believes that the proposal to streamline and reorganize provisions concerning transaction reporting, acceptance, and novation is consistent with Rule 17Ad-22(e)(1)³⁹ because consolidating them in Chapter IV of the Rules would promote readability and therefore allow the provisions to be more easily understood. OCC believes this same purpose of promoting clarity and readability would also be furthered by eliminating By-Law and Rule provisions that concern certain dormant products that are no longer cleared and settled by OCC or that concern processes no longer supported by OCC.

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

Section 17A(b)(3)(I) of the Act⁴⁰ requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. OCC does not believe that the proposed rule change would impact or impose any burden on competition. The proposed rule change is designed to provide more clarity and transparency to, and therefore foster cooperation and coordination among, Clearing Members, other users of OCC, and the general public regarding OCC's processes regarding the reporting of transactions, acceptance and novation. This

³⁹ Id.

⁴⁰ 15 U.S.C. 78q-1(b)(3)(I).

proposed rule change would not inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another, and it would be applied uniformly to all Clearing Members. For the foregoing reasons, OCC believes the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies and would not impact or impose a burden on competition.

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

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

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

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

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

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

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-OCC-2018-007 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-OCC-2018-007. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <https://www.theocc.com/about/publications/bylaws.jsp>.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information

from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2018-007 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.⁴¹

Secretary

⁴¹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5A



By-Laws

Underlined text indicates new text

~~Strikethrough~~ text indicates deleted text

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) – (7) [No change]

American; American-style

(8) The term “American” or “American-style,” used in respect of an option contract other than a delayed-start option contract, means that the option contract may be exercised, subject to the provisions of the By-Laws and Rules, at any time from its ~~commencement time~~ acceptance by the Corporation until its expiration. When used in respect of a delayed start option contract, the term means that the delayed start option contract may be exercised, subject to the provisions of the By-Laws and Rules, at any time after its exercise price has been set until its expiration.

(9) – (16) [No change]

* * *

C.

(1) – (23) [No change]

~~Commencement Time~~

~~(24) The term “commencement time” has the meaning given in Section 5 of Article VI.~~

(25) – (39) [No change, but renumbered as (24) – (38)]

* * *

G.

(1) – (2) [No change]

Given-Up Clearing Member

(3) The term “Given-Up Clearing Member” means a Clearing Member that has authorized a Giving-Up Clearing Member to allocate positions to its account in accordance with Rule

~~405408.~~

Giving-Up Clearing Member

(4) The term “Giving-Up Clearing Member” means a Clearing Member that has been authorized by a Given-Up Clearing Member to allocate positions to the latter’s account in accordance with Rule ~~405408.~~

(5) – (6) [No change]

* * *

O.

(1) – (3) [No change]

Option Contract

(4) The term “option contract” or “option” means a put option, a call option, a binary option, a range option or a packaged spread option (as defined in Article XXVI of the By-Laws) issued by the Corporation pursuant to the By-Laws and Rules. The term “stock option contract” means a put or a call, as defined in this Article I for which the underlying security is an equity security, including fund shares, or an index-linked security. The term “Treasury securities option contract” means a put or a call, as defined in Article XIII of the By-Laws. The term “yield-based Treasury option contract” means a put or a call, as defined in Article XVI of the By-Laws. The term “debt securities option contract” means a Treasury securities option contract. The term “foreign currency option contract” means a put or a call, as defined in Article XV of the By-Laws. ~~The term “cross-rate foreign currency option contract” means a put or a call, as defined in Article XX of the By-Laws.~~ The term “cash-settled foreign currency option contract” means a put or a call, as defined in Article XXII of the By-Laws. The term “index option contract” means any option contract the underlying interest of which is a securities index or commodities index. The term “cash-settled option contract” means any option contract that is settled upon exercise by payment of cash rather than delivery of, and payment for, the underlying interest. The term “non-equity securities option contract” means a debt securities option contract (other than an option on an index-linked security), a foreign currency option contract, ~~a cross-rate foreign currency option contract,~~ a cash-settled option contract, or a futures option. The term “futures option” means any option to buy or sell any commodity futures contract traded on, through the facilities of, or subject to the rules of a futures market.

* * *

T.

(1)– (2) [No change]

Trading Currency

(3) The term “trading currency” means the currency in which premium and/or exercise prices are denominated for a class of foreign currency options ~~or cross-rate foreign currency options~~. Premium and exercise price are ordinarily denominated in the same currency; but in the case of certain classes of options, the premium may be denominated in the underlying currency. In such cases, the term “trading currency” may refer to the currency in which the premium is denominated, the currency in which the exercise price is denominated, or both of them, as the context requires. For clarity, the currency in which the premium is denominated is sometimes referred to as the premium currency, and the currency in which the exercise price is denominated is sometimes referred to as the exercise currency.

(4) – (8) [No change]

U.

Underlying Currency

(1) The term “underlying currency” means the currency which is required to be delivered upon the exercise of a class of foreign currency ~~or cross-rate foreign currency~~ options.

* * *

Article VI - Clearance of Confirmed Trades

* * *

Responsibility of Clearing Members for Confirmed Trades

SECTION 2. Every Clearing Member shall be responsible for the clearance of the confirmed trades of the Clearing Member and the confirmed trades transferred to one of its accounts pursuant to a registered CMTA arrangement as further specified in Rule ~~403~~ 407.

* * *

~~Obligation of Purchasing Clearing Members~~¹

SECTION 4. ~~[Reserved]The Purchasing Clearing Member in a confirmed trade in respect of a cleared contract other than a future shall be obligated to pay the Corporation the amount of the premium agreed upon in such transaction. In the event that the Corporation fails to receive such payment at or before the settlement time, the Corporation shall have the right to apply any funds credited to accounts of the Clearing Member with the Corporation or that are otherwise in the~~

¹ Art. VI, Sec. 4 is being moved to new Rule 403.

possession or at the disposal of the Corporation to the payment of such premium; provided, however, that the Corporation shall not apply funds in a customers' account, segregated futures account (including a segregated futures professional account), customers' lien account, Market-Maker's account (if the Market-Maker is a customer) or in a combined Market-Makers' account (if the Market-Makers are customers) for the payment of premiums on transactions in any account other than such account. Notwithstanding any other provision of the By-Laws or Rules, if the Corporation accepts an opening purchase transaction in an account at a time when the Corporation has not received payment of all amounts due from the Purchasing Clearing Member in respect of such account, the long position resulting from the acceptance of such transaction by the Corporation shall be deemed to be an unsegregated long position, and the Corporation shall have the right to close out or, in the case of options, to exercise such long position and to apply the proceeds in accordance with Chapter XI of the Rules.

Obligations of the Corporation²

SECTION 5. [Reserved] Upon the acceptance of a confirmed trade by the Corporation, the Corporation shall be substituted through novation as the buyer to the seller and the seller to the buyer, the rights of the parties to such transaction shall be solely against the Corporation and the Corporation shall be obligated to the parties in accordance with the provisions of the By-Laws and the Rules. Subject to Sections 7 and 8 of this Article VI, a confirmed trade shall be deemed to have been accepted by the Corporation at the commencement time specified in this Section 5 for such confirmed trade. Except as provided (i) in Section 7 of Article XII in respect of futures issued in exchange for physical transactions, block trades, or other trades designated by a futures market or security futures market reporting the trades as non-competitively executed trades, (ii) in Section 1 of Article XX in respect of cross-rate foreign currency options, (iii) in Section 1 of Article XXIII in respect of foreign currency index options, and (iv) in this Section 5 in respect of OTC options, the commencement time for a cleared contract is the time at which the Corporation makes available to the Purchasing Clearing Member and the Selling Clearing Member Daily Position Reports reflecting the confirmed trade in which such cleared contract was purchased, provided that the commencement time for a cleared contract in respect of which the Corporation receives confirmed trade information on the expiration date or maturity date for such contract, or if such date is not a business day, on the immediately preceding business day, means the close of trading on the Exchange on which such transaction was effected on such expiration or maturity date or immediately preceding business day, as the case may be. The acceptance of confirmed trades in, and the commencement time for, an OTC option shall be the time at which the Corporation's report of its acceptance of the confirmed trade relating to such OTC option is made available to the Clearing Member within the Corporation's clearing system; provided, however, that in the case of a confirmed trade in a Backloaded OTC option, such a confirmed trade shall not be deemed accepted, and may be rejected, by the Corporation until the Selling Clearing Member has met its regular morning cash settlement obligations to the Corporation on the following business day. A Backloaded OTC option will not be accepted for clearing by the Corporation if the Corporation receives such Backloaded OTC option from the relevant OTC

² An amended version of Art. VI, Sec. 5 is being moved to new Rules 401 and 404.

~~Trade Source after 4:00 P.M. Central Time (5:00 P.M. Eastern Time on the business day that is four business days prior to the expiration date of the Backloaded OTC option.~~

~~Upon the acceptance of a confirmed trade in respect of cleared contracts, the Corporation shall be obligated as follows:~~

~~(a) In an opening purchase transaction, the Corporation shall be obligated to issue to the Purchasing Clearing Member the number of cleared contracts purchased in such transaction.~~

~~(b) In a closing purchase transaction, the Corporation shall be obligated to reduce the Purchasing Clearing Member's short position in the cleared security in which the transaction was effected by the number of contracts purchased in such transaction.~~

~~(c) In an opening or closing writing transaction, the Corporation shall be obligated to pay, at the time and in the manner specified by the Rules, the Writing Clearing Member the amount of the premium agreed upon in such transaction.~~

~~... **Interpretations and Policies:**~~

~~.01 The Corporation will accept for clearing confirmed trades in flexibly structured options and flexibly structured security futures, provided that the variable terms of the contract comply with any limitations on such variable terms published by the Corporation from time to time by notice to the Exchanges that have clearing agreements with the Corporation.~~

Issuance of Cleared Contracts³

~~SECTION 6. **[Reserved]**The Corporation shall be the issuer of all cleared contracts purchased in confirmed trades. Subject to the provisions of Sections 7 and 8 of this Article VI, a cleared contract shall be issued by the Corporation in every opening purchase transaction at the commencement time for such transaction. Any such cleared contract shall carry the rights and obligations set forth in the By Laws and Rules applicable to the particular cleared contract and shall contain the variable terms as agreed upon by the Purchasing Clearing Member and Selling Clearing Member (or by Exchange Members authorized to give up the names of such Clearing Members), as shown on the trade information filed by them with the Exchange on which such opening purchase transaction occurred or the OTC Trade Source through which such transaction was affirmed and which is transmitted to the Corporation in a report of confirmed trades submitted by such Exchange or OTC Trade Source. (In the event of a discrepancy between the trade information filed with the Exchange or OTC Trade Source and the information reported to the Corporation, the latter shall govern as between the Clearing Member and the Corporation.) Unless and until a cleared contract is issued as provided by the By Laws, the Corporation shall have no obligation in respect thereof.~~

³ An amended version of Art. VI, Sec. 6 is being moved to new Rule 405.

~~... Interpretations and Policies:~~

~~.01 The Corporation is substituted through novation as the buyer to every seller and the seller to every buyer and is the obligor to the extent set forth in the Rules with respect to obligations owing to persons having positions in cleared contracts. With respect to cleared securities, OCC is deemed to be the “issuer” as that term is defined in Section 2(a)(4) of the Securities Act of 1933 and Section 3(a)(8) of the Securities Exchange Act of 1934. OCC serves the same functional role with respect to cleared contracts that are governed by the Commodity Exchange Act, and the terms “issuer,” “issuance,” etc. are therefore used to refer to OCC’s role with respect to all cleared contracts.~~

Reporting of Confirmed Trades⁴

SECTION 7. ~~[Reserved]~~(a) ~~The acceptance of every confirmed trade and the issuance of every cleared contract by the Corporation as provided in Sections 5 and 6 of this Article VI shall be subject to the condition that the Exchange or OTC Trade Source on which such transaction occurred or was affirmed shall have reported to the Corporation, during such times as the Corporation shall prescribe, confirmed trade information with respect to such transaction showing that the trade information submitted by the Purchasing Clearing Member and the Selling Clearing Member agree:~~

~~(i) in the case of option contracts or BOUNDS, as to (1) the identity of the other party to the transaction, (2) in the case of option contracts, the type of option contract, (3) the ticker symbol for the option contract or BOUND, (4) the variable terms of the option contract or BOUND (5) the amount of the premium, (6) the number of contracts or BOUNDS, and (7) the description of the parties as purchaser and writer;~~

~~(ii) in the case of futures, as to (1) the identity of the other party to the transaction, (2) the variable terms, (3) the number of contracts, and (4) the description of the parties as buyer and seller.~~

~~(b) The Corporation shall have no obligation to any purchaser, writer, buyer, or seller for any loss resulting from the untimely reporting by an Exchange, market, or OTC Trade Source of any confirmed trade information or from any error in confirmed trade information furnished to the Corporation.~~

~~(c) An Exchange or OTC Trade Source may instruct the Corporation to disregard a transaction previously reported by such Exchange or OTC Trade Source as a confirmed trade because of a subsequent determination that (i) the trade information submitted by the Purchasing Clearing Member and Selling Clearing Member did not agree, (ii) the trade information did not contain all the information required by the Corporation as set forth in the By Laws and Rules, or~~

⁴ Art. VI, Sec. 7 is being incorporated into Rule 401, subject to certain proposed modifications.

~~(iii) new or revised trade information was required to properly clear the transaction. In accordance with such instruction, the Corporation shall disregard the previously reported transaction and such transaction shall be deemed null and void and given no effect for purposes of the By-Laws and Rules. The Corporation shall have no obligation to any purchaser, writer, buyer, or seller in acting pursuant to an Exchange's or OTC Trade Source's instruction to disregard a previously reported transaction.~~

~~... **Interpretations and Policies:**~~

~~.01 Under procedures established from time to time in its discretion, the Corporation may review the reasonableness of prices for transactions reported as confirmed trades and identify certain of them to the reporting Exchange for its consideration of whether new or revised trade information is required to properly clear the transaction.~~

~~**Payments to Corporation**⁵~~

~~SECTION 8. **[Reserved]** Except as provided (i) in Section 7 of Article XII in respect of futures issued in exchange for physical transactions, block trades, or other trades designated by a futures market or security futures market reporting the trades as non-competitively executed trades, (ii) in Section 5 of Article XX in respect of cross-rate foreign currency options, (iii) in Section 7 of Article XXIII in respect of foreign currency index options, and (iv) in this Section 8 with respect to certain OTC options, the Corporation shall have no right to reject any confirmed trade or to refuse to issue any cleared contract as a consequence of the failure of the Purchasing Clearing Member to pay any amount due to the Corporation at or before the settlement time for such transaction. In the case of any confirmed trade for any Backloaded OTC option, the Corporation may reject such confirmed trade if the Selling Clearing Member fails to meet its initial margin obligations to the Corporation in respect of such Backloaded OTC option when due.~~

~~* * *~~

Long Positions

SECTION 12. The long position of a Clearing Member in a series of cleared contracts in a particular account will be created upon the Corporation's issuance of one or more contracts of such series in such account. The amount of such long position shall be the number of contracts so issued, and such long position shall remain in force from day to day thereafter unless and until changed in accordance with the following:

(a) – (h) [No change]

Subject to the By-Laws and the Rules, (i) any American option contract held in a long position, other than a delayed-start option, may be exercised at any time between its ~~commencement time~~

⁵ An amended version of Art. VI, Sec. 8 is being moved to new Rule 406.

acceptance by the Corporation and its expiration, (ii) an American delayed-start option contract may be exercised at any time after its exercise price has been set until its expiration, (iii) any European option contract held in a long position may be exercised on its expiration date, and (iv) any capped cash-settled option contract held in a long position shall be automatically exercised on any day on which the current underlying interest value (as defined in Article XVII of the By-Laws) equals or exceeds the cap price (as defined in Article XVII of the By-Laws), in the case of a call, or equals or is less than the cap price, in the case of a put, and may be exercised on its expiration date.

* * *

Article XII - Futures, Futures Options and Commodity Options

* * *

Acceptance of Non-Competitively Executed Trades

SECTION 7. The acceptance by the Corporation of any futures transaction that is identified as an “exchange-for-physical” or “EFP,” a “block trade,” or any other non-competitively executed trade in confirmed trade information reported by an Exchange or in any instruction submitted directly to the Corporation by a Clearing Member, as applicable, shall be subject to the condition that the Corporation shall have received any variation payments due in the accounts of the purchasing and selling Clearing Members in which the transaction was effected at the first variation settlement after the transaction was reported to the Corporation. Unless such a transaction is rejected as hereinafter provided, such transaction shall be deemed accepted at the time of such variation settlement ~~shall be the commencement time of the transaction~~. In the event that the Corporation fails to receive any such variation payment when due, the Corporation may (either by a general rule or resolution adopted by the Board of Directors or by action of the officers of the Corporation with respect to specific transactions) reject the transaction. In the event that the transaction is rejected as herein provided, the Corporation shall promptly notify, either orally or in writing, the Clearing Members party to the transaction, and such Clearing Members shall have the remedies (if any) provided in the rules of the Exchange on which the transaction was effected.

* * *

Article XVII - Index Options and Certain Other Cash-Settled Options

* * *

General Rights and Obligations of Holders and Writers of Cash-Settled Options

SECTION 2. (a) Subject to the provisions of the By-Laws and Rules, the holder of a single American-style cash-settled option contract other than a delayed start option contract has the right, beginning at the time such option is issued pursuant ~~to Article VI of the By-Laws~~ Chapter

IV of the Rules and expiring at the expiration time therefor on the expiration date, to receive the exercise settlement amount from the Corporation in accordance with Exchange Rules and the By-Laws and Rules. Subject to the provisions of the By-Laws and Rules, the holder of a single American delayed start option contract has the right, beginning after the option's exercise price is set and expiring at the expiration time for such option on the expiration date, to receive the exercise settlement amount from the Corporation in accordance with Exchange Rules and the By-Laws and Rules.

(b) [No change]

(c) Subject to the provisions of the By-Laws and Rules, the holder of a single capped cash-settled option contract has the right:

(1) Beginning at the time such option is issued pursuant to ~~Article VI of the By-Laws~~Chapter IV of the Rules and ending on the expiration date, to receive the exercise settlement amount from the Corporation in accordance with Exchange Rules and the By-Laws and Rules if the current index value on any trading day equals or exceeds the cap price (in the case of a call) or equals or is less than the cap price (in the case of a put); and

* * *

Article XX⁶ - ~~Cross-Rate Foreign Currency Option~~[Reserved]

* * *

Article XXIII⁷ - ~~Flexibly Structured Index Options Denominated in a Foreign Currency~~[Reserved]

* * *

⁶ Article XX in its entirety is being deleted. In the interest of readability, the text of the deleted article is omitted here.

⁷ Article XXIII in its entirety is being deleted. In the interest of readability, the text of the deleted article is omitted here.

EXHIBIT 5B



OCC Rules

| Underlined text indicates new text

| ~~Strikethrough~~ text indicates deleted text

Chapter IV - Trade Reporting, Novation, and Confirmation

RULE 401 - Reporting of Confirmed Trades ~~Effectuated on Exchanges~~ and Novation¹

(a) Each business day each Exchange or OTC Trade Source shall report to the Corporation information with respect to each confirmed trade made on such Exchange or affirmed on such OTC Trade Source during said business day (or on a previous day and reconciled on said business day) and as to which confirmed trade information has been submitted by or on behalf of the Purchasing Clearing Member and the Writing or Selling Clearing Member. Such confirmed trade information shall also include a Customer CMTA Indicator, a CMTA Customer Identifier, and an IB Identifier to the extent required under applicable Exchange rules. ~~If a give-up service provider reports to the Corporation the information required under this Rule 401 for confirmed trades effected on an affiliated futures market, confirmed trade information from the give-up service provider shall be deemed to have been submitted to the Corporation by such affiliated futures market for all purposes of the By-Laws and Rules. The acceptance of every confirmed trade and the issuance of every cleared contract by the Corporation as provided shall be subject to the conditions that this reported trade information (i) passes the Corporation's trade validation process, (ii) is provided to the Corporation during such times as the Corporation shall prescribe, and (iii) satisfies certain criteria, as specified in paragraphs (a)(1) and (a)(2) of this Rule 401.~~

(1) *Options.* ~~(i) If the relevant transaction is in options, the matching Corporation's acceptance of the confirmed trade shall be subject to the condition that the trade information submitted by participant Exchanges for such transaction shall include: (A) the identity of the Purchasing Clearing Member and the Writing Clearing Member and of the accounts in which to the transaction was effected; (B) the underlying interest clearing date; (C) the exercise price transaction time (or, (x) in the case of packaged spread options, the base exercise price and the spread interval or (y) in the case of delayed start options that do not yet have a set exercise price, the exercise price setting formula and exercise price setting date); (D) the currency in which the option is denominated trade source; (E) the cap trade quantity, if any; (F) the expiration date trade price; (G) the number of option contracts security type; (H) the premium per unit ticker symbol; (I) except for a transaction in a Market Maker's account, whether an opening or closing transaction the series/contract date; (J) the type of option whether the trade is a put or call; (K) the ticker symbol strike price; and (L) such other information as may be required by the Corporation. In the case of futures options whether the trade is a purchase or sale; such matching trade information shall also include a notation identifying any (M) the account type; (N) the allocation indicator, if applicable; (O) the CMTA indicator, if applicable; (P) the Give-Up Clearing Member, if applicable; (Q) the trade type, including, in the case of futures options, whether the transaction that is a block trade, exchange-for-physical, or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade; (R) in~~

¹ New Rule 401 is amended to incorporate the contents of existing Rules 401 and 404 and Article VI, Sec. 7 of the By-Laws, subject to certain proposed modifications.

the case of OTC options transactions in a securities customers' account, a unique customer ID for the customer for whom the trade was executed; and (S) in the case of OTC options, such other variable terms as provided in Section 6 of Article XVII of the By-Laws.

(ii) In addition to the foregoing information that is required as a condition to the Corporation's acceptance of the confirmed trade, the Corporation may also request certain optional trade information that is not required as a condition for acceptance.

(2) *Futures.* (i) If the relevant transaction is in futures, the ~~matching~~ Corporation's acceptance of the confirmed trade shall be subject to the condition that the trade information submitted by participant Exchanges for such transaction shall include: (A) the identity of the Purchasing Clearing Member and the Selling Clearing Member ~~and of the accounts in which~~ the transaction was effected; (B) the ~~underlying interest~~ clearing date, (C) the ~~currency in which the future is denominated (if other than US dollars)~~ transaction time; (D) the ~~maturity date~~ trade source; (E) the ~~number of contracts~~ trade quantity; (F) the ~~contract price~~ trade price; (G) ~~except for a transaction in a Market Maker's account or as otherwise agreed between the Corporation and an Exchange, whether an opening or closing transaction~~ the security type; (H) if a stock future, whether it is physically settled or cash settled the ticker symbol; (I) the series ~~marker, if any~~ the series/contract date; (J) whether the trade is a purchase or a sale; (K) the account type; (L) the allocation indicator, if applicable; (M) the CMTA indicator, if applicable; (N) the Give-Up Clearing Member, if applicable; and (O) ~~if~~ whether the trade is an exchange-for-physical or block trade or any other trade designated by the futures market or security futures market reporting the trade as a non-competitively executed trade, a notation to that effect, and (K) such other information as may be required by the Corporation.

(ii) In addition to the foregoing information that is required as a condition to the Corporation's acceptance of the confirmed trade, the Corporation may also request certain optional trade information that is not required as a condition for acceptance.

(3) [No change]

(b) Subject to Rule ~~403~~407, each Clearing Member shall be responsible to the Corporation in respect of each confirmed trade in which such Clearing Member is identified as a Purchasing Clearing Member or Writing or Selling Clearing Member in confirmed trade information reported to the Corporation by an Exchange or OTC Trade Source, whether or not such confirmed trade information was correct upon the acceptance of such confirmed trade by the Corporation pursuant to the provisions of this Rule 401.²

(c) [No change]

² Rule 404(b) is merged into this.

(d) The Corporation shall prescribe the times during which confirmed trade information is to be reported to the Corporation and the format of such reporting. The cut-off time on each business day for an OTC Trade Source to submit confirmed trades in OTC options to the Corporation for premium settlement on the next business day shall be 4:00 p.m. Central Time or such other time as the Corporation may establish with prior notice to Clearing Members. Premium settlement for confirmed trades in OTC options submitted after 4:00 p.m. on any business day or on a day other than a business day shall be effected on the second following business day. The Corporation shall prescribe the format of reporting of Confirmed Trades in OTC options.³

(e) The Corporation shall have no obligation to any purchaser, writer, buyer, or seller for any loss resulting from the untimely reporting by an Exchange, market, or OTC Trade Source of any confirmed trade information or from any error in confirmed trade information furnished to the Corporation.⁴

(f) An Exchange or OTC Trade Source may instruct the Corporation to disregard a transaction previously reported by such Exchange or OTC Trade Source as a confirmed trade because of a subsequent determination that (i) the trade information was not correct as originally submitted by the Exchange or OTC Trade Source, or (ii) new or revised trade information was required to properly clear the transaction. In accordance with such instruction, the Corporation shall disregard the previously reported transaction and such transaction shall be deemed null and void and given no effect for purposes of the By-Laws and Rules. The Corporation shall have no obligation to any purchaser, writer, buyer, or seller in acting pursuant to an Exchange's or OTC Trade Source's instruction to disregard a previously reported transaction.⁵

(g) Upon the acceptance of a confirmed trade by the Corporation, the Corporation shall be substituted through novation as the buyer to the seller and the seller to the buyer, the rights of the parties to such transaction shall be solely against the Corporation and the Corporation shall be obligated to the parties in accordance with the provisions of the By-Laws and the Rules. A confirmed trade shall be deemed to have been accepted for clearing by the Corporation at such time that the confirmed trade meets the conditions specified in this Rule 401 and Rule 406, as applicable, and the related position information has been recorded in OCC's clearing system; except as provided (i) in Section 7 of Article XII of the By-Laws with respect to a Confirmed Trade in a future issued in an exchange-for-physical transaction, block trade, or other non-competitively executed trade, and (ii) in this paragraph (g) of Rule 401 with respect to a confirmed trade in a Backloaded OTC option. In the case of a confirmed trade in a Backloaded OTC option, such a confirmed trade shall not be deemed accepted, and may be rejected, by the Corporation until the Selling Clearing Member has met its regular morning cash settlement obligations to the Corporation on the following business day. A Backloaded OTC option will not

³ Rule 404(c) is merged into this.

⁴ Relocated from Art. VI, Sec. 7(b) of the By-Laws.

⁵ Relocated from Art. VI, Sec. 7(c) of the By-Laws.

be accepted for clearing by the Corporation if the Corporation receives such Backloaded OTC option from the relevant OTC Trade Source after 4:00 P.M. Central Time (5:00 P.M. Eastern Time on the business day that is four business days prior to the expiration date of the Backloaded OTC option.⁶

. . . Interpretations and Policies:

.01 – .02 [No change]

.03 Under procedures established from time to time in its discretion, the Corporation may review the reasonableness of prices for transactions reported as confirmed trades and identify certain of them to the reporting Exchange for its consideration of whether new or revised trade information is required to properly clear the transaction.⁷

.04 The Corporation will accept for clearing confirmed trades in flexibly structured options and flexibly structured security futures, provided that the variable terms of the contract comply with any limitations on such variable terms published by the Corporation from time to time by notice to the Exchanges that have clearing agreements with the Corporation.⁸

.05 The Corporation will not treat an EFP or block trade as a noncompetitively executed trade subject to Article XII, Section 7 of the By-Laws if the Exchange on which such trade is executed has made representations satisfactory to the Corporation that the Exchange has rules, policies or procedures that require each EFP and block trade that is submitted to the Corporation to be executed at a reasonable price and that such price is validated by the Exchange.

RULE 402 - ~~Supplementary Report of Confirmed Trades~~[Reserved]

~~(a) In extraordinary circumstances, the Corporation may in its discretion accept from an Exchange after the Corporation's cut-off time for receiving confirmed trade information for a particular business day (the "trade date") in accordance with Rule 401, supplementary confirmed trade information reflecting the comparison of additional trades executed on or before the trade date that remained unconfirmed at the Corporation's cut-off time. This Rule 402 shall have no application to reports of confirmed trades in OTC options submitted through an OTC Trade Source, which are subject to the provisions of Rule 404.~~

~~(b) Upon accepting supplementary matching trade information, the Corporation shall update its position records to reflect the trades reported therein. If, at the time when the Corporation accepts supplementary matching trade information, the Corporation has already assigned the exercise notices that were tendered on the trade date, the Corporation may, in its discretion and~~

⁶ Relocated from Art. VI, Sec. 5 of the By-Laws.

⁷ Relocated from Interpretation and Policy .01 of Art. VI, Sec. 7 of the By-Laws.

⁸ Relocated from Art. VI, Sec. 5 of the By-Laws.

~~within such timeframes as it shall prescribe:~~

~~(1) require Clearing Members that tendered exercise notices on the trade date that were rejected by the Corporation for lack of corresponding long positions to tender new exercise notices identical to those that were rejected; and~~

~~(2) provide to each Clearing Member an opportunity to exercise:~~

~~(i) any position carried for a Market Maker to the extent that such position (A) results from trades reported in the supplementary matching trade information, and (B) is offset by a short position in the same series of options carried for the same Market Maker to which exercise notices tendered on the trade date have been assigned; and~~

~~(ii) any long position carried in a firm account or a customers' account to the extent that such long position (A) results from trades that were reported as closing purchase transactions in the supplementary matching trade information but are deemed to be opening purchase transactions pursuant to Article VI, Section 16 of the By Laws, and (B) is offset by a short position in the same series of options carried in the same account to which exercise notices tendered on the trade date have been assigned; and~~

~~(c) Exercise notices properly tendered in accordance with subsection (b) of this Rule shall be deemed to have been filed on the trade date. Such exercise notices shall be assigned to open short positions in a supplementary assignment procedure conducted in accordance with Rule 803. Supplemental assignments shall be dated and effective as of the trade date.~~

~~(d) After accepting supplementary matching trade information from an Exchange, the Corporation shall make available to Clearing Members updated daily reports and Daily Margin Reports reflecting the trades reported therein. If the Corporation shall have permitted exercise notices to be tendered in accordance with subsection (b) of this Rule, such daily reports and Daily Margin Reports shall also reflect such exercises, and the Corporation shall make available to Clearing Members (as the case may be) delivery advices or exercise and assignment reports, reflecting such exercises and the assignments thereof made pursuant to subsection (c) of this Rule.~~

~~(e) If, after accepting supplementary matching trade information from an Exchange, the Corporation permits exercise notices to be tendered in accordance with subsection (b) of this Rule, the trades reported therein shall be accepted by the Corporation, subject to Article VI, Section 8 of the By Laws, on the business day following the trade date. If the Corporation elects not to permit the tendering of exercise notices, the trades reported in the supplementary matching trade information shall not be accepted until the second business day following the trade date. Regardless of the date of acceptance, premium settlement for trades reported in an updated daily report made available pursuant to subsection (d) of this Rule, and margin settlement for positions reported therein, shall be effected on the business day following the trade date. Where the~~

~~Corporation makes available one or more updated reports pursuant to subsection (d) of this Rule, (i) the net premium payable by or to a Clearing Member on the business day following the trade date shall be the algebraic sum of the net premiums shown as payable or collectible in the original daily reports made available to such Clearing Member since the close of trading on the trade date; and (ii) such Clearing Member's daily margin requirement on the business day following the trade date shall be the amount shown in the most recent updated Daily Margin Report made available to such Clearing Member since the close of trading on the trade date.~~

~~(f) The provisions of this Rule shall supersede any contrary provision in the Rules.~~

~~*...Interpretations and Policies:*~~

~~.01 The procedure provided for in Rule 402 is intended for use only in extraordinary circumstances involving large numbers of unconfirmed trades. It is generally expected that this procedure will be employed only on a weekend or a holiday, when sufficient time exists to permit an Exchange to conduct additional trade confirmation after the Corporation's cut-off time on a particular trade date. However, continued improvements in trade processing and clearing systems may permit this procedure to be employed on weeknights as well.~~

* * *

RULE 403 - Obligations of Purchasing Clearing Members⁹

The Purchasing Clearing Member in a confirmed trade in respect of a cleared contract other than a future shall be obligated to pay the Corporation the amount of the premium agreed upon in such transaction. In the event that the Corporation fails to receive such payment at or before the settlement time, the Corporation shall have the right to apply any funds credited to accounts of the Clearing Member with the Corporation or that are otherwise in the possession or at the disposal of the Corporation to the payment of such premium; provided, however, that the Corporation shall not apply funds in a customers' account, segregated futures account (including a segregated futures professional account), customers' lien account, Market-Maker's account (if the Market-Maker is a customer) or in a combined Market-Makers' account (if the Market-Makers are customers) for the payment of premiums on transactions in any account other than such account. Notwithstanding any other provision of the By-Laws or Rules, if the Corporation accepts an opening purchase transaction in an account at a time when the Corporation has not received payment of all amounts due from the Purchasing Clearing Member in respect of such account, the long position resulting from the acceptance of such transaction by the Corporation shall be deemed to be an unsegregated long position, and the Corporation shall have the right to close out or, in the case of options, to exercise such long position and to apply the proceeds in accordance with Chapter XI of the Rules.

⁹ Rule 403 is entirely new, its substance, without amendment, having been relocated from Article VI, Sec. 4 of OCC's By-Laws. Underlining has been omitted to improve readability.

RULE 404 - Obligations of the Corporation¹⁰

Upon the acceptance of a confirmed trade in respect of cleared contracts, the Corporation shall be obligated as follows:

- (a) In an opening purchase transaction, the Corporation shall be obligated to issue to the Purchasing Clearing Member the number of cleared contracts purchased in such transaction.
- (b) In a closing purchase transaction, the Corporation shall be obligated to reduce the Purchasing Clearing Member's short position in the cleared security in which the transaction was effected by the number of contracts purchased in such transaction.
- (c) In an opening or closing writing transaction, the Corporation shall be obligated to pay, at the time and in the manner specified by the Rules, the Writing Clearing Member the amount of the premium agreed upon in such transaction.

RULE 405 - Issuance of Cleared Contracts¹¹

The Corporation shall be the issuer of all cleared contracts purchased in confirmed trades. Subject to the provisions of Rule 401 and 406, a cleared contract shall be issued by the Corporation in every opening purchase transaction at the time the Corporation accepts such transaction for clearing. Any such cleared contract shall carry the rights and obligations set forth in the By-Laws and Rules applicable to the particular cleared contract and shall contain the variable terms as agreed upon by the Purchasing Clearing Member and Selling Clearing Member (or by Exchange Members authorized to give up the names of such Clearing Members), as shown on the trade information filed by them with the Exchange on which such opening purchase transaction occurred or the OTC Trade Source through which such transaction was affirmed and which is transmitted to the Corporation in a report of confirmed trades submitted by such Exchange or OTC Trade Source. In the event of a discrepancy between the trade information filed with the Exchange or OTC Trade Source and the information reported to the Corporation, the latter shall govern as between the Clearing Member and the Corporation. Unless and until a cleared contract is issued as provided by the By-Laws, the Corporation shall have no obligation in respect thereof.

¹⁰ Rule 404 is entirely new, its substance, with certain amendments, having been relocated in relevant part from Article VI, Sec. 5 of OCC's By-Laws. Underlining has been omitted to improve readability.

¹¹ Rule 405 is entirely new, its substance, with certain amendments, having been relocated from Article VI, Sec. 6 of OCC's By-Laws. Underlining has been omitted to improve readability.

. . . Interpretations and Policies:

.01 The Corporation is substituted through novation as the buyer to every seller and the seller to every buyer and is the obligor to the extent set forth in the Rules with respect to obligations owing to persons having positions in cleared contracts. With respect to cleared securities, OCC is deemed to be the “issuer” as that term is defined in Section 2(a)(4) of the Securities Act of 1933 and Section 3(a)(8) of the Securities Exchange Act of 1934. OCC serves the same functional role with respect to cleared contracts that are governed by the Commodity Exchange Act, and the terms “issuer,” “issuance,” etc. are therefore used to refer to OCC’s role with respect to all cleared contracts.

RULE 406 - Payments to Corporation¹²

Except as provided in Section 7 of Article XII with respect to futures issued in exchange-for-physical transactions, block trades, or other trades designated by a futures market or security futures market reporting the trades as non-competitively executed trades and Rule 401(g) with respect to Backloaded OTC options, the Corporation shall have no right to reject any confirmed trade or to refuse to issue any cleared contract as a consequence of the failure of the Purchasing Clearing Member to pay any amount due to the Corporation at or before the settlement time for such transaction; provided, however, that (i) notwithstanding any other provision the Corporation shall have no obligation to accept any confirmed trade of a suspended Clearing Member that was effected after the time at which the Clearing Member was suspended and (ii) in the case of any confirmed trade for any Backloaded OTC option, the Corporation may reject such confirmed trade if the Selling Clearing Member fails to meet its initial margin obligations to the Corporation in respect of such Backloaded OTC option when due.

RULE 403 - Clearing Member Trade Assignment (“CMTA”)

[Renumbered as RULE 407; otherwise no change]

~~**RULE 404 - Reporting of Confirmed Trades in OTC Options¹³**~~

~~(a) Reports of confirmed trades in OTC options shall be submitted to the Corporation for clearance through the applicable OTC Trade Source in accordance with the By-Laws and Rules and the applicable OTC Trade Source Rules. Confirmed trade reports shall contain confirmed trade information which shall include: (i) the identities of the Purchasing Clearing Member and the Selling or Writing Clearing Member and the accounts of each for which the trade is being effected; (ii) the variable terms of the OTC option as provided in Section 6 of Article XVII of the By-Laws; (iii) the number of contracts; (iv) the premium per unit; (v) in the case of transactions~~

¹² Rule 406 is entirely new, its substance, with certain amendments, having been relocated from Article VI, Sec. 8 of OCC’s By-Laws. Underlining has been omitted to improve readability.

¹³ Rule 404 is being deleted and its substance merged into Rule 401.

~~in the securities customers' account, a unique customer ID for the customer for whom the trade was executed; and (vi) such other information as the Corporation may require.~~

~~(b) Subject to Rule 403, each Clearing Member shall be responsible to the Corporation in respect of each confirmed trade in which such Clearing Member is identified as a Purchasing Clearing Member or Writing or Selling Clearing Member in confirmed trade information reported to the Corporation by an OTC Trade Source, whether or not such confirmed trade information was correct.~~

~~(c) The cut-off time on each business day for an OTC Trade Source to submit confirmed trades in OTC options to the Corporation for premium settlement on the next business day shall be 4:00 p.m. Central Time or such other time as the Corporation may establish with prior notice to Clearing Members. Premium settlement for confirmed trades in OTC options submitted after 4:00 p.m. on any business day or on a day other than a business day shall be effected on the second following business day. The Corporation shall prescribe the format of reporting of Confirmed Trades in OTC options.~~

RULE 405408 - Allocations of Positions

(a) One or more positions in cleared contracts may be allocated from a designated account of a Giving-Up Clearing Member to a designated account of a Given-Up Clearing Member ~~without the intermediation of a give up service provider~~ through the processes provided for in this Rule; provided, however, that this Rule 405408 shall have no application to positions in OTC options.

(b) – (j) [No change]

* * *

Chapter V - Daily Cash Settlement

RULE 501 - Daily Position Report

Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) of each business day, the Corporation shall make available to each Clearing Member a Daily Position Report for each account maintained by the Clearing Member with the Corporation. The Daily Position Report shall list, among other things, all confirmed trades of the Clearing Member in such account settling on such business day and shall show the net daily premiums due to or from the Corporation in such account as a result of such transactions. Net daily premiums shall be further combined and netted with net variation payments due to or from the Corporation in respect of positions and transactions in futures in such accounts as calculated by the Corporation in accordance with Chapter XIII of the Rules.

. . . Interpretations and Policies:

.01 The Corporation ~~may make~~ available to each Clearing Member, during a business day, updated position information that reflects ~~current matching trade information reported to the Corporation by an Exchange or market~~ all confirmed and accepted trades. Such updated position information is considered provisional and informational only and is subject to revision at any time. Only the Daily Position Report may be relied upon as definitely reflecting a Clearing Member's final positions.

* * *

Non-Guaranteed Settlement Service

RULE 504 – Non Guaranteed Settlement Service

(a) – (d) [No change]

(e) As provided in Rule ~~403-407~~ and notwithstanding any other provision of this Rule, the Corporation, as agent, shall be authorized to effect non-guaranteed settlement of fees and commissions owed by a Carrying Clearing Member to an Executing Clearing Member for transfers effected pursuant to their registered CMTA arrangement, provided that such registration authorizes the Corporation to effect such settlements. Aggregate amounts to be settled shall be calculated based on the entries made by the Executing Clearing Member into the Corporation's systems and the Corporation shall have no obligation to validate the correctness of such entries. Settlement of such amounts will be effected on the business day first succeeding the business day on which the Executing Clearing Member entered the applicable information into the Corporation's systems. No further authorization or consent of the Carrying Clearing Member shall be required in connection therewith and the Corporation shall have no role in resolving any disputes between the Carrying Clearing Member and the Executing Clearing Member regarding such settlements.

(f) [No change]

(g) Anything else herein to the contrary notwithstanding, non-guaranteed settlement payments are not guaranteed by the Corporation, and in facilitating non-guaranteed settlements between Clearing Members pursuant to this Rule 504, the Corporation shall act solely as agent for such Clearing Members, and shall have no obligation to pay or credit to any Clearing Member non-guaranteed settlement amounts not theretofore collected from other Clearing Members. If a Clearing Member is suspended by the Corporation pursuant to Chapter XI, any pending Instructions initiated by or transmitted to such suspended Clearing Member shall be deemed null and void to the extent that such suspended Clearing Member is the paying Clearing Member. The Corporation shall have no obligation to effect settlement of fees and commissions as provided in Rule ~~403407~~ if either the Executing Clearing Member or the Carrying Clearing Member has been suspended by the Corporation.

(h) [No change]

* * *

Chapter VI - Margins

* * *

RULE 607 - Application of Cash Margin Excess

A margin excess reported on a Clearing Member's Daily Margin Report, not to exceed the amount of cash margin on deposit as shown in such Report, may be applied against the amount of the net daily premium and variation payment due to the Corporation in such account in accordance with Rule 502, or against the foreign currency option exercise settlement amount due to the Corporation in accordance with Rule 1606 ~~or any amount due to the Corporation under Rule 2112~~; provided, however, that the cash margin excess and the obligation to which it is applied must be in the same currency.

* * *

RULE 611- Segregation of Long Positions

(a) Subject to the provisions of ~~Article VI, Section 4 of the By-Laws~~ Rule 403, and except as provided in paragraph (d) hereof in the case of long positions in OTC options, all long positions (other than long positions in futures) in securities customers' accounts and firm non-lien accounts shall be deemed to be segregated long positions unless the Corporation receives contrary instructions from a Clearing Member in accordance with the following provisions of this Rule 611. All segregated long positions shall be held by the Corporation free of any charge, lien or claim of any kind in favor of the Corporation or any person claiming through it, until such positions shall be closed or exercised in accordance with the By-Laws and Rules or until the Clearing Member shall file with the Corporation written instructions, in such form as the Corporation may from time to time prescribe, directing that such positions be released from segregation. All positions in futures shall be deemed to be unsegregated for purposes of this Rule 611. All positions in cleared securities that are carried in a customers' lien account shall be deemed to be unsegregated for purposes of this Rule 611.

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Chapter XXI¹⁴ - ~~CROSS-RATE FOREIGN CURRENCY OPTIONS~~ [Reserved]

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¹⁴ Chapter XXI is being deleted in its entirety. In the interest of readability, the text of the deleted chapter is omitted here.

Chapter XXII - Stock Loan/Hedge Program

* * *

RULE 2202 - Initiation of Stock Loans

(a) [No change]

(b) Upon receipt of ~~a report~~information reported to the Corporation from the Depository showing a completed stock loan, the Corporation shall (subject to Rule 2210(a)) accept such stock loan as a Stock Loan, unless the Corporation determines that ~~the~~the stock loan is not in accordance with the By-Laws and Rules, or that one or both account numbers are invalid for Stock Loans, or that the information provided by the Depository contains unresolved errors or omissions, in which case the Corporation ~~may~~shall reject ~~the~~such stock loan. ~~A stock loan that is not affirmatively rejected by notice to the initiating Hedge Clearing Members no later than a time specified by the Corporation from time to time shall be deemed accepted by the Corporation as a Stock Loan, and upon such acceptance~~ Upon the Corporation's acceptance of a stock loan, the following shall automatically occur: (i) the stock loan contract negotiated between the lending Hedge Clearing Member and the borrowing Hedge Clearing Member that initiated the Stock Loan shall be extinguished and replaced in its entirety by (1) a congruent contract between the lending Hedge Clearing Member, as stock lender, and the Corporation, as stock borrower, and (2) an identical congruent contract between the Corporation, as stock lender, and the borrowing Hedge Clearing Member, as stock borrower, (ii) such pair of contracts shall constitute the Stock Loan, (iii) the initial deliveries of Loaned Stock against the settlement price in respect of each such contract shall be deemed to have been made, (iv) the lending Hedge Clearing Member shall be the Lending Clearing Member and the borrowing Hedge Clearing Member shall be the Borrowing Clearing Member in respect of such Stock Loan for all purposes of the Rules, and (v) the terms of the original stock loan (other than terms that establish congruence) and the representations, warranties and covenants made by each of the parties to the original stock loan under the Master Securities Loan Agreement or any other agreements with respect to the original stock loan shall (1) to the extent that they are inconsistent with the By-Laws and Rules of the Corporation, be eliminated from the pair of congruent contracts constituting the Stock Loan and replaced by applicable By-Laws and Rules of the Corporation, and (2) to the extent that they are not inconsistent with the By-Laws and Rules of the Corporation, remain in effect as between such parties to the original stock loan, but shall not impose any additional obligations on the Corporation. A stock loan contract which is rejected by the Corporation shall remain effective as between the initiating Hedge Clearing Members but shall have no further effect as regards the Corporation. For purposes of the foregoing, a replacement stock loan contract shall be "congruent" to the stock loan contract replaced if and only if the contracts agree with respect to the identity of the Eligible Stock that is to be lent, the number of shares that are to be lent and the settlement price.

(c) On each stock loan business day, any stock loan transactions originated through a Loan Market that fail to pass the validation process referred to in paragraph (a) of this Rule or ~~that are~~

~~not ultimately confirmed and accepted~~ are rejected by the Corporation as described in paragraph (b) of this Rule shall be rejected by the Corporation and shall have no further effect as regards the Corporation.

(d) – (e) [No change]

. . . Interpretations and Policies:

.01 The Corporation ~~may make~~ available to each Hedge Clearing Member, during a business day, updated position information that reflects current stock loan and borrow activity, including new positions, transfers of positions, reclaim notifications, and returns. ~~Such updated position information is considered provisional and informational only and is subject to revision at any time. Only the Stock Loan Mark to Market Activity Report may be relied upon as definitely reflecting a Hedge Clearing Member’s final stock loan and borrow positions.~~

* * *

Chapter XXIIA - Market Loan Program

* * *

RULE 2202A - Initiation of Market Loans

(a) [No change]

(b) Upon receipt of ~~the end of the day stock loan activity file~~ information reported to the Corporation from the Depository showing a completed stock loans that purportedly have originated through the Market Loan Program, the Corporation shall (subject to Rule 2210A) accept such stock loans as Market Loans, unless the Corporation determines that a stock loan is not in accordance with the By-Laws and Rules, or that one or both account numbers are invalid for Market Loans, or that the information provided by the Depository contains unresolved errors or omissions, in which case the Corporation shall reject such stock loan. Upon the Corporation’s ~~affirmative~~ acceptance of a Market Loan, the following shall automatically occur: (i) the matched stock loan transaction submitted by the Loan Market that initiated the Market Loan shall be extinguished and replaced in its entirety by (1) a congruent contract between the lending Market Loan Clearing Member, as stock lender, and the Corporation, as stock borrower, and (2) an identical congruent contract between the Corporation, as stock lender, and the borrowing Market Loan Clearing Member, as stock borrower, (ii) such pair of contracts shall constitute the Market Loan, (iii) the lending Market Loan Clearing Member shall be the Lending Clearing Member and the borrowing Market Loan Clearing Member shall be the Borrowing Clearing Member in respect of such Market Loan for all purposes of the By-Laws and Rules, and (iv) the Corporation shall create the stock loan position and the stock borrow position in accordance with Article XXIA, Section 2 of the By-Laws. For purposes of the foregoing, a replacement stock loan contract shall be “congruent” to the stock loan contract replaced if and only if the contracts agree with respect to the identity of the Eligible Stock that is to be lent, the number of shares that

are to be lent, the Collateral requirement, the rebate rate and the settlement price.

(c) On each stock loan business day, any stock loan transactions originated through a Loan Market that fail to pass the validation process referred to in paragraph (a) of this Rule or ~~that are not ultimately confirmed and accepted~~ are rejected by the Corporation as described in paragraph (b) of this Rule shall be rejected by the Corporation and shall have no further effect as regards the Corporation.

(d) – (f) [No change]

. . . Interpretations and Policies:

.01 The Corporation ~~may~~ makes available to each Market Loan Clearing Member, during a business day, updated position information that reflects current stock loan and borrow activity, including new positions, transfers of positions, returns and cancels. ~~Such updated position information is considered provisional and informational only and is subject to revision at any time. Only the Stock Loan Mark to Market Activity Report may be relied upon as definitely reflecting a Market Loan Clearing Member's final stock loan and borrow positions.~~

* * *

Chapter XXIV¹⁵ - ~~Flexibly Structured Index Options Denominated in a Foreign Currency~~ [Reserved]

* * *

¹⁵ Chapter XXIV is being deleted in its entirety. In the interest of readability, the text of the deleted chapter is omitted here.

Required fields are shown with yellow backgrounds and asterisks.

Filing by Options Clearing Corporation
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<input type="checkbox"/>	<input type="checkbox"/>

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information

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

First Name * Last Name *

Title *

E-mail *

Telephone * Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date

By

(Name *)

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add Remove View

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

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

Add Remove View

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

Exhibit 5 - Proposed Rule Text

Add Remove View

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

Partial Amendment

Add Remove View

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change

by

THE OPTIONS CLEARING CORPORATION

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

The Options Clearing Corporation (“OCC”) hereby submits this partial amendment, constituting Amendment No. 1, to its proposed rule change SR-OCC-2018-007, in which OCC proposes to amend OCC’s By-Laws and Rules to (1) clarify the time at which OCC accepts and novates the transactions that it clears; (2) streamline provisions in the By-Laws and Rules related to acceptance, novation and trade reporting; and (3) delete provisions that apply only to certain dormant products that OCC no longer clears and settles or that are no longer applicable to OCC’s current clearing processes (“Initial Filing”).

OCC is submitting this partial amendment to correct an error in Exhibit 5B of the Initial Filing. In the Initial Filing, Exhibit 5B (pages 71-72 of the filing) contained proposed changes to the text of OCC Rule 2202(c); however, the rule text in question did not accurately reflect existing Rule 2202(c), which would not be impacted by the proposed rule change. OCC is therefore filing this partial amendment to clarify that the rule text for Rule 2202(c) would remain unchanged under the proposal, a set forth below.

RULE 2202 - Initiation of Stock Loans

(a) [No change]

(b) Upon receipt of ~~a report~~ information reported to the Corporation from the Depository showing a completed stock loan, the Corporation shall (subject to Rule 2210(a)) accept such stock loan as a Stock Loan, unless the Corporation determines that ~~the~~ stock loan is not in accordance with the By-Laws and Rules, or that one or both account numbers are invalid for Stock Loans, or that the information provided by the Depository contains unresolved errors or omissions, in which case the Corporation ~~may~~ shall reject ~~the~~ such stock loan. ~~A stock loan that is not affirmatively rejected by notice to the initiating Hedge Clearing Members no later than a time specified by the Corporation from time to time shall be deemed accepted by the Corporation as a Stock Loan, and upon such acceptance~~ Upon the Corporation’s acceptance of a stock loan, the following shall automatically occur: (i) the stock loan contract negotiated between the lending Hedge Clearing Member and the borrowing Hedge Clearing Member that initiated the Stock Loan shall be extinguished and replaced in its entirety by (1) a congruent contract between the lending Hedge Clearing Member, as stock lender, and the Corporation, as stock borrower, and (2) an identical congruent contract between the Corporation, as stock lender, and the borrowing Hedge Clearing Member, as stock borrower, (ii) such pair of contracts shall constitute the Stock Loan, (iii) the initial deliveries of Loaned Stock against the settlement price in respect of each such contract shall be deemed to have been made, (iv) the lending Hedge Clearing Member shall be the Lending Clearing Member and the borrowing Hedge Clearing Member shall be the Borrowing Clearing Member in respect of such Stock Loan for all purposes of the Rules, and (v) the terms of the original stock loan (other than terms that establish congruence) and the representations, warranties and covenants made by each of the parties to the original stock loan under the Master Securities Loan Agreement or any other agreements with respect to the original stock loan shall (1) to the extent that they are inconsistent with the By-Laws and Rules of the

Corporation, be eliminated from the pair of congruent contracts constituting the Stock Loan and replaced by applicable By-Laws and Rules of the Corporation, and (2) to the extent that they are not inconsistent with the By-Laws and Rules of the Corporation, remain in effect as between such parties to the original stock loan, but shall not impose any additional obligations on the Corporation. A stock loan contract which is rejected by the Corporation shall remain effective as between the initiating Hedge Clearing Members but shall have no further effect as regards the Corporation. For purposes of the foregoing, a replacement stock loan contract shall be “congruent” to the stock loan contract replaced if and only if the contracts agree with respect to the identity of the Eligible Stock that is to be lent, the number of shares that are to be lent and the settlement price.

(c) – (e) [No change]

The partial amendment would not change the purpose of or statutory basis for the proposed rule change. All other representations in the Initial Filing remain as stated therein and no other changes are being made.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

THE OPTIONS CLEARING CORPORATION

By: _____

Justin W. Byrne
Vice President, Regulatory Filings